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International Conference Call
Natura
2nd Quarter 2013 Earnings Results
July 26th, 2013

Operator: Good morning ladies and gentlemen. At this time we would like to welcome everyone to Natura's 2013 second 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 . 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 Natura's earnings conference call for the second quarter of 2013. In the quarter net revenue grew by 7% while Ebitda grew 5%. In Brazil we had expected slight acceleration in our sales growth compared to the first quarter, which did not materialize and we will go over this in more detail later on.

In the international operations our sales growth accelerated and we continued to obtain significant gains in profitability. In Brazil after the good performance of sales in the Mother's Day cycle sales slowed in June, which led growth in the quarter to fall short of our expectations.

In addition to the slower and more uncertain consumer market we believe the slow growth in Brazil is explained by a reduction in the buying frequency of our consultants in the period. Recruiting levels remain solid and the consultant loss rate is very close to the historical average, therefore, the Natura consultant activity is an attractive business. What happened is that the existing consultants became a less active especially towards the end of the quarter.

As we have mentioned before, the impact from our main afterwards to adjust revenue growth whetted through new product launches or other enhancement to the model will be concentrated over the second half of the year. In addition to this set of the initiatives implemented over the last few months we have focused on some short-term actions that will allow us to recover consultant buying frequency and accelerate growth in Brazil over the second half of the year.

Drawing our lesson on lessons learned in the first quarter we recently made some adjustments to the *Mais Natura Program* to make ordering more attractive for consultants with lower sales volume, which should help increase the buying frequency of these consultants. Another highlight was the launch of *Sou Product Line*, which offers an innovative and unique proposal of conscious consumption through which we gain access to an unexplored market that offers significant potential for incremental revenue.

In the first half of July, on cycle 11, we launched two categories in the *Sou Line*; liquid soaps and body moisturizers, and this will be followed by a launch of shampoos and conditioners in the second half of this year. Note that this should be the year's most important launch in terms of incremental revenue and occupying white spaces.

In addition to the *Sou Line* we have more launches planned for the second half of the year that will be especially important for improving our competitiveness in the cosmetic and fragrance categories. We have also intensified our marketing investments to support these launches and the activities of our consultants, confident in seeing improve in revenue growth over the second half of the year and this higher investment will be financed by our cost efficiency program with the aim of balancing the company's profitability.

In our international operations we remain very confident in our business plan. This quarter we posted strong revenue growth of 32% in local currency with robust improvement in our profitability as well. In the countries in consolidation (Argentina, Chile and Peru) we ended the quarter with Ebitda margin of 23.8% while the countries in implementation (Mexico and Colombia) registered significant Ebitda margin expansion. We expect growth in this region to continue accelerating and also with significant room from improvements in profitability.

Our projects with impacts over the medium and long terms and that will allow us to connect and strengthening our relationship while providing a better buying experience for our consumers continue to advance as planned. After eight months operating the Natura network in the city of Campinas, over the next few months we will formulate a plan for rolling out the networks initial functionalities in Brazil.

In short, we are confident that over the next few months our ongoing actions will boost our competitiveness in the market and help accelerate growth in Brazil.

These were the points I wanted to cover, so now I will ask Roberto Pedote to give us some details on the results. Please, Roberto.

Mr. Roberto Pedote: Thank you and good morning. In the 1Q our consolidated net revenue grew by 6.7% on the year ago period. As Alessandro already mentioned revenue growth in Brazil fell short of our expectations. Meanwhile in the international operations net revenue grew by 36% or by 32% in local currency, showing the evolution of our strength in these countries.

Consolidated gross margin stood at 71% in the quarter increasing 30 basis points from second quarter 2012 mainly due to the gross margin expansion in the international operations, which benefited from the more effective management of promotions under depreciation in the Brazil Real against the basket of currencies of the countries where we operate.

In Brazil the gross margin contraction of 20 basis points was due to the height in the tax rate in August 2012, which was partially offset by better management of prices and costs.

Consolidated Ebitda that was R$410 million, increasing 5% from the year ago quarter. In Brazil Ebitda decrease 1.6%, which was directly due to the lower-than-expected sales and higher selling expenses, which were partially offset by nonrecurring effects.

And the international operations, once again, made a positive contribution to consolidated Ebitda.

I would like to note here that the decision to intensify our marketing investment, as mentioned earlier, will be financed by the initiatives of our cost efficiency program with the aim of balancing the company's profitability.

Consolidated net income in the period was R$240 million, increasing 12% from the second quarter of 2012. The reduction in the financial expenses was due to the gain this year of around R$17 million from the market to market of hedge positions, which compares with the expense of 18 million last year. Note that this adjustment is non-cash and will be zeroed over the life of the loans since the operations are held to maturity.

Excluding this impact, the financial expenses were 7% higher than in the same quarter last year, reflecting our higher average debt balance. The increase in total debt reflects the temporary needs to invest in working capital, the Capex in the period and the acquisition of the 65% stake in Aesop.

In the first six months of the year international cash generation grew by 12% on the previous year period to reach R$509 million. The amount was allocated to the working capital needs and to Capex resulting in a free cash flow of R$12 million.

In 2013 the phasing in our Capex was different from that in 2012 with a higher concentration in the first half of the year. We have already invested R$186 million in 2013 compared to R$97 million by this point of 2012. In total year, the investments in Capex will be similar, last year was around 438 million in this year is going to be 450 million.

The bulk of this investments were made in our plants in Pará, in Cajamar involves for new products launch, in production capacity for the *Sou* product line and in information technology.

We invested R$310 million in working capital mainly accounts receivable, which is due to the longer payment term extended to our consultants for purchases during the Valentine's Day cycle, which we typically offer in our strategies for Mother's Day and Christmas and also…and the second reason is inventories due to the lower-than-expected sales.

Bear in mind also that the position of December 2012 was boosted by around R$8 million due to the calendar effect in Capex and media.

Therefore, certain factors that worked to increase working capital in the second quarter of this year will undergo a reversal over the next few months; this means that cash flow will improve over the second half of the year.

In closing, I would like to comment also that the Board of Director approved the upfront payment of the dividends and interest on equity for the first six months of this year in the net amount of approximately R$0.84 per share, which will be paid on August 15th to shareholders of record on July 31st.

Those were the main points I would like to cover today. Thank you and let's go, please, to the question-and-answer 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. Guilherme Assis, with Brasil Plural.

Mr. Guilherme Assis: Hi, good morning everyone, good morning Carlucci and Pedote. I have one question, actually. I would like to understand a little bit better about your innovation that you are seeing for the second half of the year specifically on the CMF segment, which was the segment that was… had more market share erosion during the first four months of the year.

Can you give us some color about the launches, new launches that you have? I know that it's not anything as big as the *Sou* line, but I would like to understand if you're having whole different products being launched or you're just re-launching or reinventing the existing portfolio that you have in that segment. That's my question. Thank you.

Mr. Carlucci: Hi Guilherme, it's Alessandro speaking. Well, first of all I would like to reemphasize that the *Sou* individually speaking is the best and more important to launch for the second half of the year and we are going to also have some relevant launches on the cosmetic and in the fragrance area, but I don't have any way to go in more details with you because, as you know, we have our competition following Natura, so we don't want to share any more detail, but I'm sure to say that we are going to have a robust innovation pipeline for the second half; *Sou* in the toiletry areas and several, a mix, a combination of new ones reinventing existing ones, projects in the second half also in cosmetics and fragrances.

But, unfortunately, because this is in the strategic information I prefer not to share.

Mr. Assis: Ok. Just if I can explore that just a little bit more, because in the first half you had the re-launch or repositioning of the *Plant* and *Aquarela* product lines, right, is this the kind of threat that we should expect for the CMF segment in the second half of the year or are you planning on new products, nothing like the *Sou* line, but more new products for the semester?

Mr. Carlucci: First of all *Plant* and *Aquarela* they were launched in the last part of the quarter, so they are going to keep boosting revenues for the rest of the year and, yes, we are going to have similar things, some new products and some renovations in other areas in Natura, not only in hair care and makeup, but also in the other categories that we operate.

But, again, sorry Guilherme, I can't give you any more detail or information.

Mr. Assis: That's all right, thank you.

Mr. Carlucci: Thank you.

Operator: Excuse me, our next question comes from Ms. Lore Serra, with Morgan Stanley.

Ms. Lore Serra: Thanks. Good morning and thanks for the call. I wanted to talk a little bit more about the market growth and share trends in the first part of the year and, you know, you've indicated that your momentum was pretty good and then it slowed at the end of the quarter and then the market data you showed us for the first four months of the year so it doesn't capture that sort of the period, so I guess I would like to understand if you think there is something that it's not quite right about the data, because the data would suggest that you were pretty stagnant losing share before the slowdown happened that you were talking about.

And I would like to understand kind of we've never seen this kind of deterioration in market share in your core portfolio and I would like to understand why you think it happened.

We've seen it in toiletries and I know there has been a lot of launches there, but the magnitude of this kind of drop we've never seen. So, what's going on?

Mr. Carlucci: Hi Lori. First of all the numbers that you see in the market numbers are based on the sell-in from our industry and the numbers that you see from Natura our sellout, so especially because we know that our consultants they don't have relevant inventories, so you need to take care about the conclusions in the short term.

If you see in a year basis you can conclude something, but if you see trying to split the quarters you need to take into consideration that the market numbers are based on the sell-in from the industry to the retailers and the retailers they have significant more amount of inventories than our consultants that, in some ways, our numbers are more connected with the sellout numbers that are not these ones that you are seeing in the numbers of the market for the four first months of this year.

What happened, to explain why we dropped to this level of market share, again, it's mainly in the toiletries. We are keep seeing the market in Brazil growing very fast as we never saw before, I mean, in the last 15 years in hair care and in deodorants.

There are categories where the retail is more relevant and also with a lower price. And in the second *bimester* of the year we also lost some market share in the fragrance and this is going to be recovered in the second half of the year because, as we already mentioned, we have a robust pipeline in the cosmetic and the fragrance categories also, and with the *Sou* line, as we already shared with you, we are going to have to launch of the hair care products during the second half of the year.

And also with the launch of the *Plant* we believe that we are going to be able to keep the actual level of the market share of Natura in the toiletries and also in the cosmetic and fragrances. So this is the reason why.

Ms. Serra: Yes, I understand, but I want to talk about cosmetics and fragrances. I understand the toiletries and I understand the *Sou* launch. What I don't understand is the 290 basis points market share drop.

So are you saying that there was… that you believed that there was a lot of bloating in the first four months of the year and that industry growth number of 10, 11% on the data is not correct?

Mr. Carlucci: This is a hypothesis. I don't know, but I'm sure that those numbers in the market reflect the sell-in, not the sell-out. So this is one hypothesis.

The other thing (and I think it's important you to take into consideration) when you see the market share in two months sometimes this is due to the fact that we had less promotions in this year in those categories than we had in the last year, maybe one of our competitors they have an important launch. So this is more a short-term sign.

I think that we need to wait at least six months to see or to confirm that this is a trend. Sometimes it's only because of the calendar of the marketing initiatives from Natura and also from our competitors. So my suggestion is that; don't look so seriously about a variation in the market share that happened only in two months.

If we are going to keep seeing this we can see that this is a trend, we can say this is a trend, but from now on I should not say that, Lori, I think that really because of the sell-in effect that we see in the retail market and also because of the fact that we have a better innovation pipeline in the second half of the year than we had in the first half of this year.

Ms. Serra: Okay, I understand, it is four months of data, but I understand if it's not six months or longer trend, but it also comes at the same time that your rep growth has slowed, right, and I understand what you said about activity, but your rep has become less active, let me put it that way, and your core categories are slowing down, which are more direct sales categories in the market, so when you talk to your reps, when your sales people talk to your reps, what are they saying are the reason for the inactivity?

Is it that they are selling somebody else's products because *Plant* didn't resonate or *Aquarela* didn't resonate? What are they saying? Because it's a sharp change in trend and it's an important issue for your reacceleration in terms of the activities level.

So what did reps say they were less active?

Mr. Carlucci: No, they said that (especially in the end of this quarter) it was tougher to sell to the customer, they are not saying that we are selling… they sold more another brand, and when we took a look at our initiatives we saw that we could (and we are going to do to) improve the investments in marketing to guarantee that independent of the market situation and the intention of the consumer to buy, we are doing to motivate both of them consultants and also customers with a better marketing and more efficient investments to buy Natura products.

So they didn't say to those that there is a special reason why they didn't buy as they used to do in the last part of the quarter.

Ms. Serra: Ok.

Mr. Carlucci: So we are very confident that in the second half of the year we are going to accelerate the growth of the company, again, because we have a more robust innovation pipeline, as we mentioned since the beginning of the year, and because several of the initiatives that we already decided are being implemented in the last month and now, and also we are going to increase the investments in marketing.

So we are very confident that we are going to accelerate the growth of the company and keep the market share and keep the competitiveness of Natura.

Ms. Serra: Ok, thanks. And maybe one last question for Pedote, maybe for you, I'm not sure. But this trend of kind of offering more installments like you did on Valentine's Day is that something you were seeing in the industry, is that something that is being started by one of your competitors or what is causing that trend?

Mr. Carlucci: Well, yes, we are seeing in the last years in Brazil a more relevant and new methods of payments from the consumer especially using credit card with more installments, so we are piloting and testing new ways to offer these kinds of benefits, if I can say like this, to the consultant and to the customers and when we conclude that this is something that can add economically speaking to Natura, we are going to implement or, like we did in the Valentine's Day or, we can also offer new methods of payment.

Now we are doing to keep doing the same, but we are, again, studying and if we realize that this can have a relevant economic value for the company we can start to offer for our consultants and also for our customers new ways to pay Natura.

Ms. Serra: Great. Thank you very much.

Mr. Carlucci: Thank you Lori.

Operator: Excuse me, our next question comes from Ms. Margareth Kalvar, with Harding Loevner.

Ms. Margareth Kalvar: Hi, good morning and thank you for the call. Could you give me a little bit more color about, again back to the reps, and do they feel that the consumer is pulling back because of this general uncertainty and turbulence that has been occurring in Brazil, you know, the inflation in other impacts?

And also, particularly I believe Coty is becoming more active in the market and there are more companies that are going to be setting up to your own manufacturing in Brazil and therefore won't be penalized twice wise by the import tariffs, how do you view that going forward?

Do you feel that you have kind of first moves advantage that will continue or are you watching them strategizing specifically to come back that impact?

Mr. Carlucci: Well Margareth, there are, first of all, of course that in this quarter we probably we were impacted by external environment in Brazil, but we are focusing more on the things that we can improve and do better internally and we already knew that our innovation pipeline was better, it will be better in the second half of this year and we realize that probably the market mix that we offer to our consultants were not good enough to keep the activity level, and this also we are increasing the second half of the year.

So, in other words, even though we could be impacted by not so good external environments, we are focusing on other things that we know we can do better and this is our main initiative in the second half of this year.

Regarding competition, we didn't see anything specific in this period, but we've been seeing (as we already mentioned in the last four or five years) a gradually increase in competition and to face this competition we are working to be more inoperative, to raise, as I said, the marketing investments to guarantee the competitiveness of the company.

But I don't think that one a specific competitor was – like you mentioned, Coty for example – the reason why this happened.

I think that, as an overall, the Brazilian market is being more competitive and we need to be better and do more innovation and more efficient initiatives to guarantee the competitiveness of the company and to keep having the level of market share that we have today.

And, of course, to leverage the preference of the brand, as you know Natura is the preferred brand in our market, so we are in a good position to really leverage the preference of our brand in the consumer market.

Ms. Kalvar: Just as a follow on; what do you see as a margin impact of the additional marketing investments?

Mr. Carlucci: No one because we have a list of initiatives to reduce cost and to increase efficiency that are going to balance this higher investments in marketing. So we are not going to see any kind of impact that Ebitda margin it is here because of this.

Ms. Kalvar: Okay. Just finally in terms of leveraging brand preference I think at one time there has been some discussion about interest in putting other kinds of products possibly related on health and beauty platform through the network. Are you doing any more consideration of that? Should we be expecting that in the next year or two?

Mr. Carlucci: Yes, this is a part of our medium and long-term strategy. We strongly believe that improving the buying experience to our customer and also developing new products in different categories under the Natura concept this can amplify the value proposition of the company, so we are working on that. This is more for the medium and long-term.

In the short term we are working to occupy the white spaces in the CFT industry where Natura is not there yet and also to keep innovating with new products and new concepts in the areas or in the spaces that we are already there.

So in the medium and long-term we are going to see probably we offering new categories outside the CFT also.

Ms. Kalvar: Okay, thank you very much.

Mr. Carlucci: Thank you Margareth.

Operator: Excuse me, our next question comes from Mr. Kartik Nehru, with ESG.

Mr. Kartik Nehru: Hi. Thanks for taking my call. I just wanted to echo some of the other questions that have already been asked when it comes to competition. I guess we've obviously seen Boticário growing quite rapidly and also, you know, cosmetics and fragrances becoming available in drugstores. So if you were to estimate in the first couple of quarters this year (and I know it's a difficult thing to estimate), but what percentage of the slowdown has come from competition versus just internal issues with respect to the cycle and with respect to initiatives regarding productivity? How much of this slowdown is competition versus other brands?

Mr. Carlucci: Kartik, I think that the answer is mainly because of us and I'm saying this because we already know what we could do different and also because we know that we are going to face more competition.

So, competition is not something new for us, so we are able (and we are going to be able) to predict in some way the competition movements and to be ready to do better initiatives, more innovations. So, I think that it's mainly because of us that we saw a slowdown in the growth of the company and that's why we are confident that in the second half of the year we are going to grow more, to accelerate the growth of the company even though we are going to keep having competitors trying to grow also.

So, the answer is; mainly because of us, because there is nothing really new in the competition and we already know that they're going to keep working to grow also. So competition is part of our life and we need to be prepared to really be better and to do what we need to do.

Mr. Nehru: Got it. Thanks.

Operator: Excuse me: Our next question comes from Mr. Alex Robarts, with Citigroup.

Mr. Alex Robarts: Thanks. Just two questions. I wanted to ask about something that came up in the earlier call. I'm trying to get an understanding of the rep growth in Brazil, I mean, last year I guess you were around 8% in 2012 and this first half we've seen as well as in the 2Q about 2% growth, and I think the issue is that, talking about earlier today in the earlier call, taking a look at the reps that are actually putting orders, right, I guess that if you could kind of talk a little bit about why we're seeing this deceleration in the rep growth and help us understand the magnitude of this. That's the first question.

And the second one is on Aesop, I mean, I'd appreciate if you could break that up for us this full quarter and if I did the math right, it looks like you around kind of single-digit Ebitda margin in that business.
I was just wondering if you could kind of comment about how that is going, what things have you been kind of learning that you could share with us and can we think about this business, you know, expanding the

margin and kind of adding to the overall consolidated margin movements? Thanks very much.

Mr. Carlucci: Hi Alex. Let me see if I understood your first question. If you want to have a rough idea about our expectations about the reps growth excluding this effect in the second quarter of 2013 you should use the level of the second quarter of last year because last year we grew, but in different levels if you compare the first quarter in the second quarter.

So, if you use the second half of 2012 it's a good orientation, it's not a guidance, it's not a precise number, but it's around this level our expectation on the sales growth… the number of reps growth. So, it's around this. So this is our expectation.

Regarding Aesop, the business is growing fast; it is growing more than 30%. The Ebitda margin you are right, it's a single digit, but it's also going to grow because the company is growing and diluting some costs even though the Aesop is expanding through also new stores.

So, in the future, they are going to add profitability to the company because they are doing to keep growing fast and also increasing profitability.

Mr. Pedote: Today, the one-year Ebitda margin is almost double digit and in the numbers that we reported to be included also some costs of the acquisition there, but as Alessandro said, the business is doing well, is growing 30, 35% per year, the one-year Ebitda margin is already reaching double digits and the plan is an important improve over the years.

Mr. Robarts: Okay. That's very helpful. Sorry, just one last clarification on my earlier question on the rep quote and I appreciate the guidance that we can use or the base that you think we should use, but I think the other way that maybe I can ask it is this; do you feel (in your numbers) that the rep growth in Brazil is decelerating and if you think it is what could you perhaps share with us to help us understand that comp issues or other things? That would be great. Thanks.

Mr. Carlucci: We are not seeing this Alex. We decided internally in the half of last year to decrease the acceleration of growth in the number of reps and to work more to increase their productivity.

It was an internal decision. It was and externally fact, so we are not seeing a deceleration of the direct selling industry in Brazil and it was mainly an internal decision because I think, as you know, Natura has a very relevant level of penetration in Brazil in households and now we see a huge opportunity to leverage this penetration increasing the frequency of the consumer purchase.

So, to reinforce that we decided to put more effort to increase productivity in the consultant in a year basis (not in the short term) and not to put so much energy to keep growing the number of reps. So it was an internal decision.

Mr. Robarts: Got it. Okay. Thanks.

Mr. Carlucci: Thank you.

Operator: Excuse make, our next question comes from Mr. Robert Ford, with Merrill Lynch.

Mr. Robert Ford: Hey, thank you and good afternoon everybody. Alessandro, I was wondering if you might address some of the nuances in terms of the recent compensation changes or maybe some of the point modifications in terms of consultant orders and what those were designed to do and any signs of a change maybe in the behavior of the network.

Mr. Carlucci: Hi Bob. Well, as you know, we did a small modification (it's a small, but relevant) in the *Mais* program adding 100 points compensation level that we didn't have before and this is very important to help to activate the smaller consultants that are also very important for us. And also, recently, in this moment we did some adjustments in the CNO model to compensate them also regarding the activity of the consultants.

Just sharing with you two of the initiatives and the reception of those two were very good. We are only starting the second half of the year, so it's too soon to give you any good data, but I can say to you that the reception of the salespeople was very good regarding all the initiatives, and I am mentioning only two of them. But the reception was very good.

Mr. Ford: It's great and very helpful. When you talk about getting to the same level of Ebitda margin, right (I think it's what you decided with this year relative to last year on a consolidated basis) you referred to a dramatic improve in international operations and, you know, when you look at Mexico – certainly the biggest market that you have internationally – but today not very profitable, but the move toward a multilevel model I would argue transfers to the network itself, right, and as that business scales where are you in maybe the evolution of the business cycle?

Do you feel that you at that point in maturation where we begin to see disproportion in contributions to profitability for Mexico or do you feel you need to continue to make incremental investments in advertising to and other forms to marketing to continue to make tender growth at Mexico?

Mr. Carlucci: Thank you for asking Bob. Mexico, as you said, it's a very important market for us and a little bit different from the rest of the other markets that's why we developed the more multilevel approach, but using the Natura principles and now we are in this moment in Mexico, we have recovered growth, so we are very enthusiastic about the moment that we are living in Mexico and we expect from now on to keep growing, of course, investing in Mexico because we want to be a relevant player in that market, but also confident that we are going to see better levels of profitability in Mexico.

So, from now on we expect Mexico to add profitability to Natura, not only because the operation is going to keep growing in good levels, but also because we are going to be profitable more and more there.

Mr. Ford: Thank you very much.

Mr. Carlucci: And someway diluting some of the fixed cost that we have already in the operations.

Mr. Ford: Okay, that's very helpful. Thanks again.

Mr. Carlucci: Thank you Bob.

Operator: Excuse me, our next question comes from Mr. Ian Kessfor, with Sigma Capital.

Mr. Ian Kessfor: Hi, good morning, can you guys hear me?

Mr. Carlucci: Yes, yes we can.

Mr. Kessfor: Okay, I just have three simple questions actually. I'm sorry if I'm rehashing some of some things that have been asked earlier, but what I am a little confused about is (and I agree with your comments earlier, for example, you don't leave implementing SAT you said that obviously they are selling in a lot more into the market than what the sellout is, right) but the first simple question is; are you losing share in direct selling? Do you believe that is the case?

Mr. Carlucci: In the short term when we see the second *bimester* of this year we lost, but very few points in direct selling. When you see the overall and a bigger period of time, the answer is no.

Mr. Kessfor: Okay, but when you talk about the share losses that you have year today it's confusing if you are talking about total market or direct selling and would your losses in direct selling be less than that of the total market?

Mr. Carlucci: Well Ian, when we share market share we are always talking about the total market and when we talk about direct selling we talk about not only CFT, so there are other companies in direct selling selling, for example, supplements that are growing faster than Natura, so we are losing market share in the channel of direct selling.

When we talk about CFT we are talking not about direct selling, we are talking about the CFT market including retailers, including franchise, drugstores and also direct selling.

Mr. Kessfor: Right, what I'm curious about; is CFT in direct selling?

Mr. Carlucci: Yes, I don't have this information precisely to give to you.

Mr. Kessfor: Okay.

Mr. Carlucci: What I answer is in direct selling channel natural lost, but especially for companies, smaller companies selling different kinds of products that are growing faster.

Mr. Kessfor: Okay, understood.

Now, you know, the other thing you've mentioned was competition isn't new, and I'd agreed with that. However, there's a couple of different things that I think have changed structurally, I mean, Boticário, I mean – I've covered you guys first six, seven years now – Boticário three years ago didn't have a 300,000+ rep force, right.
Avon was a mess, you know, they have a new management team implementing other measures.
Coty is in the market. So, it does sound like “well competition isn't new”, the piece of competition is increasing at an exponential rate and I guess my main question here is; it sounds like you need more marketing investments and lower prices, right.

So, is the cost of business going higher?

Mr. Carlucci: I previously mentioned that the competitive environment in Brazil is being tougher not only in this last quarter, but in the last three or four years, so you are totally right, and we are investing in two major areas; in innovation (and innovation not only in the products, but also in the consumer experience) and we are investing in technology because we strongly believe that in the medium and long term the customer wants to have a better experience when they buy the products.

So we are investing to promote a stronger evolution in our business model. In the short-term what we are going to do? We are doing to reinforce the more important innovation pipeline projects that we have and also we are giving to raise the investments in marketing, and this means that we are going to have more money put on those things.

On the other hand, this is not going to affect the profitability of the company because we have several initiatives regarding efficiency gains and cost reductions to balance those higher investments and to keep the actual level of profitability in the company.

Mr. Kessfor: Right, but you need those efficiency gains to maintain margins…

Mr. Carlucci: Definitely Ian, and in a more competitive market you need to work every day to stop doing things that are not adding value to you because you need to be more competitive. You are totally right. And this is what we've been doing in the last years.

Mr. Kessfor: Got you.

Mr. Carlucci: So, you were totally right.

Mr. Kessfor: Last question is in regards to the consultants. You may two comments, one of them, which was interesting to me, which they were less active towards the end of the quarter and by that I'm taking the month of June, right, you know, there are a lot of things going on in the month of June; protests, etc., this, that, whatever it might be.
I guess the main question on everybody's mind is (and I think you sort of answered that before); did consultant productivity for the CFT direct selling channel drop for everybody or did it just drop for you because they are selling more Avon products, which is 50, 60% overlap or they are selling more Boticário products?

Mr. Carlucci: Well, I don't know Ian. We don't have this information and as I mentioned before, even though I'm sure to say that all this confusion that you had in the last part of June probably affected our results and the activity of our consultants.

I'm sure to say that we are looking internally for things that we can do better and we already found things that can be done in a better way because we can manage the internal issues on Natura, we can't manage the external effects, especially these kinds of things that happened in June.

So, in other words, we are assuming all the responsibility for the impacts in the last month of the quarter and we are already implementing better things to guarantee that even if we're going to have a bad time again (I hope not) in the external environment we can have good business and good results.

But I don't have, unfortunately. I don't have this information.

Mr. Kessfor: I got you. You know, I think it's very… It speaks to the high quality of your management team that you are not blaming the macro, you know, you sure said, you know, I would like your kind of best guess here, you know, you think you're the only one impacted (0:52:32 unintelligible) you think? You know, not general?

Mr. Carlucci: My guess is that probably everybody was affected. How much? I don't know and to be honest we are not spending 2 minutes to understand how… what is the relevance of the external or internal impact for Natura.

As I mentioned, we are putting all the effort to improve internally, but my guess is that probably other companies were affected by what we saw here in the market in the end of the quarter.

Mr. Kessfor: All right, thank you very much.

Mr. Carlucci: Thank you Ian for the good questions.

Operator: Excuse me our next question comes from Mr. Javier Escalante, with Consumer Edge Research.

Mr. Javier Escalante: Thank you for taking the call, the question. Mine is (0:53:32 unintelligible) and I still have to admit that I still don't understand why the acceleration expected for the second quarter didn't take place.
I knew that the past participant alluded to something that we all know that rep sales products not only Natura's products, but also Avon products and Boticário products and it's a little bit surprising that you don't know

whether there was an important price cut or change in compensation that could have affected the participation of the reps for you this second quarter and that was what derailed the acceleration that you expect it. So this is question one.

The second part is more structural. To what extend the sell-in that you were talking about (the 30% of the market growth and you grew 1 to 2%) reflects a more structurally issue that is going hit and Avon possibly in the second half, which is a fact that retailers are taking more inventory because they are increasing retail space for duty products. So what are you going to do to that? Because you are saying that you don't react to external factors, but you have to.

Either your prices are too high or they are increasing points of distribution by other channels. Thank you.

Mr. Carlucci: Hi Javier. I will answer your second question, but I would like to ask you after I answered to repeat the first one. It was very bad the quality of the communication.

So, the second one, what I mentioned is that we can't define how much all the social movements in Brazil in this last part of the quarter impacted the Natura results. I never said that we are not going to react for external factors in the market. Of course, we are here to face the competition and to do all the things that we know and we already know to keep the competitiveness of the company.

I was mentioning and question was regarding all the manifest and all the social things that we saw in Brazil in the last part of June. It was only that.

Regarding the competition, we are, of course, looking and acting to be more competitive because the environment is being more competitive. So, I think that it was a misunderstanding.

If you could repeat the first part of the question.

Mr. Escalante: Sure, sure. Thank you for allowing me to explain myself better. So, there are two parts of my question, one is more tactical in the short term. So, why do you think that the acceleration you expected this second quarter didn't take place?

And another participant in the call alluded that your reps also sell competitors' products. Do you believe that either changes in prices or changes in compensations may have been the reason?

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Mr. Carlucci: Now I understood. Well, the reason why we didn't see the small acceleration that we were expecting in the second quarter is because the level of activity of our consultants was lower. Lower than expected.

So, in other words, less consultants put orders in this period as compared with other periods and the main reason because of this is because our market mix was not good enough to allow this, especially because, as we already mentioned, we have a better pipeline of innovation for the second half of this year and now we realized, and that's why we are also raising the investments in marketing because they were not good enough or at the size that they should be in the first part of this year, especially the second quarter. So this is the main reason.

And not because and specific competitor decrease price or they changed compensation in the sales model. So, the reason is mainly because of the efficiency of our marketing mix in this period of this year that we thought it could be in the right amount, and now we realized that we could have a bigger one.

Mr. Escalante: That's very helpful. So the second part of the question is (when you were talking to Lori earlier in the call) you basically clarified (and it was very helpful) that the market data reflects sell-in and not sellout.

So then the question I see here is; shouldn't we be confirmed that this very strong sell-in in the retail channels is basically being that retailers are building up products inventory from Loreal, Procter and whomever and this increase in inventory is essentially representative of increases in display space and shelf in drugstores and so forth and essentially that is going to be structural headwind that you are going to have, you know, working against you in the second half?

So, how you are going to overcome that? That's the second part of the question.

Mr. Carlucci: No Ian, I don't know how to answer your question because sometimes the companies that sell to retail they do some special promotion to raise inventories because they want to launch in an advertising program in the next month that in this case we are talking about May and June so… and sometimes it's because the retailers they are out of stock, but there isn't a rule, so I unfortunately cannot explain this effect.

Sometimes it's only as sell-in effect. Sometimes it's because the retailers are selling more.

I only said to Lori that when we see those data in the short term we need to be aware that some kind of variations are not conclusive because there is the sell-in effect, there is the promotional impact of this specific initiatives from one or other competitor especially when you split the analysis through the categories. But, unfortunately, I don't have enough data to explain this to you.

I think that when we have six months, eight months we can start to reach conclusions about trends. But when you see only a *bimester* sometimes the variation is not conclusive.

Mr. Escalante: Thank you very very much.

Mr. Carlucci: Thank you Javier.

Operator: 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 reinforce our conviction that we will accelerate the level of growth in Brazil while continue to expand our international operations that will keep growing in a fast pace increasing profitability.

Once again I would like to thank everyone for participating and I look forward to talking to you again in October, when we will discuss the results for the third quarter of 2013. Good day everyone and have a nice weekend.

Operator: This concludes Natura's audio conference for today. Thank you very much for your participation. Have a good day.