



International Conference Call
Natura
Fourth Quarter 2015 Earnings Results
February 18th, 2016

Operator: Good morning ladies and gentlemen. Thank you for waiting. We would like to welcome everyone to Natura's 2015 4th quarter conference call.

Today with us we have Mr. Roberto Lima, CEO, José Roberto Lettiere, CFO, and Fábio Cefaly, Investor Relations Manager.

This event is being recorded and all participants will be in listen mode during the company's presentation. After Natura's remarks are completed, there will be a Q&A Session and at that time further instructions will be given.

We have simultaneous translation to English and questions may be asked normally by participants connected abroad.

If any participants need assistance during this call, please, press star 0 (*0) to reach the operator. We have simultaneous webcast that may be accessed through Natura's IR website at www.natura.net/investor, where you can find the slide presentation that can be downloaded and a replay facility from this call will be on the website after the end of the event.

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 currently information 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 different results from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. Roberto Lima, CEO. Mr. Lima, you may begin the conference.

Mr. Lima: Thank you. Good morning everyone. I'd like to start by thanking you and welcoming you to our conference call for 2015 and 4Q 2015.



I'd like to start by saying that during 2015, together with the Board of Directors, we worked on a deep strategic work focusing on the market and consumers.

As a result of this work, many actions are being implemented to revitalize our direct sales channel and opportunities in other channels, to rationalize our portfolio and focus our investments in priority products and brands.

In addition to new tools and technologies, which are already being offered to our consultants, we believe that these initiatives will contribute positively to our brand positioning and increase our competitiveness and performance.

Based on this year results, we had a high contrast of our performance in Brazil compared to international operations. As stated by ABIHPEC – the Brazilian Association of Personal Hygiene and Cosmetics – there was a slowdown in the Brazilian market, and for the 1st time in 23 years we had a retraction of amounts, and that context has also contributed for a drop in sales in Brazil, especially in the last quarter of the year where the sales... Christmas sales were lower than 2014.

Our CFO, José Roberto Lettiere, will go into further details about our results, but I'd like to highlight some important aspects: First of all, we've highly involved in our working capital management, we've rationalized investments in Capex and our free cash generation was R\$818 million compared to R\$209 million in 2014; maintaining our indebtedness stable the net debt over Ebitda of 1.13 times.

The second important point, was a more effective management of expenses seeking and looking for a faster and efficient organization. Our international operations have also contributed to mitigate the unfavorable impact of R\$230 million came from the increase of tax burden and the devaluation of the Brazilian real.

And last, the profit of the year was affected by non-cash FX from buying the 21% share remaining of Aesop.

In our international operations (that already represent 30% of our sales), we increased 62% in Brazilian real year-after-year. This means 30% in local currency growth in each country that we operate. This improves our margins, and closed the year with 10% of Ebitda margin in the international operation.

We've closed the year in LATAM with over 500,000 consultants with a strong growth in all countries where we operate. In this year Aesop increased over 43% local currency, 37 new stores and closed the year with a total of 135 stores in 18 countries.



We are extremely satisfied with the brand performance and excited with the plans that we have from now on in that operation.

To conclude my introduction, I'd like to state our recognition of the important challenges that we are facing in Brazil. Our efforts in this year that are starting will be dedicated to recover our vitality in local operations and sales, improving the quality of services in general.

As a support of this effort, we will continue to evolve in marketing and implementing digital tools for our consultants and end-users, bringing the brand closer to our consumers and increasing opportunities to buy our products through new channels.

About the 2016 investment program, our Capex guidance is R\$350 million, increasing our investments in international operations, which will now represent 39% of the amount to be invested with an important share of Aesop in that figure.

And finally, yesterday, our Board of Directors deliberated about dividend distribution and interest on noncapital for 2015 and approved a net income of about \$.82 per share of gross profit.

And that's the points that I wanted to mention. I'd like to pass the floor to José Roberto Lettiere to talk about the details of our financial results.

Mr. José Roberto Lettiere: Good morning everyone, or good afternoon for those who are in countries outside of Brazil.

I'd like to begin talking about our net revenues on slide number 3 of the presentation. Net revenue in the consolidated net revenue of Natura had an increase of 6.6% year-over-year and in the 4Q of 6.9%.

I'd like to remind you that our international operations showed a growth in local currency of 30% and a strong growth also translated to the Brazilian real, based on the Brazilian real devaluation compared to other currencies, especially in relation to the US dollar and Australian dollar.

Moving on to slide number 5, here we have some details about Brazil number of consultants and the average number of consultants in thousands. You can see an evolution from 2011 to 2015, there is a growth and the 4Q15 we have a 1.4 million consultants working in Brazil.

In terms of productivity, which is another important note, we had a drop in productivity of 7.9% in 4Q15 although there was more activity. We increased



the base of availability, but based on the recession in the country we had a drop in items bought by our consumers. So our net revenues in Brazil dropped 8.9% year-over-year.

I'd like to remember that, in this consolidation of revenues in Brazil, we had a very strong impact of this tax burden, specific in the 4th quarter of 2015 there was a variation of 3.1 percentage points compared year-over-year.

When we look at the entire year we had an impact... accrued impact of 2.3% on the tax burden compared to 2014. So we had a very relevant impact accrued, also a drop by market. So this contributed to reduce our revenues in Brazil.

Now looking at LATAM on slide number 5, we can see a very challenging cycle that we've been seeing in Latin America. We had a very strong growth; it was an increase of 40% year-over-year compared to 2014 in local currency. The year-over-year was 30% increase; 59.7 in Brazilian real when we convert the currency and it's also very important to reach a milestone in Latin America of having 505,000 consultants in the region during the 4th quarter of 2015.

This is a very important milestone, making more products available and also our productivity for the consultants had a strong development. You can see in the highlight in yellow on the bottom part of this slide, we had an increase of 1.564 to 2.122.

LATAM has been growing very strongly. I'm going to comment on the profitability. So we are experiencing a very strong growth cycle in Latin America right now.

The next slide on page 6, our Aesop operations also had a very strong performance. It's worth mentioning that at the end of 2015 we ended the year with 135 signatures stores, we opened 15 stores in the 4th quarter 2015 and the total year of 2015 we opened 37 stores.

One other highlight that is very important is that not only the revenues have been increasing in a consolidated manner with Aesop, but also our same-store-sales indicator has been showing a very strong productivity in around 20%.

The 4th quarter was a very strong quarter because of seasonality, but we had a very strong increase in gross and this is part of the very well applied and executed strategy. We had a very strong quarter compared year-over-year also helped by the FX and strong growth in the local currency. So it was an excellent year for Aesop.



Now going to slide number 7, we have consolidated Ebitda for Natura, and we have some important impacts that helped to have this nominal drop in the figures from 1.554 billion to 1.496 billion.

It's worth mentioning that the tax burden had a very important impact not only the 4th quarter, but also throughout the year. We also had an FX variation levels in 2014 of R\$2 per dollar and in 2015 we reached 4 in the 4th quarter of 2015. This also helped to decrease our margins.

To offset these external impacts, we controlled our expenses better and we were able to neutralize the impacts that came from the tax burden and the FX. But, it wasn't enough to offset the recession that we had and consequently a drop in our revenues, therefore, our Ebitda does suffered and it was reduced nominally, and in its margins as well.

Now the next slide, number 8, is the adjusted Ebitda; it's a bridged *pro forma* Ebitda that shows how we managed our results throughout the year.

If we exclude the increase in tax burden in 2015 versus 2014, we added R\$182 million and the net effect of the FX. Remembering that Natura has the positive effect with our international operations, the negative impact affects our margin which are the cost index to the US dollars in Brazil. So, all these costs that are indexed to the FX rate are favorable and unfavorable, the mismatch caused an impact of 47 million.

If we take that back we would have a comparative margin of R\$1.725 billion with the reported margin of 18.9% to a margin of 21,8%.

So compared to 2014 we have a comparison adjusting the Ebitda with the same assumptions and conditions, we have an 11% evolution on the Ebitda.

Now passing to slide number 9, talking about the development of the net income, we had a very important impact in the results in the 4Q. Ebitda was already mentioned, and we also had – adding to these factors that I already mentioned – an impact caused by higher interest rates in Brazil. The basic interest rate was increased and we had a greater impact in our debt service and in extraordinary effect with the adjustments at Aesop.

We have the IFRS accounting models so we had to put the financial liabilities that we had to pay for Aesop in our balance sheet. So we inverted the purchase of 7.1% of Aesop's capital reaching 89%... 79% of the capital. So the 21% of that are remaining stay... are addressed in the accounting in the results, and when it goes to the results, this dilutes the results of the net income. On the other hand we are increasing the assets of the company with very good results.



This result that went through the net income at first, by the IFRS rules, it was a deductible expense. So it would be a deferred income, so we were able to reduce it with our auditors and at the end of the year we have the offsetting on the contrary. So we had to reclassify this deduction and the expense that goes through the result is a permanent expense and not one that goes through the income tax, therefore, we had an impact of R\$111 million.

Excluding this amount we would have R\$613 million and not the other number that we have here.

The slide number 10 talks about the development of our Capex. Here we have the consolidated Capex for the company; we can see through the slides that in 2015 we started a new trend of investment capital in the company. We had a strong nationalization, the investments were mainly towards market growth, innovation, technology and processes that faster growth, both in Brazil as well as in Latin America and especially at Aesop, in which, 90 to 95% of the Capex that was made, was to open stores that generate Ebitda immediately after they are open.

So we are going to see a drop in this trend. We ended the year with R\$383 million and in the 4th quarter of 2015 there was a decrease versus 2014 and we are going to talk about this in the future, and I can say that as guidance for Capex trend for the year of 2016, we are going to invest a total of about R\$350 million. So we are restricting the use of capital and focusing more in investing actions that will turn around the drop of revenue in Brazil, towards growth and innovation.

Now moving on to slide 11, I think that the highlights of the year we can talk about free cash flow. I think that's essential for a company that views very important and ambitious projects for the upcoming years.

So Brazil is entering in a new channel (having multichannel presence is very important for Natura). It is something that we are working on carefully, entering farma, retail, reinvigorating direct sales, our international operations. So having cash and having economic sustainability is essential to manage our triple bottom line.

It is worth noting the work that we did on working capital; we had a lot of rationalization this year, a lot of efficiency in management, inventory, accounts receivable, accounts payable, and I can also say as result of the investments in technology. We must not forget that in 2015 we implemented SAP and our management softwares in all of Latin America, which is giving us more visibility, manageability and controlled (0:21:21 unintelligible) and demand, controlling finance as well.



So R\$ 818 million was the cash flow that we generated in 2015. It is very strong compared to 2014, and this strong management will continue in the upcoming years with a very important platform to move on with our strategy and challenges that we will face.

And on the last slide I'd like to highlight the fact that we have a mission for 2020 that we've been commenting on all our press releases. It's a strategy for the company and that's part of our DNA; we strongly work on these indicators and if our volume... our physical volume dropped in Brazil and that have jeopardized our carbon emissions. However, our performance and our commitment to sustainability is still very strong and it's part of our DNA and part of the company's triple bottom line.

I quickly summarize the main company indicators and I believe that's important. I will leave some time for our questions with all our analysts.

So once again I'd like to pass over to Roberto. I'm here, so is Roberto, we also have Fabio with us and Márcio, our Controller, so we have our entire Investor Relations team here with us.

We are all available to answer your questions. Thank you.

Mr. Lima: Okay, now we can begin the Q&A session.

Q&A Session

Operator: Ladies and gentlemen we will now begin the question-and-answer session. If you have a question, please, press star key followed by one (*1). If you want to remove your question from the questioning queue, press star 2 (*2).

Our first question is from Guilherme Assis, from Brasil Plural.

Mr. Assis: Good morning everyone, thank you for taking my question. I'd like to understand a couple of things in relation to the trends that we've seen in the 4Q figures in relation to average price and sales volume and operations in Brazil.

So we've seen that the average price... when I am speaking of average price I know that there is a strong component based on the product mix, it didn't grow that much when we look at that, and the volume is still dropping; so that also reinforces the fact of the product mix.



I'd like to know if you had any price increases to transfer the tax increase or to improve margin or margin makeup, because of the foreign exchange rate. But, I noticed that the average price didn't increase much; it was less than 2%.

So I'd like to understand your strategy in relation to product mix and price. How it was in 4Q and what you expect for 2016.

It seems like another challenging year, so should we expect a price increase to make up the margin although, as expected, the gross margin is a drop year-over-year.

So do you think that through the price and mix in 2015 would you be able to improve that margin and not lose sale? So that's my 1st question.

My 2nd question is about Capex that you're talking about. You mentioned that, for 2016 was this 300... which is 350 million you are decreasing Capex for Brazil since you ended that in very large growth cycle, but now you're going to start another one, so only a little less for 2016, which is the expansion of your strategy to expand stores.

So how much is your Capex for stores? Do you have any idea of that? Can you talk about that?

Mr. Lima: Good morning Guilherme, thank you for your question. First, in relation to prices, yes; without a doubt we need to recover our margins which were affected not only by inflation but also by the FX devaluation. The price strategy has to be different per category, because the tax burden increase was also different according to categories; some were more affected than others.

We also have to take into account the competition; this market is not just about price, the simulation in channels is done through promotions, so we don't want to lose our competitiveness. That's what we're looking at for 2016 in terms of price strategy.

We did have some recent increases and as... whenever possible without affecting the volume more as it was already affected, we are going to try to recover our margins based on selective price increase and category.

About Capex, yes; there is a Capex reduction as we closed that major effort in investments that we had in infrastructure and distribution. Now we will continue to have important advancements in IT, less investments in back end or... I'm sorry, in back office, but especially in developing applications and platforms that can improve our relationship with consumers and consultants, and in new projects.



We are going through a phase of trying out the new stores so in 2016 we will be present with investments in some stores to open in Brazil, which is still not representative, but yes, we will have investments in that, they are own stores, it's too early to think of other types of development. But we already have an amount; we rather not disclose the details of Capex, how much it would be for each channel at this time.

Mr. Lettiere: Yes Guilherme, the Capex allocation, as Roberto mentioned, is focused on growth. The entire infrastructure base all of that is allocated, it's very good, so without a doubt that's demonstrated in the Capex and the important thing is that the international operations have a strong growth, so we are allocating 40% of that Capex to international operations, meaning Latin America and Aesop specifically.

Mr. Lima: Yes, Aesop has a different business model; the growth strategy for Aesop stores, signatures stores where you probably know the product and each one of them has a different architecture, so in that business we need to have Capex in the front line.

Some of the Capex for Aesop will be to improve control systems, the operation is growing; there is already 18 countries and 135 the stores, but it's been done in a slow manner based on the business, but it's already 18%... 20% of the Natura consolidated Capex.

And international operations still have some things to be done; implement the *Rede Natura*, or Natura Network platform in Chile, Argentina and some applications are be developed in Brazil, they are automatically transferred to Latin America, but as you can see in the past 2 years we've made a lot of efforts to keep the Capex specific into each project and the return that they can give us.

Mr. Assis: Okay Roberto, just a follow-up. Going back to the 1st question, you mentioned the competition, which is something that has to be taken into account in your pricing strategy.

I would like to understand; we saw results for Avon that has... that was worse than yours in sales here in Brazil – those are the figures that we can look at – and there is all that issue of separating the operation from North America, etc., so they are getting ready, but they didn't change much in Brazil yet.

There are also local competitors that have less visibility, but they also slowed down a bit on their strong expansion plans, at least in terms of investments. It seems that they are investing more in price and being aggressive.



How is your understanding of this competitive environment at the beginning of this year due to the macroeconomic scenario that we are facing? Is it more or less what I mentioned?

Mr. Lima: Well, for those markets that grow at high rates, everyone grows benefiting from a demand that appears day by day. In 2015, for the 1st time the market is stagnate in Brazil and maybe even showing a small retraction.

In such scenario, the only opportunity for the company to grow is to gain market share. Natura has been having some difficulties to continue its market share for the past few years.

Today we have a plan that was very well executed in 2015 to straighten all the structures to support the organization focusing on cash generation for the next period might be a little bit difficult because of credit, but this year we have to clearly give total priority to recover our sales development. This goes through the channel and also it will depend on price when we know that the competition will much... will be much stronger.

It's a market that grows slower, so everyone wants to increase their market share.

So we respect our competitors, we know that they have been doing a good job, and we also believe in the power of our brand and we are going to try to explore that more and more showing our essence, our values. And also with our quality of our portfolio, which is almost unbeatable.

So price is (as you said) a key element for our success in 2016. The effort to recover margin also was affected by external factors like increased tax burden and FX, but on the other hand we have to look at what the competition will be doing, especially how the consumer will behave in a market that is recessive and with more unemployment and the available income will be lower.

Mr. Assis: Thank you very much Roberto.

Operator: Our next question is from Gustavo Oliveira, UBS.

Mr. Oliveira: Good morning. I have 3 questions. First is a follow-up on the margins in Brazil.

The growth margin didn't drop much in our point of view. If you look at the gross margin and the gross income, it wasn't so great of a drop if we look at the devaluation of the currency and the increase in price that you try to convey. But you did a very good job with your suppliers increasing the tenure and negotiation with margin.



Is there still space for that in 2016 or the margin effect and the pressure that could come from the suppliers would be greater in 2016 for Natura? Would price increase become even more important in 2016 than in 2015 because you don't have much negotiation room with your suppliers? That's my 1st question.

Mr. Lima: Gustavo, thank you for your question. Well, what I can say about 2015 is that the devaluation of the Brazilian real affects the productive items, the ingredients that are important or those that are quoted in dollar, US dollars.

So, obviously we have to continue the flow of supply, we have to understand that our suppliers also have to have your margins, but obviously we try to negotiate at the limit of our possibilities to delay or reduce the repassing the costs to our consumers.

So we try to focus on maintaining the correct flow for our production and at the same time look at everything that is not productive. So like services, asset projection, travels, overhead expenses that can cut our results, and all this has to be very strict in the management of the costs that are not directly related to production and the business of sales. We also had to cut down on some manpower in the beginning of the year.

So we believe that today we have what we need to be able to compete with a better chance to gain market share and get back with what was already ours, and we have to have a better management. And this was done.

The effect of the FX rate for 2015 wasn't throughout the entire year, but in 2016 it will be throughout the entire year, so all the innovation that we can do to depend less on items that have only one supplier or that are imported will be done, and additionally we will reduce the structure as better we can.

Mr. Oliveira: Thank you Roberto. The next question I'm going to do the 2nd and 3rd together. The 2nd question is about G&A.

So if you look at all the sales expenses combined they were flat year-over-year nominally, which was a great result. But I want to understand a little bit about the future evolution of SG&A and what you're thinking about doing in retail.

And the next question is the effect of the devaluation of Argentina that took place in December. Probably it doesn't have the full impact in your results at the moment. Do you have any way of showing what kind of adjustments that you would have to do for the 4th quarter to reflect that FX valuation in full effect?

So how much lower were your sales in your LATAM operations if you consider the full devaluation for the full quarter?



Mr. Lima: Well, let's start with your last question. In regards to the impact of the FX in Argentina, it was absorbed in the right time; the result of the quarter was done with current amounts and we have the impact of the FX.

For the future we are very positive for Argentina. On the one hand, if we have this impact at the currency devaluation itself, so on the other hand we have a more favorable condition there for growth and we know that we have to control. We don't know if there will be any government influence in prices and such to control inflation, but we do have a better scenario in Argentina.

About your 2nd question of the SG&A in the 4th quarter specifically and you want to know if this can represent a trend.

In the 4th quarter we have an effect, and exceptional effect that is related to my answer to your previous question, which is the rationale that we want to give in everything that we can allocating resources and things that will have an interesting result without affecting operations and we will develop a project that wasn't fit for what the market was expecting. So we decided to discontinue.

Part of them already had Capex or preoperational expenses allocated and we decided to put that into expenses, clean out this asset that was in the balance sheet because of the discontinuity of the project and I think it's about R\$34 million if I recall.

It won't be repeated for the next quarter, but we will continue to take care of SG&A, it is our everyday concern, therefore, we can't give you guidelines or the trends, but we do want to work always with enough resources for our overhead so that we can have the best service rendering possible to our customers, we can continue having our innovation inflow, which is one of the most important roads that we will have in front of us and being reasonable in the allocation of our resources.

Mr. Oliveira: Okay, thank you very much.

Operator: Our next question is from Thiago Macruz, from Itaú.

Mr. Macruz: Good morning everyone. I'd like to hear some information about the ICMS tax increase on cosmetics, how that impacted you and how will it impact you in 2016? Maybe you knew the price increase to be able to absorb that.

Mr. Lima: It's a very good question. Thiago, it requires different calculations for each date and it depends on the rate and the MDA that was applied or will be applied in the past and when that would take place.



So now it's hard to give you... now we need to set up of matrix and see what it's going to be and see what the impact is. We know what it was in the past. Going back to Guilherme's initial question; price is essential and we do have to take that into account.

So that's day-to-day management. So at this time I can't tell you the exact impact, although we do have the sensitivity analysis to see what could happen and what our reaction will actually be in terms of prices.

Mr. Macruz: Just an idea of the magnitude; would it be similar to the IPI tax increase in 2015, tax on industrialized products?

Mr. Lima: Well, since we don't make the decisions on the increase, I just hope it will lower.

I believe that the industrial sector in Brazil is being highly affected in the past years. We are paying a high price for that. And consumers are spending less; they can't just simply take these tax increases because in the end society absorb that. I believe that our current environment does not allow for strong tax increases, otherwise activities will suffer as they already did in 2015.

For the 1st time in the stronger sectors that had 2-digit-increase in revenues and increase in government collection for the amount of 2 digits stopped. So you can see that curve there.

We believe that we are at the limit and we count on the wisdom of our governors.

Mr. Márcio: Thiago, in 2015 we had some MDA increases that weren't in the beginning of the year, and when you do an annualization we are going to have an integral impact in 2016, and obviously we are going to work with some pessimist scenarios.

In terms of the maturation of these rates, we have... we can revert that. We've been working in scenarios, so they were heavy in 2015, it really affected our margins, but in general we have some scenarios that worsened and that won't translate completely to the result.

I'd like to remind you that the tax burden in 2015 and specifically in the 4th quarter had an increase of 3 points, and if you see what happened to the result with the rationalization we were able to mitigate those impacts.

But this is something that it's in our day-to-day.



Mr. Macruz: Thank you.

Operator: Our next question is from Joseph Giordano, J.P. Morgan.

Mr. Giordano: Good morning everyone, thank you for taking my questions. Actually I have 2 points. First of all, I'd like to go back to the SG&A.

I'd like to understand about the operations restructuring in Brazil. I'd like to know if there are more layoffs to be done and if there is going to be more rationalization.

And my 2nd question Roberto mentioned a lot about this, which is innovation, which is one of the company's major strengths, but he also talked about portfolio rationalization. So when we look at that innovation rate we see that it dropped a lot in that quarter.

So I'd like to see what you expect for or predict for innovation in the future, on any specific lines and how is the competition since Avon is now an emerging market player? I'd like to know what you think about Avon's innovation in Brazil.

Mr. Lima: In relation to continuing our afterwards to reduce SG&A, I think I've already answered that in the other question. That's current: We always do that, but it's not a company policy or my habit of doing that by laying off people.

Unfortunately we did have to do that, but we... but we have to preserve other people's jobs, we need the company to recover its competitiveness and efficiency, so at some point we did have to have some layoffs, but we hope that in the future we can hire people again because that's what Brazil needs; Brazil needs job generation.

So it's not a company philosophy to solve the problems by making people lose their jobs, but obviously we will try to spend on things that *is* absolutely necessary avoiding ways and using our resources the most we can and all the technology that we can use to help us with cost.

Today, 99.7% of our orders from consultants *is* coming through the Internet, so the digital technologies are helping us a lot in business transaction in addition to helping out in business intelligence.

So that's about SG&A. In relation to innovation – and it's important to connect innovation to portfolio rationalization –, I started off the call today by mentioning that some work that was done with the Board of Directors to try to establish a strategic path for the future years was clearly reviewed; our categories and portfolios, which were very increased during the strong years of growth, a class



C that grew at higher rates, so Natura filled out all those areas as much as possible with a very large portfolio.

Times are different. We have to segment, we have to understand our targets in that market, we did our work and by identifying these target that will enable us to know our priorities in terms of innovation and projects that could eventually be or may or may not be guided to our target audiences.

That's why mentioned some projects that will be discontinued because of the accounting impact in the 4th quarter.

So innovation will still be done at high... not as high rates, but with a lower amount of resources because now we are focusing on creative innovation that could come from technology and also be based on what the market needs. We want these 2 things to work together so that it's not just to a research and disconnected to something that can go to market, and we also hope that we can expedite our goal to market.

So innovation without a doubt, but we are not going to measure that based on the volume of the resources that we are going to use, but instead of that the quality of the products and the output of those projects, meaning what we can take to market.

Mr. Giordano: I've a follow-up question for that: Roberto, when you join to the company you said that one of the diagnoses was the slowness in terms of innovation to put a new product on the shelf, for instance.

So going back to project discontinuation, can you explain to us the aging of that research that was discontinued and the type of research line? Was it makeup or anti-aging cream? So what path are you going to take?

We've seen that innovation and launch in products that today may have less technology, such as fragrances and makeup remover. So I'd like to understand what path the company's going to take.

Mr. Lima: About my statement that there is some slowness in the projects maybe it's because I came from an industry in which... it was telecommunication; everything was very fast.

But I've learned that in this industry innovation has to have its own time, not just for the creative process, but also because we are addressing things that are very intimate to the consumers, so you can't get it wrong, and you also have the regulatory issues and also the testing phases. And a brand like Natura cannot allow itself to put a product in the market that is not suitable to our consumers and might harm them.



So the process is still the same, but what we happen noticed is that we are becoming faster. So one of the launching that we did in perfumery, which is *Esta Flor*, we developed in a very lesser time. So it was much quicker, so it's something that we've been doing.

So we will challenge all our time frames, our processes will always going to improve without losing any of the safety issues of compliance to the legislation, both that from ANVISA and also that from other countries where we operate, and many times we have a lot more work to launch a product, which is also something we can work on institutionally to try to help to align this regulamentation, which should be international..

Mr. Giordano: Thank you. Can you tell me how you see innovation from your competitors? Just so I have an idea of what others are doing.

Mr. Lima: The market is more and more demanding; the pyridine is given by the consumers. So I see companies today wanting to do things of high quality. It's a great satisfaction knowing that the entire industry is going towards greater quality and we respect our competitors, but we know that the more than 45 years of Natura in innovation, products quality and the pioneer access that Natura does to the Brazilian biodiversity puts us in a very privileged position to be more innovative than the others.

Mr. Giordano: Thank you.

Operator: Our next question Franco Abelardo, from Morgan Stanley.

Mr. Abelardo: Good morning. Thank you for taking my question. I have 2 questions. First is in regards to credit. There was a 15% increase in default... in the 4th quarter, which is 53 basis points in the portfolio, and this increase was made by newer consumers. So it was almost a 40% increase in those ranges.

This is a reflex from the new credit policy or is it more affected by the macroeconomic scenario? Where does this default come from? Is it above what you expected? Do you have any specific action to control credit approvals to try to control this indicator? That's my 1st question.

And the 2nd question is in regards to cash flow generation, which was very relevant and important, but there was a strong contribution from the increase of the tax burden to be paid, especially in tax payable compared year-over-year.

So how sustainable is this increase in the tax burden and the provision to pay the new tax over industrial products? If you have an expectation of "if" and "when" this new tax will be paid by Natura. That's my question.



Mr. Lima: Well, in regards to your 1st question about credit management, I think that what you have been seen is not related to the credit policy that we have implemented because the dimensions are very small.

Our credit policy is mainly focused on the beginning consultants; in the first 6 months we treated all of them equally with a low credit limit when we know that people individually can have specific credit limits for each one.

The operation was very successful and obviously we didn't increase credit volumes and then with that you have to manage default, but you have to take into account the gross margin that you generated and then our results are very positive in that sense.

But the credit issue itself is a matter of concern. So if we talk about credit risk it doesn't start with credit; it starts with the possibility of a consultant to have their products to give to her client without having to desimburse anything and have... pay it later.

We have to look at credit not just in terms of risk and default, but also as an element to leverage sales for those consultants. We have to look at all the flows, we have consultant segments that are different; those who buy every cycle and deliver at every cycle and pay it at every cycle, and those that make benefit from some promotions and stock up so they have a longer payment maturity.

So we have to adjust to that and create systems for credit and payment that are fit to each of the segments. This is what we are doing now. We have the best techniques available with all the information from a data house that was built for the past years that enable us to have very specific individual information for each transaction.

It will require a lot of our attention.

Mr. Abelardo: So overall do you expect a more controlled default rate with all these controls that were implemented or the macro effect still makes default rate to be a little bit higher, as it has been increasing for the entire market?

Mr. Lima: As I said, credit has to be at sales leverage. We can accept a greater default rates if we have greater levels of contribution to the gross margin.

In regards to our management we will always try to be as much effective as possible, but you have a variable in Brazil, which is the market, and the difficulties to maintain it, and it comes from some segments of the population, but we don't want them to absolutely withdraw from the market; we don't know



exactly what will be the impact in... of the increase in unemployment rates, in the income, but our reactions will be quicker.

Every time we see that there is a change of the curve or one delay but will try to talk to these consumers and get closer to them because default is not the only problem; the consultant has the issue of not being able to generate more income for herself. We want her to continue to have her workflow with us.

So credit will be in our everyday management at our organization.

Mr. Lettiere: Just to add to what Roberto said, we have a default rate after the 6 months and default or the loss – we use the word loss – in the year there was an improvement of about 24 million income year-over-year.

If we look at the short term those consultants that are just beginning that default at the 2nd month we still have a positive balance compared to last year. So obviously we have to be very careful as Roberto said, but looking at a snapshot at the 2nd month and 6 month we are very well-controlled and at better levels that we were last year.

Mr. Abelardo: About taxes or cash enumeration?

Mr. Lima: Oh, yes, you are right; taxes. Yes, part of the cash duration comes from the fact that we have... we have got a court order so we didn't have to pay for the IPI, the product industrialized taxes extension to the distributor, and that impact is no higher than that negative impact that we had because of the delay in releasing the tax credits that we have in other states.

So on one hand, the court order gave us a cash increase, but on the other side it offset the credits, the cash that didn't come from the state, and we know what the case is. Obviously we understand that and we are negotiating every week with the state, and we believe the negotiations will begin hopefully in the 1st quarter.

Mr. Lettiere: I'd like to reiterate that working capital management, as we've mentioned, is one of our major focuses in financial management of the company and the root of everything, of the process review of that was carried out in 2015 that really created a great path that we can follow in a consistent manner to get more efficiencies in company management.

Mr. Abelardo: Do you have any updates about the court orders, IPI quarter order? So do you expect that you won't have to disburse that or do you expect that there will be a cash disbursement because of that?



Mr. Lima: Your question is if they will take the court order or not? Well, more than that. We believe that our... that law here is good.

When I studied taxes there was a generating fact and the basis for calculation, so IPI is a tax based on industrialized products. With this new measure they are charging IPI on marketing, sales and so on, so that is not what the basis of that tax is; it is not industrialized products.

So our lawyers believe that we are right. So obviously discussing this in court it does take a long time, but we believe that we will keep that court order; they will maintain it and we won't be jeopardized that our cash won't be jeopardized by a tax that is not due, truly due.

But we also have to understand that we need to follow the laws. So if the judge tells us to follow the laws we will have to do that.

Mr. Abelardo: Thank you very much.

Operator: Our next question is from Irma Sgarz, from Goldman Sachs.

Ms. Sgarz: Good morning, thank you for taking my question. I have 2 questions.

Still about the price increase, I'm not sure if you signaled that there will be a specific quarter where you are going to increase prices; you didn't mention that. So if you can go back to that, please, to clarify which cycle you are looking at to increase prices and how will you communicate that to consultants?

I believe that they will understand the inflation context, but even maybe the tax context that's also... that was already happening in 2015. So obviously it is a difficult time for them as well, which they also been affected by the figures and productivity.

So how should we expect that that is going to work?

And the other question is about the new channels of the brick-and-mortar stores. So how... I'm sorry, about the drug stores. How will be rollout and if you're going to specifically focus on these *Sou* product or you're considering other sub lines of the Natura catalog? Thank you.

Mr. Lima: Thank you Irma, thank you for your question. In relation to price, I can't say exactly what our price increase policy will be for the entire year, but I can say what's been done so far, although it hasn't been announced in the conference call because that was done in January and February.



Our price increase is selective, per category and sometimes per brand. We've done... we've had some in January and some in February and we should at a 1st price level increase in March in several categories of our brands, so we are trying to recover part of the margin that we lost with the tax burden increase and Brazilian real devaluation.

We also have to consider any loss in competitiveness. We do not want to lose a market share, so we are really focused and paying a lot of attention to our price increases.

In our relationship with consultants through the regular channels we have where we can explain the price increases and justify why they are happening, they have a clear understanding of that. It's important that they know that inflation did increase and that we have to take on how your costs; that's part of the business.

So the thing is to do with well.

The 2nd question was?

Ms. Sgarz: About *Sou* in drug stores.

Mr. Lima: We had a great testing period, now we are planning on deploying it and extending it to other regions to the cities of *Valinhos* and *Campinas*; that should be extended and the 1st quarter... 1st half of the year and a geographically throughout the rest of the year.

We are studying the categories and we always bear in mind that in the drug stores channel we want to have products that can have a synergy with our direct sales channel so the drugstore will increase sales and the channel for daily consumption products, repetitive consumptions, and in our tests we can tell that there was... that the direct sales were not affected in that regions where we operate.

So now we are very confident about moving forward with this project and other categories will be tested and we will communicate that at the right time.

Ms. Sgarz: Thank you.

Operator: Our next question is from Alan Cardoso, from Safra Bank.

Mr. Cardoso: Good afternoon Roberto, good afternoon everyone. My 1st one is: What are you expecting in terms of market evolution now in Brazil in 2016?



When I see the Association's data – ABIHPEC's – we see that from January through September revenues in that industry dropped almost a 7%. That's very clear that even with the drop of gross revenues in Brazil Natura gained market share.

So can we imagine a strong drop in the scenario as we saw in 2015? Can we expect that for 2016? And how about the IPI increase, IPI tax increase in terms of consumer price? How much did that impact the industry in 2015?

Mr. Lima: Alan, starting off with your 2nd question, I couldn't say how much this could have impacted the industries develop. It is true that some companies had anticipated themselves and transferred the price increase. We had many price increases throughout 2015; I'm certain that affected it.

I believe that the industry there is also psychological effect of the state of the economy; people are worried about how much they are spending and we've noticed that some points that there was a very strong drop and then it came back. So I can't say exactly... specifically about the IPI because we also had some other increases in these states, such as the ICMS (which is the sales tax on products) according to each state, so... and the added value margin.

So in general, there is almost 3 points of margin there, and somehow that has to be transferred. There is no doubt about it; the tax increase effects the market development, we have told the officials before they went through with the increase, and I think today they are considering that it was better before because the market was growing and collection was growing.

We are not showing this clearly the drop in market share because we expect... are waiting for the officials figures from the industry. But we do believe that industry dropped a lot in 2015 and it wasn't just until September, even for Christmas there was a drop.

I think there was another question you asked...?

Mr. Cardoso: For 2016 do you think it's going to be better for... than 2015 the IPI even though there is not going to be another increase? Do you think you're going to have product on industrialized tax that similar?

Mr. Lima: My impression for 2015 is that they increased within the legal window that they could.

There is no something that is going on in the Congress or something like that, but to impose on the Brazilian industry a greater tax burden in the scenario that seems recessive in which all the industrial sector from the heavy the industry all the way to consumer goods is suffering, I don't know if politically it would be



acceptable and if the congressmen and women will accept easily this increase in the tax burden.

I don't see a favorable scenario for that to happen. But on the other hand, we are afraid that each state, which today are in financial difficulties, that each state can be more aggressive and try to increase their tax collection increasing the tax burden instead of helping.

Mr. Cardoso: If Natura can turn the increase of the tax as something not permanent through the court order, what would be good strategy; would it go to price or use this additional margin?

Mr. Lima: In such a competitive market as we have today, going through price doesn't depend just on our margins; it depends on the level of competitive that we want to have, and this varies category by category.

The tax increase wasn't uniform; some categories were more affected than others. So the problem of the IPI we will have to analyze case by case, category by category and act accordingly and according to the market.

What we want is to take good quality to the market with a fair price. Obviously with the inflation rate that we have and this increase of the tax burden, there is no way not to transfer part of these costs.

Mr. Cardoso: Okay, just one last question. In the 4th quarter we had a good increase in the number of consultants in Brazil. However, the growth margin didn't react to that increase in the market, so productivity with consultants dropped in a very important way.

How... do you think how their mood is? What's the morale for the consultants and how do you keep good engagement levels with these consultants?

Mr. Lima: I think that we already talked about this; the importance that we will give in managing our main sales channel and I strongly believe that we are capable to take this channel to a new level with the addition of new digital technologies so that each consultants can develop professionally and personally as they deserve.

It's true that we already are in a process of managing these consultants; not trying to have the largest channel, but have the best channel, have the right number of consultants allocated to the potential of each market and region, and not just growing just for the sake of growing. It's a selective growth.



This is recent, it just started going on so that we can have a level of productivity for each consultant growing, which also means that their income will grow and that makes the whole system become healthier.

So that is our main concern, but it's true that in 2015 we were a bit behind on that sense.

Mr. Cardoso: Okay, thank you very much.

Operator: Our next question Robert Ford, Bank of America Merrill Lynch.

Mr. Ford: Good morning and thank you for taking my question. Can you comment about the current trends for January and February in terms of consumer and the preferences and pricing?

Mr. Lima: Robert, I think we can't really talk about January and February yet; it's too early. We are in the process of closing the accounting.

It's a very challenging scenario; Brazil is suffering a lot with the increase of unemployment and reduction of income. But we are very confident that the measures we are taking will cause a possible result within this market situation.

But meanwhile, it's very risky to forecast anything. What we have been feeling is that you have some cycles in the market. You have very good 20 days and then you have a drop in sales.

So it's a new scenario, Brazil is experiencing a new scenario; it is something that never happened before for several of us, therefore we have to manage that looking at the everyday operations.

Usually the 1st quarter is a quarter that has a low... has lower sales than the rest of the year. That's when you concentrate all the school enrolment payments, you have to pay for school materials, taxes on vehicles, so the available income is lower. So that's what happens traditionally.

This year is worsened by the crisis, so things might be different. I don't know.

Mr. Ford: Okay, thank you. And do you have any margins that you can share with us?

Mr. Lima: For this year no. We don't provide guidances and in a scenario like this any number that we provide will not be precise and they are susceptible to variation.



If we had had this in 2015 we would have been off by far since the scenario was completely different than we could have imagined in January or February of 2015.

So we are not going to provide these guidances. The only figures that we can anticipate are our Capex numbers, which we already announced and that's how much we want to invest; R\$350 million in our operations in Brazil, Latin America and Aesop.

Mr. Ford: Okay. Was the tax burden... tax burden was very high in the quarter; can you explain the tax burden for Aesop and the levels that you had this year?

Mr. Márcio: Robert, it is Márcio speaking, I am the Natural Controller. In this quarter we had a reversion of what we had been doing for the other quarters; the expenses for the variation of the fair value for the shareholders that control Aesop.

We have this concentration in the 4th quarter, so we don't expect that this will repeat in the next quarters. You can expect a rate that is closer than what we had in the previous quarters. Obviously affected by the variation; it's a deductible expense that will be added every month.

So the 4Q is not a trend for investors' relation. It was an exceptionality to have this adjustment.

Mr. Ford: Thank you.

Operator: We concluded the Q&A session. I would like to pass the floor to Mr. Roberto Lima for his final comments.

Mr. Lima: Thank you. Again, I would like to thank you for being with us at this conference call. I'd also like to thank all the questions; they were very encouraging and they instigate us to think and be more precise in managing our company.

And within this very challenging context in Brazil, we believe that with the measures that we took in 2015 straightening several departments of the organization we will be faster and more effective. We have the capacity to improve significantly the free cash flow generation in the future, which is essential in Brazil.

We have to keep an eye on the cash flow and being very strict in all the investments that we will do to improve our competitiveness and to develop our country, both in Brazil and abroad. And I can ensure that the entire executive committee is engaged with these measures that we will take to improve our



performance in direct sales in Brazil and also globally, and at the same time we will give the necessary attention to our growth alternatives that are being created and tested to take us to the multichannel operations.

These initiatives in great part were already started to be implemented in 2015, our international operations show consistency both in growth of revenues and Ebitda, and also in the brand recognition in the countries where we operate.

We will focus on these countries in managing cash flow as growth also leads to a need to invest in Capex or working capital, we are going to be as strict as we are in Brazil and we will not miss opportunities to have a very important growth in those regions.

I'd also like to reiterate our commitment with implementing projects that we will... that will lead Natura to have an even greater internationalization in the future and more presence in the Brazilian market to provide better service and make our consultants and end-customers happier.

We will also focus on operations to have a company that is financially healthy and a great cash flow generator.

Again, I'd like to thank your attention and the questions, and I hope to be with you at the end of April for our next call to talk about the 1st quarter of 2016, or if there is any extraordinary event in which we can meet and it will be a pleasure to be with you.

So again thank you very much and have a great weekend.

Operator: This conference call is now finished. We would like to thank your participation, have a nice day.