



**International Conference Call**  
**Natura**  
**1<sup>st</sup> Quarter 2013 Earnings Results**  
**April 26<sup>th</sup>, 2013**

**Operator:** Good morning ladies and gentlemen. At this time we would like to welcome everyone to Natura's 2013 1st quarter conference call. Today with us we have: Alessandro Carlucci, the CEO, Roberto Pedote, the CFO and Fabio Cefaly, 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 \*0 to reach the operator.

We have simultaneous webcast that may be accessed through Natura's IR website: [www.natura.net/investor](http://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. Mr. Carlucci, you may begin the conference.

**Mr. Carlucci:** Good morning everyone and welcome to our conference call for Natura results in the 1Q of 2013. In Brazil, the beginning of this year was more challenging with gross sales growth of 3.7%, which fell short of our expectations. This was due to our promotional strategy, which did not prove very effective in motivating our consultants in the first half of the quarter and due to extended summer vacation period resulting from this year carnival holiday falling close to January.

This quarter the growth in the consultant base in Brazil of 7.8% was in line with our planning, while consultant productivity declined due to the factor I just



mentioned. The significant improvements in profitability in our international operations in Latin America leave us more confident that we already have a solid and robust business platform that will make us a top player in the region.

In the Countries in Consolidation – Argentina, Chile and Peru – we ended the quarter with Ebitda margin of 14% while in the countries in implementation – Mexico and Colombia – Ebitda margin was 6.8% with both operations showing significant progress. We remain highly dedicated and focused on the initiatives that make up our productivity program.

Our logistics continue to improve; today 40% of orders are delivered within 48 hours. In March we launched the “Natura Eu Gosto” program, which creates incentives for purchases in cross categories and cross sub-brands based on certain customer behavior profiles.

We are also very enthusiastic about our innovation plan and at the end of the 2Q we will kick off a series of launches in toiletries categories that will allow us to operate in previously unexplored market segments with new concepts and new sub brands and innovative packaging.

We also made significant progress on projects with impacts over the medium terms that will enable us to connect and strengthen our relationships. In February we expanded the pilot Natura Network offering the project to all 6000 consultants in the city of Campinas and on February 28<sup>th</sup> we concluded the acquisition of the Australian company Aesop, which confirms our ambition to leverage Natura value proposition by offering new brands and eventually new categories.

I also want to share with you the market share data for 2012 recently released by Euromonitor; in Brazil we maintained for the 8<sup>th</sup> straight year our leadership in overall CFT markets with market share of 13.4%; 100 basis points lower than 2011. As we mentioned in the earnings conference call for the 4Q last year we've seen strong growth in toiletry categories last year, mainly hair care and deodorant in which our market share losses were concentrated.

As I said earlier, our launches should enable us to recover already this year our competitiveness in toiletries products.

In the Operations in Consolidations we expanded our market share by 30 basis points to 4.3% and we are already a relevant player in these countries. In the Operations in Implementations our market share expanded by 20 basis points. In short, despite the lower start of this year, we remain very confident in our productivity program led by the innovation program, which should bring material results in the 3Q and with first signs emerging already in this next quarter.



We are also very enthusiastic about the progress on our direct sales model with the Natura Network.

Those were the points I wanted to cover, so I will now ask Roberto to give some details on the results.

**Mr. Roberto Pedote:** Thank you and good morning. In the 1Q our consolidated net revenue – excluding Aesop acquisition – grew by 5% on the year-growth period. As Alessandro already mentioned, the results in Brazil fell short of our expectations, meanwhile the international operations grew by 30%, or 18% in local currency.

As already expected, we observed a mismatch between gross revenue and net revenue growth in Brazil due to the increase in the value added margin of ICMS tax in the state of São Paulo since August 2012. Note that this impact will no longer exist in the second semester of 2013.

We also registered gross margin compression of the 100 basis points due to the price gross ratio and higher taxes rates in Brazil as well as accounting adjustments such as the elimination of profits on inventories between the manufacturer and distributor.

We expect a rebalancing of gross margin over the coming quarters driven by the full impact of the price increase implemented in March 2013 as well as the new price increase of 3% already planned for the second half of the year that will take effect in September.

Consolidated Ebitda was R\$262 million with margin of 19.4%. The international operations, which already represent a robust business platform, made a positive margin contribution driven by higher operating leverage and gross margin expansion. Brazil made a negative contribution to the consolidated results mainly due to the pressure on gross margin, already mentioned, and a lower dilution of the spending on digital technologies and projects targeting the medium and long-term.

Consolidated net income in the period was R\$125 million, down 17.7% from the 1Q of 2012. This reduction was due to the operating results, as already mentioned, and through the higher financial expenses, which were impacted by two main factors: the first is the market-to-market of financial derivative instruments in view of the fluctuations in the currency COPOM, which generates purely non-cash account effects that will disappear by the maturity of these debts, and the second is a R\$8 million-loss from financial hedge operations contracted to offset the impact from currency fluctuations between the date of the commitment to acquire Aesop and the payment settlement date. Note that



his financial hedge contract was entered to comply with our effects exposure policy.

For the whole year we do not expect net income growth to diverge significantly from Ebitda growth. Cash consumption was R\$110 million reflecting the Capex at R\$60 million and unfavorable variation in working capital of R\$248 million. This variation was impacted by the compression base in December 2012, which enjoyed a positive noncurrent impact of approximately R\$8 million from calendar effect and an untypical concentration and suppliers, as I mentioned last quarter.

The working capital position in March 2013 improved by 8% compared to March 2012 due to the better measure of suppliers and inventories. Note that the behavior of working capital has been in line with our planning.

The Board of Directors also approved the buyback of 2.5 million shares to meet the exercise of stock options. The buyback will start on April 29<sup>th</sup> and lasts for one year with the shares repurchased held in Treasury.

Those were the main points that I wanted to cover today. Thank you very much. Let's go, please, 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 Mr. Robert Fort, with Merrill Lynch.

**Mr. Ford:** Hey, thank you and good day everybody. Guys I had a question with respect to your “Yo Gosta”; could you explain a little bit on what you are doing to drive more cross-selling? I know it's been a phenomenal opportunity for you for a while and I'm curious as to what you put in the place and how it will be funded.

**Mr. Carlucci:** Hi Bob, is Alessandro. Would you mind to repeat your question, please?

**Mr. Ford:** Absolutely Alessandro. It had to do with “Yo Gosta”; the cross-selling incentives and I know that...what is it, like 50% of consumers only consume one or two categories, right, if I'm not mistaken, and it seems like a massive



opportunity – it has been for a while – and I am curious as to what you put in the place. I know that you put a lot far behind it and I just want to know what the structures generally are like and if it will require any additional funding.

**Mr. Carlucci:** Hi Bob, it's a very good question and, as you know, the cross category initiative is part of a bigger group, a wider group or initiatives, but speaking specifically about this we started, first of all, to show to our customers in our catalog a different way to see our products, so combined with the regular way that is through the sub brands we are offering to our customers, in a different way, a combination of different categories and different sub brands.

We did a study where we understood that there are almost 20 different profiles of customers and then using this segmentation, we started (a month ago) to have some pages in the catalog where we offer different products to the needs of these kinds of segments of customers.

So, for example, the women that do sports, the classic men, the products for the bath, for the everyday use, so different profiles where you have pages with different products from different sub brands and dedicated to this kind of customer.

And we have an intention also to start to offer promotions to this profile of customers and, off course, when we are going to have the Natura Network implemented we are going to be able also to offer directly to the right customer because we are going to know where they are and who they are, individually speaking.

So, in some way, it's a way to find and not attend the needs of our regular customers that today are buying only one or two categories as you mentioned.

But this is in the beginning; we are only starting the project and we believe that we are going to have a lot of opportunities to increase the frequency of purchase adding new categories and new sub brands for the same customer.

**Mr. Ford:** And Alessandra you made reference too, but I'm curious if today in Campinas are you beginning to do this electronically at least with the consultants and am curious as to what CRM tools are becoming, I guess, practical within the model in Campinas concerning days, but I expect you are starting to gather data and add that data on the final consumer will probably build an accelerated basis given the introduction of credit cards.

**Mr. Carlucci:** Yes, totally right. The Natura Network is going to allow us – and as you know we are piloting the Natura Network in Campinas – to do a more personalized relationship with the customer using CRM.



But now, Bob, our most important effort in Campinas is to connect the consultants and we are putting our major efforts to really help the consultant to start to learn how they can use their own sites, how they can use the mobile and the equipment, you know, so all the CRM and all these personalized relationship with the customer is going to be done ahead.

So today we concentrated our efforts to recruit more consultants to the Natura Network and also to teach them and to learn with them how they can use this tool to increase productivity and, in a sequence, we are going to leverage the knowledge from their customers to really increase the frequency of the purchase.

But we are going to do this probably ahead, a little ahead. So now we concentrated our efforts to really have more consultants connected in the Natura Network.

**Mr. Ford:** Okay. And then just one follow up – and you alluded to this as well with respect to the greater frequency of purchase – as you (and you had a lot of questions on the Brazil call, or the Portuguese call with respect to SOU, but as you are prepared to launch) do you anticipate any changes or modifications to fulfill the policies given the greater frequency of use of the personal-care lines?

**Mr. Carlucci:** Even though we learned during the pilot that the SOU increased productivity and, of course, increased the frequency of purchase of the customer, we don't have planned change in the minimum order yet, and of course depending – not only in SOU – on different indicators we can adjust the minimum order, but this is not planned because of the launch.

**Mr. Ford:** Okay, thank you very much.

**Mr. Carlucci:** Thank you Bob for your question.

**Operator:** Our next question comes from Ms. Lori Serra, with Morgan Stanley.

**Ms. Serra:** Good morning, thanks very much. I wanted to ask two questions. The first was just any thoughts or color on how Mother's Day sales are shaping up and then in terms of cost/margins, you know, you had a lot of growth in the administrative cost in the 1Q and obviously that's tough with the lack of sales growth, but as you think about (historically) you kind of target this kind of 23, 24% Ebitda margin, you know, you're not after a good start in terms of whether 1Q was, how do you think about that goal of getting into that kind of margin and how do you sort of get there with the 1Q starting point, please?

**Mr. Carlucci:** Hi Lori, is Alessandro speaking. Regarding the Mother's Day we are very happy with the results of Mother's Day even though the good



information to you is what I've already said: that the innovation program is giving to bring material results in the 3Q and with first signs emerging already in this next quarter.

In other words, even though Mother's Day is going very well, you know that in a quarter we have more than one cycle – sometimes a cycle is very good and the second line is not so good, so – in the combination is important you to follow this orientation that we are going to see, yes, some first signs of recovery in the next quarter, but the big impact of the innovation program is going to be seen from the third one.

**Ms. Serra:** Perfect. Thank you.

**Mr. Pedote:** Hi Lori. Related to the margins, this line of administrative expenses in 1Q it included several different things. In the consolidated one we included even the expenses due to the acquisition of the Aesop, but excluding this, if you just see Brazil, Brazil grew 14% this line in 1Q and it includes since investments and projects, for example, Rede Natura, all the groups that is working, all the investments that we are doing in this line, we are investing more in IT also, it includes innovation, it includes several things.

What we expect is that we will be able to balance not only in this line, but all the investments required for 2013 including a very strong support of the innovation in the marketing expenses and also this line (that is a mixture of short and medium-term investments) we believe that we can balance them in the range of what you mentioned that were the margins from previous year.

But we don't expect to see this line growing 25%; that was what happened in the first quarter because we had some extra costs, as I mentioned.

**Ms. Serra:** Thank you.

Operator: Our next question comes from Andrea Teixeira, with J.P. Morgan.

**Ms. Teixeira:** Hi, good afternoon. Thank you for taking my follow-up question from the Portuguese call. I just wanted to see if Alessandro and Pedote if you can kind of give us an impression of how the mix has been evolving, I mean, I know it's part of the test obviously for...and trying to push the category of toiletries, but I was just wondering if there is any read that we can do on the productivity side related to a mix effect.

And lastly, you said that, you know, April numbers have been slightly better (and I know other allays have tried to ask in a different way), but just...as some comfort that you've seen like some of the trends in Mother's Day are already sold, if you can give us an impression that the trend continues to be positive



from the orders or they have received well your campaigns from Mother's Day and if the trend is positive. Thank you.

**Mr. Carlucci:** Hi Andrea. Well, regarding the mix and productivity in the SOU launch what we saw in the pilot test with SOU is that this new line increases productivity not because of the mix effect, but mainly because it brings extra added sales so the consultants keep selling all of our projects that they used to sell plus a part of SOU.

So, of course at the end the mix change, but it's not because of the mix effect that we raise productivity, but because of the added sales, so extra sales. So this is what we expect to see when we launched SOU in Brazil.

**Ms. Teixeira:** And should we think about the...

**Mr. Carlucci:** Regarding the...

**Ms. Teixeira:** Sorry.

**Mr. Carlucci:** Sorry, sorry, go ahead.

**Ms. Teixeira:** Just wrapping up your comment when you launch Biosphera life (I believe you mentioned in the beginning of next year) with another pilot that you are running together with the Natura Network do you believe that you can... that's when we think we can add...you guys are going to add additional categories and that could be another opportunity to increase productivity or should we think in a different way?

**Mr. Carlucci:** Well, first of all we don't have yet an official date the rollout Natura Network and I believe that this is not going to happen before half of 2014, so even though we don't have yet an official or unofficial date.

On the other hand, you are right to say that it is going to be much easier for us to add new categories and new value propositions for Natura and for our consultants if they are connected because we will not have some bottlenecks that we have today – like the catalog, like the cash flow of the consultant – because in the Natura Network the customer can pay with credit card.

So there are a lot of advantages for us to have our consultants connected and one of them is to increase the efficiency and the effectiveness of offering new categories and new value propositions, but this is not going to happen and the Natura Network is not going to be rollout before of half of 2014.

You mentioned also (just to be sure that I answered your question) regarding Mother's Day, and as I mentioned to Lori, Mother's Day is doing very well, we



are very happy, but on the other hand we know that the major impact of the innovation program for this year is going to happen in the 3Q and we are going to see some first signs of recovery in revenues in the 2Q, but the most important impact is going to happen in the third one.

In other words, I'm trying to say that in the 2Q we have Mother's Day, but we also have other promotional cycles, and the combination of those ones are going to give us first recovery in revenues, but the most important one is going to happen in the third one.

**Ms. Teixeira:** Okay. Just to make sure that I understand (and thank you for the clarity); the Natura Network has to be coming together with the new Internet sales, right, or we should think about the Natura Network as being completely different or isolated or, I mean, it will be intended with that, but not necessarily launched at the same time?

**Mr. Carlucci:** Okay, let me clarify. What we call Natura Network is the Biosphera Project. We used to call Biosphera when it was an internal project and knowledge became public and the real name is Natura Network.

So it's a program that invites our consultant to be connected to the Internet and to do that your business connected and allow the customers to buy directly from the Internet paying with credit card in receiving the project in one day. This is what we call Natura Network.

And by doing this, we are going to be able to expand the value proposition of the company and to offer new categories and new brands. And this is the project that I was mentioning that is not going to be rollout before the half of 2014.

**Ms. Teixeira:** Okay, perfect. Thank you for the clarification Alessandro.

**Mr. Carlucci:** Thank you Andrea.

**Operator:** Our next question comes from Mr. Luiz Cesta, with Votorantim Corretora.

**Mr. Cesta:** Good morning everybody. Well, regarding the price increase to take place in next September as mentioned in the Portuguese conference call, I understand that you are passing through cost, but I was wondering if such moves in prices also related to another possible tax increase (as was the case last year).

Well, what I'm trying to understand is if you are or not expecting another tax increase to take place by the second half. Thank you.



**Mr. Pedote:** Luiz, is Roberto. No, we are not expecting. We don't have any information in this direction and we are not expecting this. This is what we know today.

**Mr. Carlucci:** And the price increase is only because we saw opportunities in the competitive environment and also because we have some cost pressure. So it's only driven by...how can I say?

**Mr. Pedote:** Market.

**Mr. Carlucci:** Markets and commercial, and not because of Texas.

**Mr. Cesta:** Okay, thank you very much.

**Mr. Carlucci:** You are welcome.

**Operator:** Our next question comes from Ms. Linda Bolton Werser, with B. Orlei.

**Ms. Werser:** Hello. I was wondering if you could explain if your share loss, if your market share loss in Brazil in 2012 was due to the other direct sellers like maybe Avon or if it was more to competitors in the regular retail channels and direct selling.

And also maybe you put this data, but for the 1Q just reported can you tell us what the market growth was in Brazil and then also what you think, you know, if your market share was lost, again, who you think the share lost was to? Thank you very much.

**Mr. Carlucci:** Hi Linda, is Alessandro speaking. Well, regarding 2012, what happened mostly is that we lost market share basically to two toiletries categories; hair care and deodorant, and those two categories are mainly retail categories, and we know that some of the big companies in this area invested a huge amount of money in new launches and in advertising and because of this, the growth of these two categories hit a record of more than 20% of growth that is something that didn't happen in the last 10 years, because those two categories are very high penetrated in Brazil.

So, this was, for us, a specific effect of last year and mainly because of this we lost market share, you know, and when we see our market share in what we call core beauty (that's because medic area, the fragrance area and the makeup area) we didn't lose market share last year.



So, answering more precisely your question, we lost in hair care and deodorant and mainly to the retail companies.

**Ms. Werser:** Thank you very much.

**Operator:** Our next question comes from Javier Escalante, with Consumer Edge Research.

Excuse me, Mr. Javier Escalante, your line is open.

**Mr. Escalante:** Hello?

**Mr. Carlucci:** Yes Javier, go ahead, you can ask your question.

Well, we are missing Javier. So, Javier we are going to call you after the call so that we can answer your question.

**Operator:** Excuse me ladies and gentlemen as a reminder if you would like to pose a question, please, press start one.

Our next question comes from Robert Ford, with Merrill Lynch.

**Mr. Ford:** Okay, thank you very much for taking the follow-up and because nobody asked a question on this one. There was a lot of focus and then there was a lot of confidence with respect to SOU. Can you share a little bit about what you've experienced in your pilots?

And you made a comment, Alessandro, on the last call that I thought was very intriguing with respect to maybe broadening out some of the brands into other categories, right, and I interpreted that to be a specific reference to SOU going into other daily use categories, and I was curious.

So do you think you can share something, you know, what are you thinking about doing with the brand this year?

**Mr. Carlucci:** Hi Bob. So, what we learned in the pilots (in the SOU pilots), the first one is that this might bring extra sales with very low cannibalization and helped to build the brand, so the Natura brand is more admired and preferred by the people that used SOU line, so in other words; it brings innovation, it brings freshness, it brings a lot of good attributes for the brand.

And also we learned what is the right price to position this line, because we tested in three cities with different prices, so now we know the best price to leverage profitability and also sales and, to finalize, we learned that the customer liked so much product by itself; so with very well accepted, the quality,



you know, the concept, so we are very confident that we are going to have a good launch.

And when I mentioned that SOU is going to have some other initiatives in the future is because we are not going to launch all the categories under this line in the same cycle, and in the toiletries you have several categories and we are going to launch gradually; not all of them in the same commercial cycle.

And this is going to happen not only this year, but also next year.

**Mr. Ford:** And given the vibrancy of the deodorant category that you (0:36:20 unintelligible) too early, right, or, you know, so much of the growth of last year has been taken from shampoo and deodorants. Is that a category that where you feel you have a value proposition that could be relevant to offer the Natura?

**Mr. Carlucci:** Yes, yes. We believe in this specific category we are going to have something very interesting next year and we believe that we can play an important role because not only the preference of the brand, but because also of the quality of the product and the fragrance. So we believe that we can keep doing good business.

**Mr. Ford:** Okay. And then in one of the pilots to the soap (I don't know if it was some of the bar soap, but I'm not certain) was SOU so phenomenally successful that (0:37:17 unintelligible) some cannibalization, and I'm curious if you're able to find the price point where you could optimize the portfolio or if you're still trying to find the correct positioning?

**Mr. Carlucci:** In the bar soap we are going to keep piloting to find a better marketing mix because we weren't happy with the results are specifically with the bar soap, but with the liquid soap the results were very good. So we are going to keep testing the bar soap in the region to try to find a better balance in the marketing mix to launch also the bar soap.

But until we don't have a good result we are not going to launch this specific item.

**Mr. Ford:** Okay. Well, thank you very much and I'm very much looking forward to your launches.

**Mr. Carlucci:** Okay, thank you Bob.

**Operator:** Excuse me, this concludes today's question-and-answer session. I would like to invite Mr. Carlucci to proceed with his closing statements. Please go ahead Sir.



**Mr. Carlucci:** Thank you for participating in today's conference call. I would like to emphasize our believe that in 2013 we will rip concrete results from our strategy in Brazil and in the international operations. We continue to advance projects that will enable us, on the one hand, to evolve and modernize the relationship with our network through the use of digital technologies and, on the other hand, to expanded Natura's value proposition through new brands and categories connected with concept of "well-being well".

Once again, thank you so much and we are going to be, again, together in the conference call for the 2Q13 white good day everyone and have a nice weekend.

**Operator:** That does conclude our Natura's audio conference for today. Thank you very much for your participation. Have a good day.