

Q1 2021 Earnings Call

Company Participants

- Jose Antonio de Almeida Filippo, CFO
- João Paulo Brotto Gonçalves Ferreira, CEO of Latin America & Member of Executive Board
- Roberto de Oliveira Marques, Executive Chairman of the Board
- Viviane Behar de Castro, IR Officer & Member of Executive Board

Other Participants

- Andrew R. Ruben, Analyst
- Helena Villares, Analyst
- Irma Sgarz, Analyst
- Joseph Giordano, Analyst
- João Pedro Ribeiro Soares, Analyst
- Richard M. Cathcart, Analyst
- Robert Erick Ford Aguilar, Analyst
- Ruben Couto, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Thank you for waiting. At this time, we would like to welcome everyone to Natura &Co First Quarter 2021 Results. This event is being recorded. (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 Mrs. Viviane Behar, Investor Relations Officer of Natura &Co. Mrs. Behar, the floor is yours.

Viviane Behar de Castro {BIO 16620272 <GO>}

Good morning, or good afternoon to everyone. I am Viviane Behar, Natura &Co's Investor Relations Officer. Thank you for joining us today for this call to present Natura &Co's First Quarter 2021 earnings. We're delighted to be with you again after our Investor Day last month. I'm joined today by Roberto Marques, Executive Chairman and CEO of Natura &Co; Jose Filippo, CFO of Natura &Co; as well as Guilherme Castellan, Deputy CFO; and

João 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. After that, Roberto will make concluding remarks, and we will open the floor to you for 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. 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 keeping safe and well in this still challenging times. Let me begin on Slide three with an overview of our First Quarter highlights. Natura &Co turned in another strong performance in the First Quarter of 2021.

Our group sales were up nearly 26%, outperforming the global CFT market, and we post a significant increase in EBITDA and margin, with our report EBITDA margin up almost 700 basis points. This outstanding performance was achieved while we continue to operate in a challenging health environment with lockdowns and restrictions in certain key markets. This attests, once again to the resilience of our omnichannel business model with a further ramp-up in online sales and to our unparalleled direct-to-consumer reach.

We saw double-digit growth in Brazilian reais across our brands and a very good performance in our key markets. Natura &Co LatAm had an outstanding performance, with both the Natura and Avon brand contributing. Avon International improved its performance in Western Europe and Asia Pacific. The Body Shop continued to offset store closures with a very strong growth in online and at home channels and Aesop had another remarkable quarter of growth, driven by Asia and online. Digital sales continued to grow. Digital-enabled sales account for 48% of our total, up from 33% in the same quarter last year, and total online sales were up 166% in the quarter compared to the same quarter last year.

The Avon transformation journey continues to show progress. The rollout of the new commercial model is underway and we are seeing green shoots such as positive advancing market shares and representative base even though key geographies and categories like makeup and fragrance are still heavily impacted by the pandemic. The transformation plan we presented at our recent Investor Day supporting initiatives to drive growth and optimize cost, is progressing. And let me remind you that we also raised our target synergies for the Avon integration to now a range of between \$350 million and \$450 million, an increase of \$50 million over the period.

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Another recent highlight I would like to mention here is the successful completion earlier this month of a \$1 billion ESG bond issue that is linked to sustainability targets on greenhouse gas emissions and use of post-consumer recycled plastic in plastic product packaging. This is fully in line with our Commitment to Life -- 2030 Sustainability Vision, and it shows again how we are aligning and connecting financial and environmental targets. The bond issue improves our indebtedness profile and our capital structure.

We ended the quarter with a robust cash position of BRL 6.6 billion, and we made further headway on deleveraging with our net debt-to-EBITDA ratio at 1.18x at the end of the quarter, a significant improvement over the 3.93x at the end of Q1 last year. So overall, I think we can be very proud of the performance of the entire organization has produced in a very challenging context. It is another demonstration of the strength of our business model, which aims to make positive impact while delivering sustainable growth and value creation. With that, I'll hand over to Filippo for a closer look at our financial performance.

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

Thank you, Roberto, and hello to everyone. On Slide 5, you see that we posted very strong consolidated sales growth in the quarter of 25.8% in reais and 8.1% in constant currency, reaching BRL 9.5 billion. This reflects double-digit growth in reais in all our brands, as you see on the right-hand side of the slide, with strong growth in core markets.

On Slide 6, we focus on our online performance, which includes both ecommerce and digital social selling. As Roberto mentioned, digital sales largely offset the impact of COVID-19 in our retail activity, which continued to be impacted in the quarter, mainly in Europe. The group's consolidated ecommerce and digital social selling grew by a very strong 166% in Q1, reaching 12% of the total sales, supported by strong growth in all brands. At Natura, digital sales were up a spectacular 253% in the quarter. At Avon International, digital sales also grew by 132% in Q1. At the Body Shop, online and at home sales combined reached 51% of total sales. And at Aesop, online accounted for 29% of total sales in Q1. Overall, our digitally enabled sales accounted for 48% of our total sales.

Slide seven shows that we posted an impressive increase of 470% in reported EBITDA, which reached over BRL 829 million in Q1, with margin of 8.8%, up 690 basis points versus the same quarter last year. Adjusted EBITDA, which excludes transformation costs in both years, as well as Avon related acquisition costs and nonrecurring purchase price allocation effects in 2020, was BRL 963.2 million. This represents a very strong increase of 68.5%, with margin of 10.2%, up 260 basis points. The strong increase in adjusted EBITDA and margin resulted from higher sales and operational leverage at Natura &Co LatAm and Aesop.

Turning to Slide 8, we see that Natura &Co reached BRL 60.2 million in underlying net income in the First Quarter, reversing the negative BRL 264.1 million we posted in Q1 last year. The sharp 122.8% improvement in Q1 was driven mainly by the strong increase in EBITDA. Underlying net income excludes Avon acquisition-related effects of BRL 215.3 million. These include transformation and integration costs of BRL 134.1 million and the purchase price allocation amortization effect for BRL 111.3 million.

These were partially offset by positive discontinued operations expense of BRL 28.7 million and positive noncontrolling interest of BRL 1.4 million. Taking this impact into account, Natura &Co posted a reported net loss in Q1 of BRL 155.2 million. This marks a very significant improvement over the net loss of BRL 820.8 million in Q1 of 2020, driven by higher EBITDA and lower income tax expense, partially offset by higher depreciation of BRL 47 million and higher financial expenses of BRL 19 million.

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Slide 9. On Slide 9, we look on our cash and balance sheet. We ended the quarter with a strong cash position of BRL 6.6 billion, in line with projections and well above our minimum thresholds. We continue to deleverage our balance sheet. And at the end of the quarter, Natura &Co Holding's consolidated net debt-to-EBITDA ratio stood at 1.18x, significantly down from 3.93x in Q1 last year, including the effects of IFRS 16.

As Roberto mentioned, we improved our indebtedness profile with a \$1 billion sustainability-linked bond issued by Natura Cosméticos with a guarantee by Natura &Co. The funds will be used to refinance existing debt, in line with the group's liability management plan to improve its capital structure. The 7-year note mature on May 2028 and carry an interest coupon of 4.125% per year. The second graph provides you with our amortization schedule and shows that even before the bond proceeds we have cash far in excess of the BRL 3.2 billion in debt maturing this year.

Let's turn now to our performance by business unit, beginning with Natura &Co LatAm on Slide 11. Total net sales were up 24.6% in reais and 15.9% at constant currency in Q1. This excellent performance was driven by growth in reais at both the Natura and Avon brands. The Natura brand was up 29.6% in reais and 24.6% at constant currency, supported by a strong performance across the board, both in Brazil and Hispanic LatAm, attesting to the strength of our digital social selling model and a robust innovation pipeline.

The Avon brand reported another consecutive quarter of growth of 20% in reais and 8.1% in constant currency, driven by key markets in Hispanic LatAm. Natura &Co's clear leadership in the CFT market in Latin America was confirmed by Euromonitor. The group recorded market share gains of 0.7percentage points in 2020, reaching 12.5%. Brazil was even stronger with market share of 17%, up a full percentage point over the prior year.

On Slide 12, sales of the Natura brand in Brazil rose 12.6% in Q1, with market share gains. Growth was driven by continued digital social selling penetration and increasing the average number of consultants of 14.2% versus Q1 2020 and higher volumes of most categories. Natura Brazil's online sales, including ecommerce and social selling, were up 150% versus Q1 2020, notably driven by consultants online stores. At the end of Q1, we surpassed 1.1 million Natura consultant online stores with a significant year-on-year increase in the number of orders and visits.

The Natura consultant loyalty index in Brazil remains strong, and business leaders loyalty was also significantly higher versus last year. Productivity per consultant was down 3.5% in the quarter after 17 consecutive quarters of growth since the successful implementation of our segmented relationship selling model in mid-2017. This is a result of an increase in our consultant base since Q3. This temporarily dilutes productivity as new consultants are

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in early stages of building up their activity. Over time, we expect these consultants to progress in higher productivity segments on our commercial model.

In Hispanic LatAm, the Natura brand recorded spectacular growth of 60.4%, supported by all markets, notably Argentina, Chile and Peru. Natura saw productivity increase and an expansion in the consultant base of 19.4%. The quarter ended with a significantly higher consultant loyalty index in the region, up 530 basis points versus Q1 2020. We also launched Natura's ecommerce in Mexico, completing the brand's ecommerce platform in the region.

Turning to Avon brand on Slide 13. Avon's integration in LatAm is on track with important progress in procurement, customer service, financial services, distribution and digital. In Brazil, the Avon brands revenue was down 2.8% in Q1 2021 versus Q1 2020. This decrease is largely as an effect of the preparation for the new segmented commercial model implementation. As we saw in 2017 at the Natura brand, the structural change caused the drop in the number of representatives. But once the representative base stabilizes and the representatives progress towards higher segment levels based on higher sales, we expect productivity growth to resume. Volume was slightly up in the quarter, picking up in March.

A highlight of the period was the Avon brand sponsorship in the reality show, Big Brother Brazil. This helped Avon connect with younger consumer, strengthening the brand's power and improving consumer perception. The brand engaged with the show's audience in various online and offline platforms, and we saw ecommerce sales nearly triple with record-breaking number of impressions in social media channels. In Hispanic LatAm, Avon's net revenue grew by a strong 35.1%, supported by a higher activity level and higher representative productivity, which helped offset the 5.5% decline in average number of representatives. Growth was driven by fashion and home and most beauty categories, such as body care, fragrances and face care. White collar continued to be impacted by the pandemic effects.

On Slide 14, adjusted EBITDA for Natura &Co LatAm more than doubled in the quarter, growing by 119% to BRL 630.3 million, driven by revenue performance and operational leverage in Brazil at the Natura brand and Hispanic LatAm, both at Natura and Avon brands. Adjusted EBITDA margin expanded by 530 basis points to 12.2%. Let's now move to Avon International on Slide 16. Net revenue was up 11.4% in Q1 in reais and was down 10.7% at constant currency. Sales were impacted by the second wave of COVID in certain markets, notably in Central and Eastern Europe, and also by key categories like fragrances and cosmetics, which were more affected by the pandemic. Avon gained market share in Q1 2021 versus Q1 2020 in Western Europe, driven by U.K.

In Asia Pacific. Our regions improved share month after month, including Avon's top countries. Avon U.K.'s market share increased for the fourth consecutive quarter, and it became the third brand in the beauty market over the last 12 months, up from 10th one year earlier. Avon International's adjusted EBITDA was BRL 97.4 million, with a margin of 4.1%, down 70 basis points due to the impact of lower revenue and higher strategic investments in digital and commercial areas to accelerate future growth.

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On Slide 18, we now move to the Body Shop, with sales up 47.7% in reais and 10.7% at constant currency, driven mainly by the U.K. and North America. We saw particularly strong performance of the at-home channel, up 221% sic [ph] 251% [ph], and ecommerce, which was up 119% versus last year. Together, both channels represented slightly more than half of the total sales. This growth more than offset the impact of the pandemic's second wave in retail. About 2/3 of retail stores were opened at the end of the quarter, while the U.K.

Other markets in Europe were under lockdown in Q1. EBITDA rose by 45.4% to BRL 194.2 million, while EBITDA margin was 14.7%, down 30 basis points year-on-year. This largely reflected the impact of the buyback of the Japan head franchisee. Excluding this effect, EBITDA margin would have been up 110 basis points versus last year to 15.4% despite the pandemic's impact on retail sales and channel mix.

On Slide 20, Aesop again recorded an outstanding performance. Net revenue was up by exceptional 71.9% in reais and 30.6% at constant currency in the quarter. Aesop saw growth in all regions. Performance was particularly strong in Asia, with sales up 67% at constant currency. Retail revenue grew by 6% globally, supported by strong positive like-for-like growth in Asia, although stores remained close across Europe, in Canada and parts of Australia. Online again offset the retail impact with impressive growth of 102%. Online sales accounted for 29% of total revenue. Q1 2021 EBITDA more than doubled to BRL 156.6 million with EBITDA margin of 26.7%, up 390 basis points, driven by top line sales growth, higher EBITDA, notably in Asia, and cost efficiency. Let me now hand you back to Roberto.

Roberto de Oliveira Marques {BIO 17538675 <GO>}

Thank you, Filippo. Let me now conclude on Slide 23 with the key takeaways. First of all, we are on a sustainable growth path. The Natura brand continues to post double-digit growth, both in Brazil and Latin America, while the Avon brand is growing in Hispanic LatAm. The Body Shop and Aesop continue their strong growth, even with retail being impacted by the past fully completed -- the issue of our \$1 billion ESG bond. 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. Thank you very much for your attention. We are now going to open the Q&A session. And Filippo, JP and I are happy to take your questions. So the floor is now yours.

Questions And Answers

Operator

(Operator Instructions) Richard Cathcart with Bradesco is online with a question.

Q - Richard M. Cathcart {BIO 16457807 <GO>}

Two questions for me. The first one on the Natura &Co LatAm business, a very big increase in margin there and even when we compare to pre-COVID levels in the 1Q '19 pro forma numbers. So I just wanted to ask if you could give us a little bit more color on

the various drivers of margin improvement there, Natura versus Avon and also Brazil versus Latin America and perhaps what we can expect through the rest of the year? Then the second one, just a quick one. If you could give us any color on Mother's Day. Obviously an important day for you guys, for the sector as a whole. We've had some positive feedback from other retailers. So it would be interesting to hear your feedback as well.

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

Richard, Roberto here. Thanks for the question. I'll kick off here, and then I'll turn to JP. So on the margins, we are very pleased with the margin progression. But I would also remind everybody that we have some of the synergies kicking in, which is very encouraging to see that they are materializing. It's helping us navigating some of the pressure that we are seeing in some of our raw materials, et cetera. So we'll continue to monitor that, but we're very pleased with the efficiency that we are seeing in distribution and manufacturing and really materializing in margins. I'll turn to JP to talk a little bit about Hispanic LatAm that we're very happy with also the progress in margin and also a little bit of Mother's Day. So JP, please.

A - João Paulo Brotto Gonçalves Ferreira

Richard, so the market in Latin America has been seeing a very modest growth, slightly better in Hispanic Latin America than in Brazil in the beginning of the year. Natura has been riding on significant advances in brand power and brand preference and amazing market share gains throughout last year. So that gave us a base of continued growth. I remind you that the share of the Natura brand in many of the Hispanic Latin American countries is still below our fair share, particularly in the Northern part of the region, Colombia and Mexico. So on that base, you saw that amazing growth, and there's reasons to think that it's going to continue. Similarly with Avon, now we are benefiting from the quick wins, the harmonization of various commercial practices. I've talked about in previous occasions also the much sharper selection within our portfolio there of categories across country, Hero brands. We could use the mix of different categories in our favor. So we're pretty happy to see Avon growing again in Hispanic Latin America with a very smaller dispersion as well in terms of the various markets. So all in all, that volume increase also helped us with margins, of course plus the synergies that Roberto referred to.

Q - Richard M. Cathcart {BIO 16457807 <GO>}

Perfect. And perhaps just quickly on Mother's Day if you could?

A - João Paulo Brotto Gonçalves Ferreira

Here in Latin America, we are pretty pleased with the performance of our Mother's Day campaigns through all the channels and the brands.

Operator

Robert Ford with Bank of America is online with a question.

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

Congratulations on the quarter. I was hoping maybe you could discuss some of the changes at the company, the new rep compensation model in Brazil at Avon? Clearly, there's -- there appears to be some changes in terms of the profile of network leaders, and there's certainly a cultural change in their new KPIs. I was hoping you could expand on that to the extent it's not strategic. And given your prior experiences and learnings and now greater scale, how long do you think it will take to stabilize the network in Brazil and then begin to grow reps and productivity rates?

A - João Paulo Brotto Gonçalves Ferreira

Bob, JP here. So the nature of the change, of course is -- well, first of all, the rollout happened towards the end of the First Quarter. So a significant part of the quarter was dedicated to preparing the ground for that, which include changes in the sales structure -- significant changes in the sales structure. Now as regards to the representatives, they're now on a model that values lifetime value and progression and segmentation, which has to be communicated again and again to cascade down that huge network. As regards the sales leaders, they are now required to dedicate time to developing those reps, so that they're teaching them more about the products and how to develop their client base and, by and large, rather than just acquiring new reps. So the changes are important indeed. Based on Natura's previous experience, we expect the system to stabilize within one to two quarters. So second half of this year, it should be stable again.

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

Bob, the other thing that I would add, which is also important and this change on the commercial model, it's not just happening in Brazil and Latin America for Avon. I mean Brazil, as JP said, already implemented that, and we're encouraged by the early results, but we are doing the same thing at Avon International. In fact, we already have two pilots with a new segmentation model implemented, one in South Africa and the other one in the Nordics. The results are pretty encouraging from increased retention and productivity. The goal for Avon International to expand to four key markets in the second half of this year and then really for all markets in the first half of next year. So again applying all the learnings, all the KPIs, all the lifetime value approach that Natura has taken very successfully it's now being implemented at Avon both in Latin America and Avon International.

A - João Paulo Brotto Gonçalves Ferreira

And I guess I should have said, Roberto, that the results in Brazil for Avon are above our expectations.

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

Correct. Correct. We're very pleased, Bob. Lets...

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

That's great to hear. Great to hear. Then just one -- my second question is, as you integrate Avon into the Natura systems platform, what functionality does that enable across administrative and commercial considerations?

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

So I will start -- I mean on the administrative thing, I mean especially in Latin America, we are integrating more. But I would say even there are some now integration that goes beyond Latin America. So HR platform now, it's being integrated. So we now have all associates in Latin America under one platform from compensation, benefits. Those things were not small undertakings, and that's done. We now are doing the same thing in some of the other areas. Of course the whole supply chain and procurement, distribution, manufacturing, it's coming, and that's producing some of the synergies already that are helping us with gross margin. In terms of the commercial one, I'll invite JP to talk a little bit about the platform, especially with social selling and some of the plans for integration here.

A - João Paulo Brotto Gonçalves Ferreira

Yes. I think it's worth mentioning, for instance, the credit and collection engine, which is now being fully integrated, improving the way we assign credit and also reducing delinquency rates. The other one I think is worth mentioning is the CRM. So the way we now can track transactions of the representatives and use the same CRM algorithms that we use for Natura now adjusted for Avon, which is already helping to drive additional revenues. Of course all the social selling tools that we keep spreading across all the various countries, you are aware of, producing, sharing content and linking it back to their online stores.

Operator

Helena Villares with Itaú is on with a question.

Q - Helena Villares {BIO 21333811 <GO>}

So our question goes to TBS. We are very interested in the growth that the company -- the brand has been showing the last quarters. It's much above the historical level that we had seen. So what we are trying to understand here is if these new channels, the online and the at-home channels, if they are able to reach new clients, new type of clients? And if so, what kind of new public are you able to reach? Are you able to feel that the brand is being -- it's achieving their propose in these new channels? That's the first question. In this sense, what kind of growth you're already seeing coming from Asia for this brand? Or it's very early stage yet, and we can see much more growth coming from Asia? That's our question.

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

Helena, Roberto here. Thanks for the question. You're right. We are seeing, in fact, this increase in ecommerce and at home through social selling, really bringing also different profiles of customers to the Body Shop. Interesting to also -- this is not just in isolation. While we are seeing a tremendous job by the Body Shop team is really reigniting the brand to its purpose, right, a more activist, a brand that has now clarity in terms of its position in the marketplace. I mean we just launched a couple of products, some iconic brands in like the White Mask, Veganos, the new Body Butters, and those things are really resonating with existing customers, but also attracting new customers, which also gets

enhanced by this expansion of the ecommerce and at home. So we are very encouraged by those results. I think as we also started to reopen stores, some of the new store designs that somehow we stopped some of the rollout last year, as we also progress and expand some of those new layouts with refill stations and everything else, we also think that this will create more momentum. On Asia, I still think that it's early for the Body Shop. We are seeing spectacular results on Aesop. I think there's a lot of upside in Asia for the Body Shop as we know. We acquired the head franchisee in Japan. There is some early good indicators, but there's a lot of opportunity and upside for the Body Shop in Asia, particularly in Japan.

Operator

Ruben Couto from Santander is on with a question.

Q - Ruben Couto {BIO 20636571 <GO>}

Can you share more color on Avon performance in international markets, particularly in the U.K.? We were surprised with the jump to the third spot in the U.K. specifically, which is good news. In the earnings, you did mention contribution from key categories behind this performance. But what is behind all of these? I mean not thinking specifically about the categories. Is there something related to new product launches, maybe to the relaunch of the brand globally or even related to improvements in sales channels. Can you elaborate a little bit further on this performance? And a second question, actually a follow-up to Richard's question on Mother's Day. I mean you have been highlighting over the past couple of years on how the Natura brand managed to up the game in gifting, and we noticed that Avon had some developments in the same direction. So I understood that you guys were pleased with the performance of Mother's Day. Yes? Can you hear me?

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

Yes. We can, Ruben. Thank you for --

Q - Ruben Couto {BIO 20636571 <GO>}

Can you hear me?

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

Yes. We can hear you. Can you hear us?

Q - Ruben Couto {BIO 20636571 <GO>}

Yes. I can. Sorry about that.

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

Okay. Okay. No. No. No worries. Thank you for the question, Ruben. So on Avon International and in particular U.K., we are seeing really a significant improvement in many fronts. One, we made already some changes on the earnings model for the reps in U.K., which, again we simplify and it's been applied now in many other markets at Avon. That is

creating more traction with the channel. We are seeing productivity increase in U.K. The channel is growing which is very encouraged. So that's one factor. The second is digitalization. U.K. is being the market that we've been applying more the social selling, the e-brochure. And we are seeing quarter-after-quarter a strong increase in adoption of the digital platforms and very strong increase in terms of sales through e-brochure.

So that's point number two. And point number three, we are seeing traction in some of the new products. Protinol is really working very well under a new and creating some good momentum for -- specifically for the U.K. market. So I think it's a combination. But if I were to tell you one thing is probably, again the commercial model, the simplification of the model and getting more traction with the reps, combined with the digitalization.

A - João Paulo Brotto Gonçalves Ferreira

He also asked about gifting for Avon. So yes, gifting became one of the areas of opportunity for Avon. We are developing that offering based on our learnings here in Latin America. Still isn't as important on relative terms as it is for Natura, but it is growing.

Operator

Andrew Ruben from Morgan Stanley is online with a question.

Q - Andrew R. Ruben {BIO 18834624 <GO>}

I was curious for a bit more detail on the rep count at Natura Brazil. I'm curious with the newer consultants, if there's any color you can provide on how long a consultant takes to ramp. And any sense on what you think now might be the right number of consultants if you're looking to increase the base versus, say the 1 million to 1.1 million. Any color there would be very helpful.

A - João Paulo Brotto Gonçalves Ferreira

Thanks for the question. So not only we look at consultants like beginners when they have less than one year in the activity and mature when they cross that line. Productivity increases over time. That is well known. By the way this is one of the reasons why you saw consultants productivity coming down this quarter on an aggregate basis due to a much higher number of beginners which joined the network bid last year, right? And the very, very good news is that they were retained. It's not that they entered during the pandemic, the crisis and went away. They were retained, thanks to the strength of that value proposition. So that productivity should grow continuously right now in the coming quarters. Now our strategy has been for many years to try and get modest growth in Brazil in the number of consultants, right, and a much more aggressive growth in Hispanic Latin America, where there's still more room to increase that consultant base.

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

Yes. Andrew, and again just to complement what JP said. The very exciting thing is that the digitalization is attracting a different profile of consultants and rep. And applying the same lifetime value segmentation, we expect that also is going to translate in higher productivity down the road. But it's exciting to see the channel expanding with a different

profile because of the now enrollment and all the process being done through social selling.

Operator

João Soares with Citibank is online with a question.

Q - João Pedro Ribeiro Soares {BIO 20904793 <GO>}

Congratulations on the strong quarter. I have two quick ones on my side and I apologize for going back to a theme already talked about. So going back to Avon brand in Brazil, it was very interesting the discussion and very helpful color on the rep base. But I wanted to explore more productivity. You mentioned in the release that once the base stabilizes, you expect incremental productivity. So if you could give us any color on how that -- how should we expect that productivity to evolve going forward, will be very interesting, very helpful. The second point, in the Hispanic LatAm, you talked about productivity is very, very strong and should remain so. But looking into the ecommerce impact and you mentioned that you launched the ecommerce platform in Mexico. So how do you expect these dynamics to -- going forward, right? How do you expect the ecommerce platform to impact the productivity in the region will be very, very helpful as well.

A - João Paulo Brotto Gonçalves Ferreira

Thanks for the question. So as regards Avon's representative's productivity in Brazil, the commercial model that has been introduced is to foster productivity increase, similar to what happened in Natura. So if you go back to early 2017 and see how the productivities went up, productivity went up quarter after quarter. So this is what we are aiming at for Avon, right? So that's number one. As regards to the introduction of ecommerce in some other geographies across the region, well, first of all, that allows us to achieve new customers, new shoppers. In different shopping occasions, we increase the base of customers we have. And as consultants learn how to operate their online stores, that also increases their productivities as they can reach new clients, which they wouldn't be able to do otherwise.

Operator

Irma Sgarz at Goldman Sachs is online with a question.

Q - Irma Sgarz {BIO 15190838 <GO>}

I was curious we're hearing a lot about the different input price pressures that companies across, I guess globally, but also specifically in Brazil are experiencing. So I was just curious about how you're thinking about price increases across your brands, specifically in Brazil, but maybe also in some of the other markets where -- specifically where you're experiencing pricing pressures and how you're thinking about the ability to raise prices versus the ability for the consumer to absorb any potential price increases?

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

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Irma, I'll start it and then maybe, Filippo, if you want to complement. So listen, we are seeing and we continue to be monitoring that carefully and across all geographies. But as you saw, actually, our gross margin across all business went up this quarter. The reason for that is twofold. One, as we mentioned, we are seeing some of the synergies, the efficiencies kicking in. In most part is also impacting gross margin. So that's helping us on one hand. On the other hand, we are also doing revenue management across all business in terms of portfolio, promotion and make sure that we are managing that through. As you know, I mean we're taking all the Body Shop. Over the last two years, we're able to reduce discount by a magnitude of about 30% to about 15% on average.

So managing the portfolio, promotion schemes, some categories is probably the first line of defense against this on top of the synergies and the efficiencies that we are having across our network. And again I would also remind all of you that we now -- as we updated our synergies, we included some synergies that are coming outside of Latin America. One example of that is moving the production of Body Butters to Avon Poland manufacturing, and that is creating a lot of efficiencies also for the Body Shop, for example. So we'll continue to monitor the situation. We think the team has done incredibly well in being able to offset thus far, resulting in increasing gross margin. But it is one area of attention, and that we'll continue to be monitoring. Filippo, do you want to add something?

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

Yes. Irma, we'll be facing pressures definitely as all of the industry in terms of commodity prices, inflation, some effects as well. This is not something that's not new for us. We've been dealing with this for a long time. I think that's important to recall about our relationship with the supply chain that we take it very, very differentiated, and we manage that very well. But also, like Roberto said, there's a lot of opportunities, and we are already executing in terms of synergies and efficiency gains on these like merging distribution centers, planning branded logistics. There's a lot of opportunities that also we are taking into account and using that can help us on addressing those challenges in terms of the cost.

Operator

(Operator Instructions) Joseph Giordano from JPMorgan is on the line with a question.

Q - Joseph Giordano {BIO 17268888 <GO>}

So there's actually a couple ones. So the first one is on the cash flow generation. So the company is like quite unlevered at this point, very close to its target. So my question here is if we should be seeing you guys getting more active on the M&A front and buying like some niche brands like Aesop and accelerate them on the new global platform. So that's the first one. The second one is like if you guys could provide some updates on the developments of Natura brand in Asia and here like particularly in Malaysia?

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

Joe, Roberto here. Thank you for the question. Listen, we are very pleased with the deleverage, and, again how we continue to be progressing our capital structure, and,

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again very pleased with the successful bond issue that we did this quarter. But again the plans that we share with the market and the guidance was all based on organic growth, and that's the focus that we have right now. Of course we have the responsibility to continue to monitor the market and we'll continue to do so in terms of opportunities. But I would say right now, the focus is, again on the integration, the turnaround of Avon, continue the momentum of digitalization across all of our business, great momentum of Natura, Body Shop, Aesop. So we still think that we have a runway that is very exciting for the business with the organic growth. Regarding Asia for Natura. As you know, we have a pilot in Malaysia. I would say that it's too early. Last year, it was, of course a year, there were so many variables and -- et cetera, that it's difficult to really read. So we'll continue to focus on getting the right portfolio, the right go to market, the right positioning. Once we have more confidence about the model that we are testing with Natura in Malaysia, then the goal is to expand to some other markets. So hopefully, we'll get a better reading by the end of this year. Then we'll come up with the right plan.

Operator

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

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

Okay. Thank you, all for joining us and participating and for the questions. I want to just finish with two comments. One is this week, we also heard that our brands were well recognized in terms of strength through the Brand Finance by brand director ranking. Natura, in fact, was elected the strongest brand in cosmetic globally which is really something that we're very proud of. At the same time, the Body Shop, the first time came as part of the top 50 in the ranking, which also shows the progress that the team has been doing. And Avon continues to be within the rankings. So very, very encouraged by that. I want to also send a shout out to our entire teams, associates, network for what we believe was a remarkable quarter under still very challenging set of circumstances. So thank you all very much for that, and thank you all very much for your attention. I hope you all will stay well, taking care of yourselves and your families and loved ones still in this very challenging pandemic. Hopefully, with the vaccines, we'll be able to turn the corner. We are seeing some green shoots in some countries, and that's encouraging. But there are a long way to go in some of the other markets. So stay well. Stay safe. Thank you very much, everybody.

Operator

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

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