

International Conference Call
Natura
3rd Quarter 2010 Earnings Release
October 22, 2010

Operator: Good morning ladies and gentlemen. At this time we would like to welcome everyone to Natura's 2010, 3rd Quarter Conference Call. Today with us we have Mr. Alessandro Carlucci, the CEO; Roberto Pedote, the CFO and Helmut Bossert, the Investor Relations.

We would like to inform you that 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. Should any participant 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 at 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's 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. Mr. Carlucci, you may now begin.

Mr. Alessandro Carlucci: Good morning everyone and welcome to our conference call for our 3Q results. We are very pleased with our good results in the quarter. We saw a significant increase in revenues, both in Brazil and in the international operations, reaching 21.5% growth in the period.

Ebitda was strong with a margin of 25.1%. The sales channel, the innovation and the main indicators continue to post very positive results. In a while Roberto Pedote will go into more detail about our financial results.

We still do not have current market share data from the Brazilian CF&T Association because some members did not provide their information. However, with the 22% growth in net revenues in the first nine months of the year we expect our market

share to have increased consistently in the period. We only have the official data from the first bimester, when we had reached 23.7% market share and that was 0.9 percentage points higher than the previous year.

The innovation Index remains high with major product launches which kept at 67%, practically stable over 2Q and in line with our expectations. In 3Q we launched 23 new products, which together with the launches in the first half of the year totals 75 products launched this year - not including the launches of the new makeup line UNA, which will have a greater impact on 4Q.

We continue to develop new, innovative products and I would like to share with you our most significant launches this quarter: New Amó line (Natura's largest fragrance launch of 2010, which offers products inspired by Brazilian expressions of love); the second edition of Açaí products (part of the EKOS line, which in 2010 complements the 2009 line with body lotion, hand cream and liquid soap) and at the end of the quarter we launched a new premium makeup line - Natura UNA, presenting a new concept unifying sophistication, high performance and sustainability.

Another important launch was the new refill for the Todo Dia line. The new packaging has 83% less plastic and reduces greenhouse gas emission by 77%.

Turning now to our consultant basis, our consolidated sales force grew 18.3% in the quarter to 1.169 million consultants. In Brazil the channel grew 70.3% and I just want to point out that in this quarter for the first time we are comparing figures from the fully operational Natura super consultant (CNO model) implemented in 3Q09. Today the indicators that measure quality of the channel (like turnover) well below what we saw before implementation of this model. We are very comfortable with the health of our sales team.

About productivity we saw 0.9% growth in the quarter and 1.6% growth in the first nine months of the year in Brazil. Another very important project we are working on is the overhaul of our logistic models, which is still being implemented. First it is important to remember that this project is about improving services to our consultants in Brazil and abroad.

But in addition to that we are going to optimize costs, improving our working capital with a more efficient inventory management strategy and last but not least we are going to reduce our environmental impact.

We already opened two new distribution centers in Brazil in addition to expanding centers across Latin America. The new centers are in Uberlândia, Minas Gerais State and in Castanhal, near Belém, Pará State and have been operational since the start of October.

Now I would like to talk about our international operations and reaffirm that we continue to be very confident in our strategy, which will actually be more apparent

next year when investments made this year should start to take effect. We have developed several actions for the operations, which will have effect in the medium term.

I would like to highlight a few of them: the Buenos Ayres-based executive team is practically complete now with the new general manager for the region. This team is charged with the mission of better applying our strategy of categories and brands adopted for consumers in each country. So this is reinforcing our strategy of localization.

Our expansion plans include outsourced local production. We will be in production ... begin production in Argentina this year and next year in Mexico and Colombia. The implementation of a customized sales model, which is still in progress, should be operational in at least one of the countries in the first half of 2011.

Finally I would like to comment about the provisional measure, the MP 497. As you know, it changes the PIS and COFINS taxation, affecting all cosmetics, fragrance and toiletries companies, including all sales channel - that is, direct sales, retail and franchises - in addition to several other sectors. Representing the industry, ABIPEC, the CF&T Association, met with the Executive Secretary of the Finance Ministry last Friday, October 16, and they decided to postpone the date that the MP goes into effect until March 2011, allowing us to have more time to analyze the impact. We are waiting for this decision to be officially sanctioned, which we expect in the next few days.

Now I would like to ask Roberto to give you the details of our 3Q financial results.

Mr. Roberto Pedote: Good morning everyone. I would like to start by presenting some data about our 3Q performance. Consolidated net revenue was almost 1.6 billion, growing 21.5% in this quarter, reflecting the strength of our brands and our operations in the Brazilian market. In the year revenues reached 3.6 billion, also presenting a strong growth of 22.5%.

In 3Q Ebitda was 323 million with a 25.3% margin and in the first nine months we saw Ebitda of almost 900 million with a 25.1% margin. Net income was 192 million in the quarter and 525 million in the first nine months, which as you know was impacted by the increase in the income tax rate due to the end of the goodwill amortization in 2009.

Also I would like to highlight that the gross margin in the quarter reached 71.6%, the largest margin in recent years, reflecting cost dilution and productivity gains in purchasing and a very efficient promotional strategy, specifically in this quarter.

Sales expenses behaved as expected. Increase in marketing investment, dilution of costs with the sales and efficiency gains in logistics with improved service level and lower inventories.

In the international operation we also saw a performance in line with our expectations. Total revenue of these operations were 97 million, growing 32% in local currency. Excluding an operational issue that generated a backlog in the last two days of the month, this growth would have been around 36%. Here we would like to point out that specifically in this quarter we had a concentration of investments in marketing, especially in operations in consolidation to support our brand building in these countries.

Another significant positive topic is working capital. In the year working capital was up almost 60 million. We are reducing gradually inventory supply days, increasing creditors and reducing the balance of recoverable taxes.

To close I would like to highlight that we have maintained our net debt position. Two thirds of our debt matures in long-term and today net debt represents 0.3 of our Ebitda.

Thank you very much, now let us go to our Q&A session.

Q&A Session

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

Our first question comes from Mr. Robert Ford from Bank of America.

Mr. Robert Ford: Hey, good day everybody and thanks for taking the question. Alessandro, I was wondering if you could expand a little bit more about the prestige niche of the Brazilian marketplace with respect to ... in terms of size today, how rapidly that segment is growing and maybe the initial experiences you are seeing with UNA.

And Roberto, if you could expand a little bit more on the issues that you are having at the international businesses please.

Mr. Carlucci: Hi Bob, here is Alessandro speaking. Well, UNA is positioned in the premium price in the makeup category and it is a place in the market where we should have a very good position because of the position of our brand. That is why we were expecting a lot to have this launch and the first results are very good not only in sales, but mainly the opinion of the professionals that is very good, they are saying that the UNA is a very, very good and high-quality makeup line and also the reception of our consultants was very good.

So this is a very important launch, again, because Natura must have a very good position in this price segment and even though it is a prestige or a premium, it is not a niche, because we are not talking about the most expensive price points like

the imported brands or the luxury brands. To give you an example, the price of a lipstick, UNA lipstick, is around R\$ 25 and ... between R\$ 25 and R\$ 30 and the luxury brand the price is 60, between 60 and 100. So when we talk about premium we are not talking about the luxury one.

Mr. Pedote: Bob hi. In relation to what I mentioned is that we have implemented a new system recently in Argentina and in the last two days we have had some issues with invoices and then we shifted some sales from 3Q to 4Q, because in the last two days we had a higher backlog due to the new system. The problem is already solved, but the impact was in total growth of the quarter, for all international operations, was around 2% ... sorry, 3%, because I said the growth was 33 if we did not have seen that it would be 36. It means that 4Q probably is going to show a 3% higher growth than it should due to this backlog issue.

Mr. Ford: Thank you Roberto and were there any other timing issues in the quarter with maybe expenses pulled forward from which typically occurs in the 4Q pulled forward to 3Q or any other revenue recognition issues that might affect ... that were timing related?

Mr. Pedote: No, there is no time revenue recognition issues, only that that I mentioned. But what I mentioned also is that with these small operations we had a concentration of marketing investments in the operations in consolidation due to the launches that was quite significant in 3Q.

And then if you saw the Ebitda it did not increase a lot, in fact it was lower than the same period last year because we had more marketing investment as part of our strategy and this will happen quarter by quarter, because in some moments we are going to have higher marketing investment in one quarter than in another quarter and this happened in this 3Q, but nothing related to revenue recognition. It is related to the strategy of starting to invest in brands in the countries in consolidation.

Mr. Ford: Ok I understand, thank you for clarifying that. I was just curious, my understanding was that typically of a major annual relationship manager event that takes place in October that was pulled forward into September and there were also a couple of distributions centers that have been opened up at the very end of September where you bore most of the expenses of those openings in 3Q, but you will see the benefit from that regional distribution infrastructure in 4Q. Are those perceptions correct and how big might those impacts be?

Mr. Carlucci: Bob, I think that all the things that you mentioned they are not going to impact significantly the results in 4Q. The new distribution centers they are more important in the medium and long-term, they are more related with a better service to allow us with capability, infrastructure, than really decrease the costs. So those things are not going to impact the last quarter - neither positive, or negative.

Mr. Ford: Ok thank you very much.

Mr. Carlucci: Thank you.

Mr. Pedote: Thank you Bob.

Operator: Excuse me. Our next question comes from Mr. Reinaldo Santana from Deutsche Bank.

Mr. Reinaldo Santana: Hi yes good morning everyone, thank you for the call. I have two questions, the first one is related to input cost. There has been talk in the market of rising inflation of certain raw materials for next year, so I was wondering if you start to negotiate for next year prices if you start to see some pressures on input cost, this is the first one.

The second in the press release you mentioned projects and investment in innovation and changes in personnel structure that drove administrative expenses. I just wonder if you could explain a little bit more on this please. Thank you.

Mr. Pedote: Hi Reinaldo. So far we have been ... not in terms of raw materials. So far we are not seeing any important pressure in this area. What is a little bit more difficult today if freight and freight in Brazil is a little bit more expensive. But so far we have a very good program in our supply with our sourcing team and we are having very good benefits from our strategy and the negotiations are quite positive so far.

In relation to administrative expenses what happened is first, that we were able to invest the 3% that we aim in innovation in this quarter and this represented an increase. And in this area what we have been saying is that we are investing more in some structural projects to guarantee our future and then we have more investment in projects and we have also some increase in our structure with some additional people to support all of these initiatives and to support the growth that we are having. This was the main impact, most of them impacted by the innovation in this quarter.

Mr. Santana: Ok great, thank you very much.

Operator: Excuse me. Our next question comes from Ms. Lore Serra from Morgan Stanley.

Ms. Lore Serra: Yes good morning and congratulations on the strong quarter. I had a couple of questions, let me ask them separately. First I understand that you are not getting the industry data; but obviously you are in the market every day and you have to view on how the industry is doing. I just wanted your impression: as you are growing your revenue more this year than last year is it your view that the industry growth is accelerating or do you think you are taking more market share than you were a year ago?

Mr. Carlucci: high Lore, here is Alessandro speaking. We believe that we are gaining market share and as you mentioned we do not have the data from the market and I believe that the market probably grew in the same level of the last year. But we do not know. What we believe - and it is a belief only now - looking for the market is that we gained market share.

Ms. Serra: Ok and then I wanted to ask a specific question and I think the question I asked last quarter as well: if I look at your price per unit in Brazil it grew 16% in 3Q and it grew at a similarly high pace in 2Q and what I am trying to see that is much more looking historically, so now we are seeing two quarters in a row; is there anything specifically that could cause a big mix shift in your product mix in Brazil?

Mr. Carlucci: No, there is nothing specific, but there are some things that explain and first of all, Lore, as you know our business is influenced by the mix of our products and as you know we promote half of our products, so sometimes you see some changes in the average price but this is not a trend or strategy, it is only a reflection of the launches, or sometimes or promotions in one category than the other when you compare with the previous year.

But talking about this year I think that two things are relevant to share: the first one is our increase in price. In this year it was more effective than in the previous years; and the other thing is that we are having better promotional dates campaigns like Mother's Day, Father's Day, Valentine's Day, are growing more than the rest of our lines and this also helps our price to be a little bit higher. The price per unit grew a little bit.

And also in this quarter, as you saw, we had two of the major launches that helped us to increase also a little bit: The Amó that is a fragrance line, so the price per unit is a little bit above the average; and also UNA that is a prestige makeup line. But these are some things to explain, but this is not the trend. Again, this is an effect of our marketing mix strategy that can sometimes raise a little bit, sometimes you can lose a little bit the price per unit.

Ms. Serra: Thank you very much.

Mr. Carlucci: Thank you.

Operator: Excuse me. Our next question comes from Ms. Martha Shelton from Citi.

Ms. Martha Shelton: Hi, this is Martha Shelton actually own behalf of Celso Sanchez. Just regarding your gross margin expansion, I wonder if you could give us a little more color around more official promotional strategy that drove the gross margin expansion.

And then also I wanted to ask for an update on the original innovation efforts in Brazil go, just as far as the catalog and region specific price points contained within the catalog. Thanks.

Mr. Carlucci: Hi Martha, here is Alessandro speaking. This quarter we had a more efficient promotional effort and of course we tried to increase productivity in the promotional effort and one of the effects of this is a better margin as you mentioned and in some way - not only by this - but in some way it was also benefited by the fact that we are starting to regionalize, as you mentioned, the catalog and the promotions and the only objective to do this is to increase profitability and also to help to grow faster, taking into consideration the needs and the characteristics of each region.

So answering your question the regionalization is helping us to increase the gross margin also, because of these more efficient promotional campaigns.

Ms. Shelton: So just to clarify: you say that maybe there were fewer kits, in this quarter I guess there were no special events such as Mother's Day or ... just trying to better understand why the margins grew so much on efficient promotional strategy.

Mr. Carlucci: The promotional kits are more related with the growth in the price per unit. What helped us to increase margin is better negotiation with our suppliers, of course, but also a more efficient promotional effort. In other words, we are promoting less products and reaching the same level of growth in revenues, or giving less discounts than we used to give. So this helped us to increase margin, and also because we started to regionalize this kind of promotions we can be more efficient, because we can only promote the right product in the right region. So the profitability of this effort is increasing.

Ms. Shelton: Perfect, thanks so much for taking the question.

Mr. Carlucci: Thank you.

Operator: Excuse me. Our next question comes from Ms. Margaret Kalvar from Harding Loevner.

Ms. Margaret Kalvar: Yes, good morning. Given that the multinationals are reporting very strong sales growth in Latin America, are you seeing any increase in competitive pressure particularly in the hair care segment from people like L'Oreal, as you ... particularly also outside of Brazil and do you feel this is increasing the difficulty of establishing the international operations?

Mr. Carlucci: Margaret, in fact you are right. Even though our operations are small we have been growing in the last years, so in some way we are reaching a size where we can produce some noise with our competition. Even though we do not see a specific pressure or movement in the hair care against us, so we are not

feeling any special move in direction to Natura from L'Oreal or even Procter & Gamble or Unilever that are main players in this category - recognizing that this is a very competitive category, but we are developing new products, a new strategy to be competitive and to keep growing and gaining market share not only in Brazil but also in Latin America in this category.

Ms. Kalvar: Ok and in skin care are you seeing higher growth in the skincare category than in other categories of the overall cosmetics line?

Mr. Carlucci: As we mentioned, we do not have actual data, we have only data from the first two months of the year; but as a whole the skincare category usually is in the average of the sector, usually is not the category that grows faster or lower, but usually is in the average and I think this is happening also this year. This year, as you know, we had a very important launch of the new Chronos line, so we expect to have good results this year in the skincare.

Ms. Kalvar: Thanks very much.

Mr. Carlucci: Thank you.

Operator: Excuse me. Our next question comes from Ms. Andrea Teixeira from JP Morgan.

Ms. Andrea Teixeira: Hello, good afternoon everyone, well, congratulations on the results. I just wanted two questions on first Alessandro, Roberto, if you can comment on you explained on the Portuguese call regarding the potential tax changes, but you mentioned as a positive, which obviously you are not going to be taxed in the month of November, but if they postpone into March even increasing the chances that the new government that they have to raise more taxes that you run again into having to lobby the industry - not only you, but to the whole industry having to lobby again - I just want to understand from your perspective why are you becoming more optimistic that this is not going to be implemented.

And the second question is regarding a follow up from the previous question about the margins and I appreciate your elaboration on the kits and how you are increasing and raising the pricing indirectly for a better mix; but can you comment also on the regionalization of the promotions? Because as far as I understand the whole process of having different regions and having different strategies by regions of Brazil started long ago, but then the promotions I believe started just in the 3Q.

So if I am correct how you see that happening in a very strong season which is now ... ahead, the holiday season. Can you comment if you expect the same recurring positive impact on the gross margin? I would appreciate that, thank you.

Mr. Carlucci: Hi Andrea, this is Alessandro speaking. We are, in some way, optimistic with the MP 497, because the postponement of the MP is a sign that they are open to discuss, to rediscuss, and we have with our association personal

meetings with them and we showed them the impact - and not positive, negative - not only for the industry but also for the tax revenues. So they understood and they said to us we want to go deep, so we are going to postpone to have more time to analyze.

So this for us is a positive sign and we will keep working, and strongly, to show to them that this is not going to be good and even though we are going to have a new Government - or possibly a new Government - I do not think that anyone would like to start with news that they are increasing taxation, because they said widely that they want to decrease the tax impact in Brazil. So we are not afraid to discuss this in December, in January, but we are happy to know that they are open to discuss and to analyze deeper the impact of the MP.

Mr. Pedote: In respect also to most part of the discussion will be done in October and November because the original MP needs to be approved ... even to enter in March needs to be approved until the end of November. We still need to understand exactly how they are going to postpone, what are the actions here, but probably the most part of the discussions will be in the next 40 days.

Ms. Teixeira: Interesting, thank you and regarding the negotiation with the suppliers and all the things that you are doing regarding the gross margin and the regional impact that you are doing in the promotion, do you think this is going to be recurring?

Mr. Carlucci: You know Andrea, regarding the promotional campaigns and regarding the catalog of course we are working to increase, but I think that it is going to be slight, slightly. In other words, it is a gradual improvement and in the supply area we also started a new cycle of contracts with our suppliers and we believe that - again, gradually - we could improve our gross margin. We do not expect to see a huge change in the short term, but we expect that with more scale, with more efficiency we can slightly improve through time.

Mr. Pedote: And quarter by quarter they are always affected by several aspects. If you remember last quarter we did not have a good gross margin, it was mainly affected by higher losses with inventories and also we had more kits last quarter. As a trend we are working and we should be seeing improvement, but a quarter by quarter it is quite difficult to predict.

Ms. Teixeira: Ok, thank you very much Alessandro and Roberto.

Mr. Carlucci: Thank you Andrea.

Operator: Excuse me. Ladies and gentlemen as a reminder, if you would like to pose a question please press star one (*1).

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

Ms. Daniela Bretthauer: Hi, congratulations on the results and I just wanted to go back to the question of the G&A expenses spike in the quarter. You explain that there were several events that contributed to the increase, such as more efforts in innovation, increase in personnel to support the new growth in the region units.

But my concern relates to whether the expected upcoming growth in sales if that sales is to provide a lever that you expect for this rather bloated G&A structure, I mean, how confident are you that the things you are doing can provide the kind of sales growth so that you are not going to have some sort of margin pressure at the Ebitda margin level from this bloated G&A structure?

Mr. Pedote: Hi Daniela. We need to see integrated with all the aspects as we are reflecting, for example, in sales expenses. In sales expenses we are diluting costs in the sales force, the CNO model will allow us increase the channel without fixed costs. We are having important savings in the logistics since last year and we still have a strong program to go ahead and we are investing more in marketing from another side.

In SG&A we are expecting in my view innovation probably to increase a little bit. We are facing some opportunity to make a more robust innovation plan ...

Ms. Bretthauer: But even further from the 3% that it is currently? So would you increase even further? Because you already increased that from 2.6 to 3, right?

Mr. Pedote: In the quarter; in the year to date not. I would say that in the medium term I would expect to see higher than 3. I would say that in the medium term yes, 3.2 or 3.3, I do not know how much, but probably we believe that if we are able to do the right investment in innovation it will be worth to increase a little bit.

And in terms of projects it will depend year by year what are the projects, but as you see by the Capex, in the other side we are doing more projects at this moment, we are investing more in IT, in logistics, in all the areas and this is the reflex of that in the P&L.

And related to the personnel to support all this growth we should see in the medium term a dilution, because probably we will be able to work with less ... we will be able to grow much faster than what would require in terms of structure to support this growth.

I think that this is the combination that we have in our P&L and the key variable of all of that is the level of the investments that we need to do in a market that will be more competitive. We are increasing investments in marketing and what is the level of the investments that will be required year by year in a more competitive market. This is the equation that we are playing with all these variables.

Ms. Bretthauer: Ok. Let me just play devil's advocate here for second: if for - hypothetically speaking of course - if the Brazilian economy ... let us say the next

president wants to do the reforms or be more aggressive in whatever so that the economy slows faster than anyone would be expecting, how quickly could Natura cut back on some of these things so that Ebitda margin, growth in Ebitda margin, is not impacted? Because I think your strategy ... my concern is your strategy works fine in this booming economy; but what if things slow? How quickly could you reverse some of the things you did?

Mr. Pedote: I think that especially when we talk about marketing investments we have always been repeating that this is a relative measure, that it is always thinking about what is happening in the economy, how are competitors are doing and how much we need. We are not just doing that without looking for the market, and this is the most variable expense that we can have and we can react for up or down very fast in this part.

The remaining part most of them we are already going ... when we mentioned salesforce, logistics costs, all of this they are in the right direction in terms of improving profitability and I think that we are quite well prepared to face different macroeconomic scenarios and different growth in the channel.

Mr. Carlucci: And if I can add, Daniela, we do not see any good reason to - in the medium and long-term - see a change in the growth of our market. Of course that in the short term sometimes you can have some change in the behavior of the market, but in the long term the macroeconomics of Brazil are showing that we have good reasons to be enthusiastic and to invest in our future, taking care in the short term, of course, and as a Roberto said we are prepared to adjust something if we need, but we are really optimistic and investing in the future of the market in Brazil.

Mr. Pedote: And just to add, 47% of brand preference allows us to react according to that, because things should not go so stronger against us with all of this brand preference that we have, then we have some space to work due to this.

Ms Bretthauer: Ok thank you.

Mr. Pedote: Thank you.

Ms. Bretthauer: See you next week, bye.

Mr. Pedote: See you.

Operator: Thank you. This concludes today's question and answer session. I would like to invite Mr. Carlucci to proceed with his closing statements. Please sir, go ahead.

Mr. Carlucci: I would like to share with you my optimism regarding the Brazilian economy with the growth of our market and, above all our company, which continues to develop and present strong results and I would like to reinforce the

invitation to all of you to participate in our investor day that takes place on October 28, next Thursday, in our site in Cajamar here in São Paulo, in Brazil. If you have not registered please go to www.naturaday.com.br. So see you next week.

Operator: That does conclude Natura's audio conference call for today. Thank you very much for your participation, have a good day.
