

International Conference Call
Natura
1st Quarter 2012 Earnings Results
April 27, 2012

Operator: Good morning ladies and gentlemen. At this time we would like to welcome everyone to Natura's 2012 1st Quarter Conference Call.

Today with us we have Mr. Alessandro Carlucci, the CEO; Mr. Roberto Pedotte, the CFO; and Mr. Fabio Cefaly, the Investor Relations. We would like to inform you that this event is being recorded and all participants will be in a listen-only mode during the company's presentation. After Natura's remarks are completed there will be a question and answer section. At that time further instructions will be given.

Should any participants need assistance during this call please press star zero (*0) to reach the operator.

We have simultaneous webcast that may be accessed through Natura's IR website www.natura.net/investor. The slide presentation may be downloaded from this website. There will be a replay facility for this call on the website.

Before proceeding let me mention that forward looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Forward looking statements are based on the beliefs and assumptions of Natura Management and on information currently available to the company. They involve risks, uncertainties and assumptions because they relate to future events and, therefore, depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Natura and could cause results to differ materially from those expressed in such forward looking statements.

Now I will turn the conference over to Mr. Alessandro Carlucci, the CEO. Please sir you may now begin.

Mr. Carlucci: Good morning everyone and welcome to our earnings conference call for 1Q12. We are pleased to once again have an opportunity to share our results with you. As we mentioned in our conversation for 4Q results during this 1Q we solved last year's operational difficulties and returned to the level of service quality we have traditionally offered in terms of both delivery time and product availability.

We continue to pursue higher efficiency in our sales and marketing actions and we have already begun the rewards of this effort by obtaining more effective promotions and achieving a better balance between our centralized and regional management efforts.

The evolution of our strategy in Brazil from expanding penetration to increasing the productivity of our consultants continued to be implemented and the impact should be felt gradually over the coming quarters.

I would also like to share with you the market data for 2011 recently released by Euromonitor. In Brazil we maintained for the seventh straight year our leadership in the overall cosmetics, fragrances and toiletries market with a market share of 14.5% which represents a decrease of 30 bps from 2010. In our international operations we reached market share of 2.2%, increasing 50 bps from the previous year.

In the operations in consolidation (Argentina, Chile and Peru) we reached market share of 4% and in the operations and implementation (Mexico and Colombia) we reached 1%, with these market share gains reflecting the investment we have made in our brand, channel and infrastructure. So in 2011 Natura maintained its consolidated market share.

As for the financial results of this 1Q our consolidated net revenue grew by 11.3% with net revenue in Brazil growing by 8.3%. This result, which is higher than in recent quarters, reflects the recovery in our service quality particularly in terms of product availability and delivery time. The international operations, which this quarter accounted for 11% of Natura's total net revenue, once again registered strong growth of around 40% in weighted local currency. Profitability continues to evolve with Ebitda margin reaching 9.5% in the operations in consolidation.

And we are closely monitoring the more challenging institutional scenario in Argentina for any potential impacts in our operations.

The sales channel continues to post strong growth closing the quarter with 1,400,000 consultants for a growth of almost 17%. In Brazil the number of consultants grew by 14% and in the international operations this growth was 30%.

The innovation Index was 67% in the quarter with investments in research and development continuing in line with our strategy at around 3% of our net revenue. 1Q this year represented a consistent phase. On the past we have set forth spending our competitive advantages by achieving a new level of service quality increasing the productivity of our consultants and consumers and continuing to advance our business model.

Over the coming cycles we will make evolution's to our sales model that will allow us to gradually boost the productivity of lower consultants and consumers in order to increase the frequency of purchase and expand the basket of Natura products in Brazilian households. In Brazil we are confident that now we have a huge opportunity to leverage the base we have built over the last few years with 1.2 million consultants; 60% penetration in households; and 47% brand preference.

We also remain very enthusiastic on the evolution of our business in Latin America which continues to grow and achieve gains in brand preference and profitability.

Those are the topics I wanted to cover today and so I will now hand the call over Roberto.

Mr. Roberto Pedotte: Good morning everyone. As Alessandro mentioned our consolidated net revenue grew by 11% in 1Q compared to the year ago period with net revenue growing by 8% in Brazil and by 40% in the international operations in weighted local currency. Consolidated Ebitda was R\$ 272 million with Ebitda margin of 21.3% compared to 23% in 1Q11. After excluding from both quarters the nonrecurring impacts from other operating revenues and expenses the Ebitda margin was 21.5% in 1Q this year and 21.8% in 1Q last year with nominal Ebitda growing 9.5%.

Gross margin expanded 130 bps to 71.4% driven by the gains captured from better managing our costs and promotions and by the favorable foreign exchange impact and efficiency gains in our international operations.

Our selling expenses increased 15% on the year ago period while general and administrative expenses increased 17%. These increases reflect the market investments made in the international operations; the additional costs with depreciation and IT; and the different timing compared to the previous year.

This year we implemented a more robust expense management about the (inaudible 09:10) budget as we mentioned in a previous conference call. We continue to focus on productivity gains in all processes throughout the company. We are confident in our capacity to achieve our objectives and manage our expense base in order to ensure we have the funds needed to investing in our growth drivers.

Our consolidated net income reached 152 million with free cash flow of 127 million, which increased 87% from 1Q11 due to the lower working capital requirements.

Inventories remained at levels above our planning and we believe the planning model we have adopted will allow us to reduce inventory coverage over the course of the year.

Our recoverable taxes, which reflect the revision of credits from PIS and Cofins taxes in 2011 should also be converted into cash over the course of 2012.

The annual shareholders' meeting we held on April 13, 2012 approved the payment of R\$ 763 million in dividends and 52 million in interest on equity. This payment relative to 2011 represents net earnings of R\$ 1.89 per share.

Those were the main points that I wanted to cover today. Thank you very much and let us go now to the Q&A session.

Q&A Session

Operator: Thank you. Ladies and gentlemen we will now begin the Q&A session. If you have a question please press the star key followed by the one (*1) key on your touchtone phone. If at any time you would like to remove yourself from the questioning queue, press star two (*2).

Our first question comes from Ms. Daniela Bretthauer from Raymond James.

Ms. Daniela Bretthauer: Hi good morning everyone. As you mentioned in your opening remarks that Natura has adopted a zero-base budget strategy for this year but we still have not seen the benefit of that in your 1Q results as you did not really get any operating leverage despite a reacceleration of your top line growth.

So what can we expect at the SG&A front for the rest of 2012? That is the first question and I have a follow-up question.

Mr. Pedotte: Hi Daniela. The zero base budget does not apply to only one line of the results. As we mentioned we are looking for productivity across all processes and across all lines of the company. What we are confident is that this will allow us to manage all the expense base of Natura in a proper way during the year that would allow us to achieve our target, the profitability level that we want and continue to finance the growth drivers.

Specifically in 1Q, as we have already mentioned, we had some different phasing from the planning for this year and what happened last year.

Ms. Bretthauer: Ok and perhaps linked to that you had to record the second best gross margin in the company's history in 1Q and in terms of that I understand there was some management of your promotions that benefited that as well as FX; but what should we expect for the rest of the year?

I mean is this a new level of profitability for Natura, 71%, or is it more around the 70% and this was a kind of one off gross margin? If you could comment on that as well I would appreciate it. Thank you.

Mr. Pedotte: Daniela the gross margin is the continuity of gains in productivity that we have in our supplier base. But looking for the medium-term we should expect this year much more in the direction of maintenance of gross margin for the year. Let us say this quarter we have some specific benefits from promotions that we did in 1Q last year from this year; but I think that the cost/price equation should be more a continuity of gross margin looking for the year.

Ms. Bretthauer: More around the 70% range rather than the 71.5?

Mr. Pedotte: Yes. I am saying totally year because the gross margin changes quarter by quarter according to leverage, according to volumes; but in a year base it should be more in line with the previous year.

Ms. Bretthauer: Ok thank you.

Operator: Excuse me. Our next question comes from M. Lori Serra from Morgan Stanley.

Ms. Lori Serra: Hi good morning and congratulations for getting these systems issues behind you and turning out the year on a more optimistic tone. I wanted to ask two questions, let me start in Brazil. Can you give us any color on how you are adopting your marketing mix? It sounds like you have already started to change some of the incentives and how do you think about the execution on that and any initial feedback that you have got from the system on how they are reacting to the changes?

Mr. Carlucci: Hi Lori this is Alessandro, how are you? Let me share with you what I am going to call the pillars of this evolution of the strategy to increase productivity. We have six pillars: the first one is to use the service as a competitive advantage, so how can we really decrease lead time, lower stock outs, and this is something we have been working and this is the first one.

The second one is to occupy some white spaces where the Natura brand is not already and this is going to happen not in the short term; this is going to happen in the next two to three years; the third pillar is the promotional planning and what we are doing?

We are redesigning the concept of our promotional planning to focus more productivity than activity. In other words until last year and the beginning of this year all the promotions were focusing to increase the level of activity of our consultant. In other words to motivate them to put an order. From now on we are going to redirect our efforts to not only put an order but to guarantee that the order is big. So it is more important to have more items in the order than more orders. So we are redirecting the focus of our promotional strategy.

And also we are going to start we are going to start to do some cross category and cross branding promotions and this is something new for Natura and we believe that doing this to motivate the customer, the final customer, to buying not only of fragments, a soap, but to buying also shampoo or a body cream. These are the two things in the third pillar that is promotional planning.

The fourth one is sales management. We are going to - and we are in this moment - change the indicators and also the way that they compensate our sales force: our employees that are our GRs; but also our independent resellers, the CNO and the CN, and we are going to focus those indicators and their compensation to productivity.

The fifth pillar is relationship. So we are going to invest training and also recognition programs to focus all our salespeople to productivity.

And the sixth pillar is communication. So the Natura magazine; our advertising; and all the other communication tools are going to reinforce productivity

showing different kinds of products, different kinds of brands, in another way to also leverage the productivity of the customer.

So sorry about the long answer; but these are the six pillars that sustain the productivity strategy that we believe, again, is going to produce results - but gradually. We do not believe that we are going to have a huge movement in productivity in the short-term. But we believe that we are going to do step by step and improvement in the consultant's productivity based on the fact that the customer is going to buy in a more frequent way Natura products.

Ms. Serra: And do you have any feedback as you are starting to make these changes on how the system thinks about these changes?

Mr. Carlucci: Good question. Again, most of those actions they were not yet implemented; but we already started to change some small pains and also this speech for sales, for the salespeople, we did this in our annual meeting. We said to them: look; now we are going to promote an evolution from penetration to productivity and the feedback is very good. They also believe that this is the time; they believe that they have a huge opportunity to develop consultants, to increase their productivity.

So in other words it was very well accepted - but again, most of those initiatives are under implementation so I can give you better feedback in the next... until the rest of the year, the next months. But the first signs are very good.

Ms. Serra: Ok and then just on the international operations. We have seen some really nice improvement in the productivity... sorry, profitability of those operations, but yet you are having some really good growth as well. Maybe this is still a (inaudible 20:30) question; but how do you see the balance between the opportunity to continue to gain share versus improving margins in international? Where is the balance in terms of how you want to manage the business over the next one, two, three years?

Mr. Carlucci: In this period of time that you mentioned, two, three years, we want to have both things happening: we believe that we can still gain market share and also raise profitability. So we are focusing to have both things together, simultaneously.

Ms. Serra: Ok thank you.

Mr. Carlucci: Thank you Lori.

Operator: Excuse me. Ladies and gentlemen as a reminder, to pose the question please press star one.

Excuse me. This concludes today's Q&A session. I would like to invite Mr. Carlucci to proceed with his closing statements. Please sir, go ahead.

Mr. Carlucci: Thank you for participating in today's conference call. I would like to reinforce the message that in this 1Q we have already begun to enjoy the

initial results of the actions we have mapped out and communicated to all of you last year and we are very confident that this will support Natura's continued expansion going forward.

Thank you and I look forward to our next meeting in July to discuss the results for 2Q of the year. Good day everyone.

Operator: Thank you. That does conclude our Natura audio conference for today. Thank you very much for your participation and have a good day.
