

Q2 2021 Earnings Call

Company Participants

- Guilherme Strano Castellann, Chief Financial Officer
- Joao Paulo Ferreira, Chief Executive Officer
- Roberto de Oliveira Marques, Chairman
- Viviane Behar de Castro, Investor Relations Officer

Other Participants

- Andrew Ruben, Analyst
- Felipe Cassimiro, Analyst
- Irma Sgarz, Analyst
- Joao Soares, Analyst
- Joseph Giordano, Analyst
- Luiz Guanais, Analyst
- Richard Cathcart, Analyst
- Robert E. Ford, Analyst
- Stephanie Wissink, Analyst
- Thiago Macruz, Analyst

Presentation

Operator

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

This presentation may contain forward-looking statements. Such statements are not statements of historical fact and reflect the beliefs and expectations of Natura & Co's management. Forward-looking statements speak only as of the date they are made and the company does not undertake any obligation to update them in light of new information or future developments. This presentation also includes adjusted information prepared by the company for information and reference purposes only, which have not been audited.

Now, I will turn the conference over to Mrs. 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 am Viviane Behar, Natura & Co's Investor Relations Officer. Thank you for joining us today for this call to present Natura & Co's second quarter 2021 earnings.

I'm joined today by Roberto Marques, Executive Chairman and CEO of Natura & Co; Guilherme Castellann, who took over as CFO last month and whom we are very pleased to welcome; and Joao Paulo Ferreira, CEO of Natura & Co Latin America, who will join us for the Q&A session. Natura & Co Investor Relations team is also with us.

The presentation we will be referring to during this call is available on the Natura & Co Investor Relations website. Roberto will start today with an overview of our performance. Guilherme 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 would like to ask you to please limit yourselves to one or two questions each in the Q&A session. Thanks much for your understanding in this and cooperation. Let me now hand over to Roberto. Roberto, please.

Roberto de Oliveira Marques {BIO 17538675 <GO>}

Thank you, Viviane, and hello, everyone. Thank you again for joining us. Hope all of you are continuing to be safe and well in these challenging times. Let me begin on Slide 3, an overview of our second quarter highlights. Natura & Co turned in another strong performance in the second quarter of 2021. Our Group sales grew more than 36%, outperforming once again the global CFT market and we posted a significant increase in net income.

Adjusted EBITDA was also up strongly, while margin was impacted by a base effect that Guilherme will explain in more detail as Q2 last year benefited from exceptional circumstances of some government support in a strict cost containment at the height of the pandemic last year, but it's important to point out that without this impact, adjusted EBITDA margin would have been up by 210 basis points in the period.

For the first half of the year we achieved over 9% adjusted EBITDA margin, a healthy 120 basis point higher than same period last year. This strong performance was achieved while we continue to operate in a challenging healthy environment, with lockdowns and restrictions in certain key markets. This reflects, once again the relevance and resilience of our omnichannel business model, the power appeal of our brands, products in our unparalleled direct-to-customer reach.

We saw double-digit sales growth across our businesses in a very good performance in our key markets. Natura & Co LatAm saw growth by both their Natura and Avon brands, with a very strong performance in Hispanic LatAm. Avon International also posted strong

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growth and market share gains in some key markets. And the Body Shop and Aesop also were up significantly, even while continue to face challenges from COVID-19.

Digital enable represented over 51% of our total sales, 4 times above pre-pandemic levels. Another digital highlight was the strong growth of our &Co Pay payments platform which we are piloting at Natura Brazil. We had a 50% gain in new accounts, totally 220,000 in six months, and almost BRL2 billion in total payment volume.

We are particularly pleased with the performance of Avon in both Latin and International. The sales growth we saw coupled with market share gains in key markets and categories are demonstration that Avon's turnaround is underway. Pilots of the new commercial model, both in the Nordics and New South Africa show positive initial results and representative satisfaction has increased. The synergies are in line with the plan at \$76.5 million in the first half with \$41 million in cost to achieve.

Avon International's transformational plan is also progressing and its EBITDA margin remained broadly stable even while investing more in digital, IT and marketing, to drive future growth.

And we have a very solid balance sheet. We ended up the quarter with a robust cash position of BRL8 billion and we made further headway on deleveraging with our net debt EBITDA ratio at 1.43 times at the end of the quarter, compared to 3.63 times in Q2 last year.

Natura & Co posted strong growth in net income which reached BRL235 million in the quarter and increase over BRL600 million versus the same quarter last year and almost BRL1 billion improvement year-to-date compared to last year. The gain this quarter was driven by a new benefit from the Avon integration related to our corporate structure optimization.

So overall, I think we can be very proud of our performance in a context that remains very challenging due to the uncertainty restriction and lockdowns, still very present in many markets in which we operate. It is a demonstration of the strength of our business model, which aims to make positive impact while delivering sustainable growth and value creation.

On the following slide, we show that we made continued advances in ESG as we celebrated in June the first anniversary of our commitment to life our 2030 Sustainability Vision. The slide shows a number of actions, but let me mention just a couple of highlights for pillar. To address the climate crisis and protect the Amazon, Natura & Co began building the plan PlenaMata portal, a platform designed to engage different stakeholders to achieve zero deforestation, conservation and regeneration of the Amazon by disclosing scientific data.

As part of our aim to protect human rights and to be human kind, we have reached 96% of our workforce receiving a living wage, on track to reach a 100% in 2023. Natura & Co

also set up ambitions to be the first multinational to ensure our workforce reflect the demographic composition of the societies in which it operates.

And to help embrace clarity and regeneration as an example, the Body Shop is rolling out refill stations in 400 stores and we will ensure that all of its company markets participate in the return, recycle, repeat project, having rollout almost 300 to date.

Overall, we are also on track to achieve 95% or more on biodegradable formulas by 2030.

With that I will now hand over to Guilherme for a closer look at our financial performance. As you all know, Guilherme took over as a Group CFO last month after completing a various moves transition. Guilherme, welcome again and over to you.

Guilherme Strano Castellann

Thank you very much, Roberto, and hello to everyone. I'm delighted to be on this call and very much looking forward to meeting all of you. On Slide 6, you see that we posted very strong consolidated net sales growth in the quarter of 36.2% in BRL and 31.7% in constant currency, reaching BRL9.5 billion. This reflects double-digit growth in BRL in all of our brands as you see on the right hand side of this slide, despite lingering effects of COVID.

I will detail performance by brand shortly. It's important to highlight that as you recall, we faced a cyber incident that Avon last year in Q2 that shifted BRL454 million in sales from Q2 to Q3. Without that effect, net revenue will have been up by 27.9% in BRL and 24.4% at constant currency, which is still ahead of the global CFT market. In H1, net revenue reached BRL19 billion up 30.8% in BRL and 18.9% in constant currency.

On Slide 7, we focused on our digital performance. As Roberto mentioned, digitally enabled sales, which include online sales from e-commerce, social selling as well as relationship selling using our main digital apps, represented 51.1% of our total sales, up from 48% in Q1 and compared to 55% in Q2 last year when most stores were closed.

We are significantly above pre-pandemic levels at all our brands as you see on the slide. Total online sales for all brands are between 2 and 4 times pre-pandemic levels.

Slide 8 shows that we posted reported EBITDA of BRL603 million in the quarter, with margin of 6.6%. Adjusted EBITDA which excludes the BRL181 million in transformational cost to achieve synergies, Avon related acquisition effects and low recurring effects was BRL811 million. This represents a very strong increase of 31.9%, driven by synergies, pricing and sales leverage, which help us to offset inflationary pressures and higher prices of raw materials.

Adjusted EBITDA margin was 8.5%, down 30 bps year-on-year. This margin reflects one-offs as a result of the pandemic as last year's Q2 benefited from government supports and cost containment actions. Excluding these one-offs, adjusted EBITDA margin would

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have improved by 210 bps. All the businesses we have, show margin expansion despite investments to drive growth.

In H1 reported EBITDA is up by very strong 83% to BRL1.5 billion. Adjusted EBITDA was up by 49.5% to BRL1.8 billion with margin thereby 120 bps at 9.4%, which puts us on track to achieve on our full year target.

Now turning to Slide 9. We see the Natura & Co posted a strong improvement in underlying net income in the second quarter, reaching BRL482 million, reversing the negative BRL191 million in Q2 last year. Underlying net income excludes Avon acquisition related effects and PPA amortization. We benefit in the quarter from a favorable net tax effect of BRL474 million, which includes BRL823 million in new gains recognized as deferred income tax, resulting from the Avon integration and corporate restructuring, enabled by the prepayment of the Avon 2022 bonds. This effect was partially offset by a 6 percentage point increase in UK income tax of 25%.

Net income was BRL235 million, reversing a loss of BRL388 million in the same quarter last year. The swing of more than BRL600 million is driven by lower financial expenses and new gains from the Avon integration related to the corporate restructuring. In H1 net income reached BRL80 million, an improvement of almost BRL1.3 billion compared to H1 in the previous year.

On Slide 10, we look at our cash and balance sheet position. We end the quarter with a strong cash position of BRL8 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, consolidated net debt will be down was 1.4 times, significantly lower from 3.6 times in the year ago period.

We improved our indebtedness profile with \$1 billion sustainability linked bond issued in May by Natura Cosmetic, guaranteed by Natura & Co. The funds were used to prepay the \$750 million bond maturing 2023, as well as refinancing other existing debts, in line with the Group's liability management plan, while the same time, demonstrating our commitment to achieving our ESG targets.

The second graph provides with the amortization schedule and shows that we have cash in excess of maturities, up to 2024.

Let's turn now to our performance by business unit, beginning with Natura & Co LatAm on Slide 12. Total net sales were up 39% in BRL and 37% at constant currency in Q2. This strong performance was driven by double-digit growth at both Natura and Avon brands, both in BRL and in constant currency, with significant growth in Hispanic LatAm at both brands. Excluding the previously mentioned cyber incident, growth would have been 26.7%.

The Natura brand was up 25% in BRL and 26% in constant currency, while the Avon brand also reported very encouraging growth of 28% in BRL and 26% in constant currency. In H1 net sales were up 31.7% in BRL and 26% in constant currency, with double-digit growth at

both Natura and Avon brands. Restarted for the cyber incident, growth would have been 25.6%.

Another highlight of the quarter was a strong growth of &Co Pay, our digital payment platform, which supports the growth of digital social selling. We saw expansion of over 50% in new accounts to reach more than 220,000 and total payment volume in H1 was nearly BRL2 billion.

Now on Slide 13 we look at Natura brands. Sales and in Natura brand in Brazil rose 8% in Q2 on top of tough comps with market share gains driven by core categories supported by successful Mother's Day and Valentine's day campaigns in a significant increase in brand preference. Growth was also driven by higher volume, continue advances in digital social selling and the 14% increase in the average number of consultants versus Q2 2020. And the loyalty index was up by 700 bps versus Q2 last year.

In Hispanic LatAm, the Natura brand recorded a growth of 68% and 78% in constant currency, supported by all markets. notably, Argentina, Chile and Mexico. Natura saw productivity increase and expansion the consultant base of 19% and a significantly higher consultant loyalty index in the region.

A particular highlight was Mexico which became Natura's largest marketing sales after Brazil. After launching Natura's e-commerce in Mexico in Q1, we opened our first flagship store in Mexico City, as we continue to rollout our omnichannel strategy. Natura's performance in H1 was also strong. The sales growth of 10% in Brazil and 64% in Hispanic LatAm.

Now turning to the Avon brand on Slide 14 Avon. Avon integration in LatAm is on track and we are seeing signs of recovery similar to those we witnessed and Natura at the start of its turnaround in 2017.

In Brazil, the Avon brand's revenue grew by 26% in Q2. Excluding the cyber incident, sales would have been broadly flat. We successfully rolled out the new commercial model in late Q1 and are seeing positive initial signs, supported by several indicators such as higher representative productivity, a double-digit increase in representative satisfaction score and stronger brand preference and brand power. This translated into market share gains, supported by marketing investments made earlier in the year.

The rollout of the new commercial model lapsed and expect a drop of 4.7% in representatives, compared to Q2 2020. In Hispanic LatAm we saw very strong growth of 83% in BRL and 72% in constant currency. Excluding the cyber incident, growth would have been a strong 49%. Growth came from all markets and categories and was supported by 10% increase in the number of representatives and higher representative productivity. In H1, growth was 10% in Brazil, or minus 1.6% excluding the cyber effect and 55% in Hispanic LatAm or 47% ex-cyber.

On Slide 15, adjusted EBITDA for Natura & Co LatAm grew by more than 60% in the quarter, reaching BRL598 million driven by strong revenue growth and synergies from the

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integration with Avon, with more than offset raw material inflation pressure and foreign currency headwinds. Adjusted EBITDA margin was up 140 bps to 10.8%. Excluding one-off effects as the result of the pandemic, the boosted Q2 2020 EBITDA such as cost containment actions, adjusted EBITDA margin this quarter will have improved by 270 bps. In H1, adjusted EBITDA was BRL1.2 billion with margin of 11.5%, up 340 bps.

Let's now move to Avon International on Slide 17. Like for Avon LatAm, we saw a strong growth at Avon International in the quarter, both in sales and in adjusted EBITDA. Net revenues was up 34% in Q2 in BRL or 29% ex-cyber, and up 27% in constant currency, although some markets continue to be affected by the pandemic, especially in Central and Eastern Europe.

We reported market share gains in key markets such as the Philippines, South Africa, Romania and Italy. All beauty categories reported growth and increasing market share, notably fragrance and color. The average number of representatives in the quarter was flat compared to Q2 last year, and we ended the quarter with 7.4% more representatives than in Q2 2020. Overall representative satisfaction show positive momentum.

Pilots of the new commercial model in the Nordics and South Africa have shown initial positive results in productivity, sales growth and number of representatives. Adjusted EBITDA grew 30% to BRL94 million with margin of 4.3%, down 10 bps as strong sales leverage and transformational savings, offset the impact of higher inflation and increased investments in digital and IT to drive market share and accelerated future growth.

EBITDA margins is in line with its transformational plan targets. Excluding one-offs effects as a result of the pandemic, adjusted EBITDA margin this quarter would have been improved by 260 bps. In H1 net revenue was up 21% in BRL and 4.6% in constant currency, while adjusted EBITDA margin was 4.2%.

On Slide 19, we now move on to the Body Shop, where sales by 24.3% in BRL and 14.2% in constant currency, with growth in all of its regions. Stores reopen in the UK, The Body Shop's biggest markets, while in other countries we had continued restrictions or even lockdowns, such as in Australia and Canada. This resulted in approximately 18% loss to our days in the quarter.

Nevertheless on store performance grew 140% compared to Q2 last year and accounted for 42% of total sales in Q2, more than double the same quarter last year. This was partially offset by the expected slowdown in e-commerce in at home, reflecting a rebalancing of channels. Still e-commerce sales are currently double pre-pandemic levels and the Body Shop at home sales are 3 times what they were in Q2 2019.

The Body Shop's EBITDA in Q2 grew 9.2% to BRL159 million, margin at 13% was down 180 bps as Q2 2020, benefited from approximately 600 bps from one-off effects as a result of the pandemic. Excluding these effects, EBITDA margin would have increased by 450 bps, in spite of a channel rebalancing effect and the impact of last October's Japan buyback, driven by strong operational leverage.

In H1, sales were up 35.5% in BRL and 12.4% in constant currency, while EBITDA rose 26.6%.

On Slide 21, Aesop again recorded an outstanding performance with net revenue growth of 47% in Q2 in BRL and 41% in constant currency. All regions show growth, particular the Americas and Asia, even with the continuous challenges brought by COVID with about 11% of lost store days. Retail accounted for 78% of sales in the quarter, with start sales up 129% in constant currency versus Q2 2020.

Online sales at 23% of the total were down from their peak as expected, as stores reopen, but still twice their pre-pandemic levels. EBITDA in Q2;21 reached BRL118 million with margin of 21%. It was down 580 bps as Q2 2020, benefited from approximately 650 bps from one-off effects as a result of the pandemic. Excluding this effect, EBITDA margin would have increased by 90 bps. Despite increased investments in expansion, three launches in fragrances and channel rebalancing effects. In H1, sales were up by a very strong 58.7% in BRL and 35.5% in constant currency, while EBITDA rose 51.9%.

Let me now hand back to Robert. Over to you, Robert.

Roberto de Oliveira Marques {BIO 17538675 <GO>}

Thank you, Guilherme. And let me now conclude on Slide 23 with key takeaways. First of all, we are on a sustainable growth path. We posted another strong quarter, continuing to outperform the global CFT market with double-digit growth across the board and strong growth in net income, supported among other factors by new gains from Avon integration.

Second, the Avon integration is on track. While we are seeing at Avon in LatAM and international, kind of replicates what we saw in Natura when it initiated its turnaround, which is new, a business model, commercial model back in 2017. This quarter we saw strong growth both in LatAM and international for Avon, with market share gains in key markets. The transformation is going according to plan and we are seeing encouraging results from the new commercial model where it has been rollout or still in pilot.

Third, we are making further advances on ESG, with progresses on all the pillars of our 2030 sustainability vision. Let me highlight that we continued to make significant donations to causes that are important to us, especially right now to fight with COVID-19.

And fourth, we continue to see increasing traction of our omnichannel model with digital sales significantly above their pre-pandemic level even as stores reopen.

I went on Slide 24 by reiterating that we are on track to achieve our 2021 targets and the 2023 guidance, we presented at our Investor Day back in April of high single-digit topline growth on a compound annual growth basis and mid teens EBITDA margin at the end of the period.

Let me flag also that we do expect the third quarter to face a demanding comparable base, since Q3 last year, benefited from the phasing effect of the cyber incident and pandemic related one-off effect of cost containment and some government support, as well as a strong pickup in business after a very strict lockdown, on a onset of the global pandemic that compared to Q2. But again, this does not affect our short and medium-term objectives. 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 so very much for your attention. We are now going to open the Q&A session and Guilherme, JP and I are happy to take your questions. So now the floor is yours.

Questions And Answers

Operator

(Operator Instructions) The first question comes from Thiago Macruz of Itau. Please go ahead.

Q - Thiago Macruz {BIO 16404924 <GO>}

Hi guys, good morning. You've not spent some time exploring of course, direct selling commercial model to the international operations of Avon. So I would like to understand first, how far you guys feel you are from completing this process, which major market is not yet using that model?

And second, it would be great if you could share with us some more information on the results of that initiative so far? Thank you, guys.

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

Hi Thiago, Roberto here. So here is a good news. We haven't seen yet the benefits of the new commercial model on the key markets of Avon International. We are going to be rolling out the new commercial model with actually for the representatives who will include the segmentation and the lifetime value approach that we have Emma Tudor rolling out on the top eight markets, eight of the 10 markets by Q4 of this year. So that's encouraging because that's yet to come and the good news is that we are really using a lot of the learnings from Natura about establishing the segmentation model.

And we're going to do actually in two phases. The first phase is going to be for the representatives and then the second phase, including the leaders. Right. But here's also the other good news. We have two pilots right now in Avon International. One in South Africa and the other one in the Nordics, the countries. And in both of them, we are seeing increasing productivity. We are seeing retention getting to all-time high like in South Africa, we are seeing adjusting brand, our retention about 66%, which is a number that we haven't seen in the past. So we are encouraged by the early results on the two pilots both in South Africa, and also in the Nordics,

I'll turn to JP that also can comment a little bit on the rollout of this new commercial model, Brazil actually, Avon Brazil is a little more advanced than Avon International, so he can comment that as well. So JP, please

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

Thank you, Roberto. Thank you, Thiago. Actually as regards to Avon Brazil, we are very happy with the lead indicator so far. The brand has strengthened significantly. The productivity of the reps has increased. Their satisfaction has reached all-time high levels and the market share is going up as they are selling out their products at a higher price.

So everything that we had experienced at Natura couple of years ago, and moreover, we are building the required experience and sensitivity on those levers to smoothen its implementation in other geographies. So, very happy with that. We are actually -- we have already started rolling that out in Ecuador in Latin America and we are planning other markets still this year. So excellent learnings and very, very promising, lead indicator so far.

Q - Thiago Macruz {BIO 16404924 <GO>}

Fantastic, guys. Fantastic. Thank you very much for the answers.

Operator

The next question comes from Luiz Guanais of BTG Pactual. Please go ahead.

Q - Luiz Guanais

Hi guys, good morning. So two questions here on my side. The first one, if you could comment about the competitive outlook in LatAm in this space with increased prices in the next two quarters. It would be good to hear about that.

And the second question also regarding social selling platform. How do you think that the customer acquisition cost is going to evolve in the next few quarters as you guide is key about this platform not only here in LatAm, but also to the global operations on Natura? Thank you.

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

Hi, JP here. As regards to the competitive environment in Latin America. well, we see is relatively slow down in consumption, growing inflation, as you all know. Nevertheless, we have been managing revenues very actively, not only price, but also product mix and promotional investments to make sure that we remain competitive in terms of our gross margins and EBITDA margins.

As regards, the cost of acquisition of social selling, actually as our reps and consultants master their skills in terms of the usage of the social selling tools, they are acquiring digitally -- the clients they had formerly. So that's not increasing at this point in time.

Q - Luiz Guanais

Okay, thank you very much, JP.

Operator

Next question comes from Steph Wissink of Jefferies. Please go ahead.

Q - Stephanie Wissink {BIO 17692025 <GO>}

Thank you. Good day, everyone. I have two questions. The first, maybe Roberto for you, just as an observation is to see the strength of both Avon and Natura in Brazil and the ability for your reps co-sell those two brands both prestige and mass, talk a little bit about what you're learning early on from the Brazil market and what that might mean for some of the international markets?

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

Hi Steph, good hearing from you. Listen, we are excited about some of the opportunities or we call cross-sell and up-sell between Avon and Natura, not only in Brazil, in Latin America. We think that there is tremendous potential and the data is very encouraging about the opportunity there and we are progressing and I'll ask JP to elaborate a little bit more about it.

On the international side, again we are very pleased to see not only some of the leading indicators in the fundamentals of even strengthening, but I would highlight the market share gain. There we are seeing on Avon International in key markets in two very important categories, which is color cosmetics and fragrance. This is actually something very encouraging.

Again, we are still facing in some markets strict lockdowns and pandemic that are impacting the overall growth of those categories. But the fact that we are seeing market share gain on those key markets are also very encouraged.

I'll ask JP to elaborate in more detail about this opportunity of the cross-sell and up-sell between Avon and Natura in Brazil. Please, JP.

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

Thanks. We are at very early stage of proactively managing the cross selling opportunities, but we have already started those, using big data analytics CRM. So we are probing various promotional and cross-selling mechanics and that is proving effectively. It's not yet rolled out at a larger scale, but it will towards the end of this year, beginning of next year.

Having said that, we have also experienced both brands gaining share in Latin America in Q2, which again proves the complementarity of those portfolios, so very excited with that growth avenue.

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Q - Stephanie Wissink {BIO 17692025 <GO>}

That's great. And then my second question is just on APAC. There wasn't a lot of commentary, but just curious where you are in casting a vision for the Asia-Pacific market in China in particular, how you're thinking about entering that market? I think Body Shop and Aesop may be a bit ahead of the others, but maybe share a little bit about when we could start to see China and broadly more the APAC region contributing to the business?

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

Yeah. So, great question. So one, I think we mentioned, a lot of this outstanding result of Aesop again is driven by Asia Pacific. So Aesop is really hitting all cylinders. I would say, especially in the North Asia which is very encouraging. It gives us the confidence again about entering China. The situation in China is as follow. We welcome some of the change in the regulatory space in China, that will allow us to produce and import products to China, without compromising our non-animal testing and we are progressing now their registration. That requires that we obtain a GMP certification of our manufacturing sites in the countries that we actually produce and that's ongoing both for Aesop and The Body Shop and in parallel we are registering our SKUs, both for Aesop and Body Shop.

You are correct, the priority will be actually number one Aesop, and then followed by the Body Shop and we are on track to potentially have a physical presence with Aesop in probably beginning first, I would say, first half of next year. So very encouraged by that.

Besides China, as you know, we also made an important investment in acquiring the head franchisee of The Body Shop in Japan, which is an strategic market for us. Early indicators about us taking over the business with our local team in a more direct contact that has a company market, is also promising. Of course, Japan is also facing the pandemic in some, back and forth in terms of lockdown, but we're encouraged by that. Aesop continues to perform extremely well. Japan, it is now the largest market for Aesop and Korea is also performing very well.

My last point on Asia Pacific, Avon in Philippines, which is a very important market for Avon, also posted important market share gains in the Philippines. But I would also caveat, the Philippines right now is facing one of the most strict lockdowns with the resurgence of the pandemic. So it is something that we are monitoring very closely.

Q - Stephanie Wissink {BIO 17692025 <GO>}

Very helpful. Thank you so much.

Operator

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

Q - Robert E. Ford {BIO 1889730 <GO>}

Thank you. Good morning and congratulations on the various sources of traction. Can you talk a little bit about your balance sheet tax assets in the path to monetizing those. And

with respect to the trans being recognized in the June quarter, what's the realistic timeframe for monetization. I think the press release makes mentioned of the 20-year period, but that seems a bit conservative.

And then you call out Tukuma. It's great. It's doing very well within EKOS. How innovative is it and how are protected is the IP and is there a possibility of maybe adding Tukuma to other brands?

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

Thanks, Bob. I'll ask Guilherme to answer the first one and the JP can talk about the exciting -- new ingredient Tukuma. So please, Guilherme.

A - Guilherme Strano Castellann

Thank you, Roberto and Bob. It's a pleasure to meet you and looking forward to meeting you soon. As you mentioned, basically, this quarter we recorded more than \$800 million -- sorry, BRL800 million in deferred tax assets. As we continue to optimize our subsidiaries structure, right, which is caused by the Avon integration, right. As you probably remember as well, this was enabled by the prepayment of the Avon 2022 bonds. They had some restrictive covenants that allow us to execute those restructurings.

It's important to highlight here that this gain was not factored in the guidance that we gave, \$350 million to and \$450 million in synergies from the Avon integration. So it's an upside to that. Right. And as you mentioned, there are definitely more opportunities to be captured which is good, which is very good about capturing those opportunities and we are working hard on that though, of course, we cannot comment on whether and when we will report additional deferred tax assets.

To your question on the 20 years, I mean this is what we disclose at this point and basically this is what we are comfortable and the valuation allowance, we're recognizing the timeframe this quarter is appropriate at this time.

With that, I'll pass to JP.

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

Hi, Bob, thanks for asking. We are very excited with Tukuma. Actually it highlights one of our strengths -- one of the strengths of the group. Bioscience understanding the richness of bioingredients and the ability to transform those ingredients into active agents of -- in the cosmetics industry, which ties to one of your questions. If anyone just squeezes that fruit, one get that property.

So there is significant science behind the transformation of Tukuma into this active ingredient which is protected by patent. And it has regenerative properties which translates to your skin, which is then probed to generate its own hyaluronic acid. So we are very excited with that and is now the second best selling variant under the EKOS line. Thanks.

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Q - Robert E. Ford {BIO 1889730 <GO>}

And is there a role for Tukuma in brands where Natura does not overlap? I mean, would you, is there a role for this in -- within Aesop or the Body Shop in other markets outside of Brazil and Latin America?

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

So as an explicit claim, that's a lot to do with the EKOS line. Now, as an active ingredient, this is one of the areas where the Group now is discussing how to translate those active ingredients into various formulations of the various brands. Even though it's not explicitly claimed.

Q - Robert E. Ford {BIO 1889730 <GO>}

And could you just discuss, you mentioned the patent. How long do you have the rights or how long is the duration of the patent?

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

I would not know the details at this point, Bob, but I'll be glad to share those with you later on.

Q - Robert E. Ford {BIO 1889730 <GO>}

Thank you very much. And again, congratulations on all the traction.

Operator

The next question comes from Felipe Cassimiro of HSBC. Please go ahead.

Q - Felipe Cassimiro {BIO 20321618 <GO>}

Hello, thanks for taking my questions. First, I would like to know about Natura & Co in Mexico. Could you give us more color on the updates -- an update on the recent initiatives in Mexico that have helped the country to step up as the second largest market in LatAm? And also on the operational side in Mexico, do you see additional synergies to be gaining with the integration of the brands in the country?

And second one, I would like to explore a bit more on APAC, follow-up on what Roberto said. Thank you for the colored explanation on all the initiatives there. I just wanted to follow-up maybe on Avon in Philippines that the plan is doing so well. Is there any perspectives of entry of Avon in new market in Southeast Asia in the next 12 months, maybe anything on this? Thanks.

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

Hi, thanks. JP speaking. As regards, Mexico, sure. I mean we are a couple of things happening, recently there. Heavy and growing investments behind the brand, that's number one.

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Then the development of the omnichannel solutions with the opening of the e-commerce and various stores. As regards synergies, for operational synergies, there are many being explored at this point. But the main one I would like to highlight is the usage of Avon's manufacturing plant in Mexico to manufacture, some of the Natura's SKUs.

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

Yeah. And regarding to Avon in Asia, our priority is really to continue to focus on the new commercial model, the rejuvenation of the brand, and digitalization. So right now, I would say we are not planning to entering new markets. But really strengthening our presence through to the commercial model, digitalization and the brand rejuvenation and let's not forget that Avon is also present in China.

And with this new effort of the Group, we also want to make sure that we can strengthen our position at Avon in China.

Q - Felipe Cassimiro {BIO 20321618 <GO>}

Okay. Thank you very much.

Operator

The next question comes from Andrew Ruben of Morgan Stanley. Please go ahead.

Q - Andrew Ruben {BIO 18834624 <GO>}

Hi, thanks very much for the question. So hoping to pivot back to Natura Brazil. I was wondering if you could talk a bit more about the balance between consultant growth and productivity? Any color on how you think productivity trends will progress into the second half?

And bigger picture, any update on how you think about the right consultant count for the business? Thank you.

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

Thank you for the question. As you know, I mean, the events of Q2, Q3 last year were exceptional and they distort somehow the way we report productivity -- consultants productivity at this point. There was huge increase in the number of reps -- of consultants in Q3. Right. Very abruptly they are younger with us. They are less productive.

In addition to that, in Q3 last year, there was a shift of channels from in-store to out of store channels and a shift of the portfolio towards the essential items. So those numbers will be distorted for a period and should return to normality -- sorry, towards Q4 this year. Thanks. Thanks for the question.

Q - Andrew Ruben {BIO 18834624 <GO>}

Thank you.

Operator

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

Q - Richard Cathcart {BIO 16457807 <GO>}

Hi guys, good morning. Thanks for taking my question. A couple here. Just firstly on the Body Shop. You mentioned I think 20 stores have been renovated into the new format during the quarter. So just wanted to hear a little bit about kind of the performance there and the plan to continue rolling out that new concept to other stores across the Body Shop portfolio?

And then the second question, I think for Guilherme, just on debt, just wondering if you've got any additional potential renegotiations on the horizon, and what are, kind of, let's say, the next steps for debt over the next 6 to 12 to 18 months? Thanks.

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

Hey, Richard. I will start and then I'll pass to Guilherme. So on the new store design for The Body Shop, the good news is, right now we have approximately 50 already in place and they are showing double-digit gains versus call it, the previous design. So that's very encouraging. We are planning to potentially get to a 100 by year-end.

And as you know and I would that -- as part of that, as you know, we are also driving the refill stations within the Body Shop stores, which is also very much in line with our commitment to like, but it's also very much tied to the values and the strategy of the Body Shop. And on those refills, we are planning actually to get to 300 refill stations in the stores by end of this year.

So, it's progressing well. Of course, we continue to monitor it. The retail reopening in some of the key markets and again a lot of markets going back to lockdown. So -- and we are still very much paying attention to that, but all the indicators that we have, the early indicators on the new store design are pretty encouraging.

So I'll pass to Guilherme to talk about debt strategy here.

A - Guilherme Strano Castellann

Thank you, Roberto. On the capital structure side, I think, as you probably saw we ended the quarter with very strong liquidity position, write-off BRL8 billion in cash and equivalents. We continue of course, to deleverage our balance sheet with net debt to EBITDA of 1.4 times. And I think the highlight of the second quarter, as we already disclosed in the Q1 results, was the issuance of the \$1 billion sustainability linked bond. Right.

We're quite comfortable right now with our capital structure. I mean, when you look at the liquidity in hand, then when you look at it that tower, the monetization schedules, we have covered basically all the way in 2024. When you look at our exposures by currency, we're extremely well matched as well.

So we are comfortable where we are. Of course, we're always assessing opportunity in the market. But at this point, I think that, again, especially after the follow-on in the second half of last year, we're quite glad on where we landed.

Q - Richard Cathcart {BIO 16457807 <GO>}

Okay. Thanks very much.

Operator

Our next question comes from Joao Soares of Citibank. Please go ahead.

Q - Joao Soares {BIO 17386703 <GO>}

Hi, thanks. Two points on my side. First one on APAC, and I think, I appreciate the follow on the physical strategy there on Aesop, but wanting to get more color on the digital strategy. Could you give us an update in terms of how your e-commerce operation is right now in Aesop? What types of opportunities do you think you can explore in short term, maybe through partnerships, maybe some M&A strengthening? If you give us on that, would be very interesting.

And the second point regarding Avon International. We saw a pickup in digital investments. The penetration is clearly moving very well. So just, give us some idea in terms of how those investments are progressing going forward, maybe calling back to your guidance on the low to mid-teens margins for Avon International by 2024, how does the digital penetration play out into those margins that we will be very interesting to hear? Thanks.

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

Joao, thank you for the question. Roberto, here. So, in regarding to Asia-Pacific and I'll focus a little bit on China. Right now our presence is to the cross-border and it's all e-commerce and is actually progressing very well. We are doing some partnerships. In fact, this quarter we just launched a cross-border WeChat, a mini program that are allowing users to purchase, ease of products directly within the app.

And the good news is because to some extent, we are late entering China. We're going to really optimize the e-commerce and social selling and not needed to actually invest heavily in brick and mortar. Yes, we're going to have retail when it will be important, but maybe the only good news of us being a little late in entering China is that our omnichannel approach and the focus much more on the e-commerce and social selling and use of key opinion leaders, will help us to penetrate probably to less capital investment, compared to some of the other early entry in China.

Once again, the second question?

Q - Joao Soares {BIO 17386703 <GO>}

Yes, yes, Roberto, thanks for this one...

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

The digital, sorry...

Q - Joao Soares {BIO 17386703 <GO>}

Yes.

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

Yeah, the digital piece at Avon International, is progressing well, Joao. I mean, we are really moving to similar to Natura, one app for the representatives to actually do all the business, having all the information content being able to share. It's called Avon ON, and there's been a lot of investment to the point that you made, that we are actually putting a lot of investment in digital for Avon as a whole.

This is actually going to facilitate a lot for the representatives to moving to social selling. So more to come on that. We still think that we have a lot to catch up on that, but the good news is, the team is investing, the reps will be able to access in one platform, in one app, and similar to what we have within Natura and that should be a pretty excitement improvement for the reps within Avon International.

Q - Joao Soares {BIO 17386703 <GO>}

Great. Thanks for the answers.

Operator

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

Q - Irma Sgarz {BIO 15190838 <GO>}

Yes, hi, good morning, and thanks for taking my question. I was just curious to come back to Brazil for a second. And you do cite and I think it's certainly evident in the number of different sectors, the raw material, input cost pressures, and I was just curious how you think about the for price increases into back half, or maybe already taking prices up at the outgoing cycles of the second quarter and how we should think about gross margin for the operation? I guess this applies to -- I'm specifically interested in Brazil, for both the Avon and the Natura brand? Thank you.

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

Hi, Irma, JP speaking. So indeed, the cost pressures are present and we have been managing actively revenues. We did increase prices. We have others scheduled, but that's not the only source of value. As I mentioned, we have been improving and shifting the mix of products in both Naturas and Avons as well as promotions to maintain, keep and ideally even improve gross margin going forward. Thanks.

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

FINAL

Yeah. And one thing, Irma, that I also add on top of what JP said, which I would just call attention for all of you. Right. If you look at it year-to-date, as a Group, we are actually up in gross margin, which I would say in this environment, it's very unique. And even in Latin America, year-to-date our gross margin is up versus prior year. And that is because not only I think the team is doing a great job on revenue management, we are leveraging our volume increase, but also the synergies, which is very somehow unique to this combination in this group.

The synergies are kicking in and we have on the quarter over \$40 million, in the year-to-date almost \$80 million of synergies that are helping us navigate some of this pressure in terms of cost inflationary and currency. So that's just one additional comment here on the gross margin.

Q - Irma Sgarz {BIO 15190838 <GO>}

Thank you, again.

Operator

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

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

Before I close, it seems that we have one additional question and just I would hate not to answer, Joseph. So Joseph, please, if you have your question, we're happy to answer and then I'll do the closing. Please go ahead. Joseph.

Q - Joseph Giordano {BIO 17751061 <GO>}

Right. Thank you, Roberto. So there should be a quick one. So, on the digital front, right, you're really doing like major advancements in connecting directly to customers. So my question to you is, like how the fulfillment has been working on this front? I recall that you guys are delivering more to the clients. So how are you moving on this front, both on Natura and Avon front? Thank you.

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

Yeah. So thank you for the question, Joseph. So we are progressing well. Our fulfillment, our supply chain are really showing tremendous resilience and being able to again, since the pandemic, to really be very responsive and not only in Natura and Avon but also I would say the Body Shop and Aesop with the surge and the growth.

Again our e-commerce and our social channels are 3 times, 4 times, higher than the pre-pandemic. And that to your point, it is changing our fulfillment in the way we are serving both our reps and also our customers directly. So we feel good about that. We are also investing on that, but it is something that at this point, we don't envision any major disruption.

JP, you want to add something, please.

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

Yeah, Joseph. Just want to add. Recent information is one, both Avon's representatives and customers here in Brazil, are scoring service level very high, the best NPS ever, actually to be honest. And as you may have seen, Natura's e-commerce has just received the Blue Diamond Awards, which is granted by end customers that have rated our e-commerce as the best in the country recently, which I think speaks somehow to our fulfillment capabilities.

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

Great. That's a great way actually to end the call. So I just again, thank everybody. We are very pleased with our strong Q2 results, which once again demonstrate the strength of our omnichannel model, the power of our brand products and most important, our people, our organization, our network, who continues to really focus on our direct-to-customer reach and really as a Group, continue to progress in our strategic ambitions.

I want to thank everybody for being with us today. I wish you all a good day and on behalf of us, stay well, stay safe. Thank you very much.

Operator

That concludes Natura and Co audio conference for today. Thank you very much for your participation and have a good day.

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