



**International Conference Call**  
**Natura**  
**First Quarter 2016 Earnings Results**  
**April 28<sup>th</sup>, 2016**

**Operator:** Good morning ladies and gentlemen and thank you for waiting. Welcome to Natura's first quarter 2016 conference call.

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

This event is being recorded and all participants will be connected in listen mode only during the company's remarks. After that we will begin a Q&A Session when further instructions will be given.

This audioconference is being simultaneously translated into English and questions will be asked by those connected abroad as well.

If you need assistance during the call, please, request the help of an operator by pressing star zero. This event is also being webcast at the following website URL: [www.Natura.net/investor](http://www.Natura.net/investor) . The slide can also be found at the same address and will be available after the event as well.

Before moving on, I'd like to mention that forward-looking statements made during this call concerning the company's business outlook, operating targets and projections are based on assumptions and beliefs of the company's management, and also on information currently available. Forward-looking statements are no guarantee of future performance, they involve risks and uncertainties because they refer to future events, which may or may not materialize.

Investors should have in mind that general economic conditions, industry conditions and other operating factors might affect the company's future performance and lead to results that could differ materially from those expressed in these forward-looking statements.

I'd like to turn the conference over to Mr. Lima, Natura's CEO. Mr. Lima, you have the floor.

**Mr. Lima:** Thank you. Good morning everyone. I'd like to start by thanking you and welcoming to our conference call to discuss the results for the first quarter 2016.



As you have observed in the release, we presented a strong contrast between the international operations and the domestic operations. Abroad we saw a growth of 42% and those operations now account for 23.6% of our net revenue.

Operations in Latin America grew 31.8%; 29% in local currency in the respective countries – the 5 countries where we operate – with a strong growth in number of consultants.

The Aesop – our Australian operation – grew 26% in reais and 53% in Australian dollars, which was the result of the opening of 42 new stores in the past 12 months and a growth of 12% in that chain.

In Brazil on top of the worsening of the macroeconomic scenario, our revenues went [0:03:24 unintelligible] of 3,4 percentage points in tax burdens on our gross revenues, and also because of the seasonality of certain dates, such as Mother's Day.

Today we concentrate our investments in April. We continue to try to gain efficiency and cut costs in Brazil in nominal terms. Our sales and administrative expenses remained stable with a slight growth of 1% when compared to a 10% inflation. In this period, the consolidated Ebitda dropped 24% due to a drop in net revenue, just as I have just mentioned.

Later our CFO, Mr. Lettiere, will go into detail; details about those numbers and also mention the nonrecurring effects, which also affected our revenue, which led to a 69-million-loss in the quarter.

I'd like to talk about our strategic plan, which was approved by the Board last year, which has to do with structural aspects of our business and makes us confident in terms of recovering our market share and our profitability levels in Brazil.

The plan has the following focus: Emphasis on sales channel, innovation, rationalization of the portfolio, a better positioning of the brand, new channels and international expansion. Speaking of the rebirth of our sales channel, we have several initiatives in place, such as the digitalization of our channels.

As I've mentioned before, we are making several tools and apps available for smartphones to increase our efficiency among consultants. As for innovation, we have presented new products and have resorted to new technologies which help us to leverage our business in Brazil.

This is a strategic access which will be consistently followed by Natura. As an example, in 2016 we have relaunched the Chronos line, which taps on those technologies that I mentioned.



Number 3, the rationalization of our portfolio. Adjustments are already on the way towards reducing the number of SKUs. At the same time, we have selected strong brands which will be the focus of our innovative projects and marketing plans in the short term, for example, core... the core beauty products.

Number 4, the positioning of the company's strategy. In March we have a communication campaign out to strengthen our brand "*Viva sua beleza viva*", which strengthens fundamental pillars of the company in thinking our main values; beauty, pleasure and sustainability at the same time.

As concerns new channels, we have important news: In March we started expanding our Sou line, which was revamped in the second half of last year, we have now 27 new stores of Sou line in the countryside of São Paulo. Now we have been working with Raia Drogasil chain. We have also opened our first store at the Morumbi Mall in São Paulo and have relaunched the e-commerce platform for the final consumer.

As for international extension, still focuses on rep growth in Latin America. Last year, as Euromonitor has mentioned, we have one market share in all the countries where we operate. Aesop is an important driver of that movement and we will try and keep that fast pace in terms of opening new stores.

In France our small operation went through a couple of changes; our store moved from 250 m in Saint Germain to Marre with a larger store, we gain cost and efficiency while increasing the revenues and at the same time we began the new online operations, which on top of servicing France is also able to service some other countries.

2016 will be a year for us to focus on structural processes so that when the country recovers its growth we will be well-positioned to compete at a good level.

At this point I would like to turn the conference over to Lettiere so that he can break down the numbers for you. Lettiere, you have the floor.

**Mr. Lettiere:** Good morning everyone. Our conference call for the first quarter 2016 will start with the financial numbers. I'll start by saying that we remain confident in our financial strategy; very much in line with our growth strategy, a strategy we have been focusing on and which will surely lead us to a recovery, especially when we look at initiatives relative to the recovery of margin, working capital and competitiveness, and of course we also want to mention the cash generation front; something we have been working on very consistently.



Given a very challenging first quarter, when talking about the top line – I'm talking about slide number 3 – consolidated net revenue the first highlight of the slide is that our international operations account for a significant share of our revenue, and that has been grown gradually year over year.

Price and volume increase in Brazil will be dealt later in the presentation. But still talking about the consolidated net revenue, a highlight is our growth; from 2.9% in the quarter and our international operations again accounts for 33.6% of the total net revenue when comparing to 24.3%, which was filed last year, in the first quarter of last year.

Moving on to the next slide, net revenue for Brazil alone, I'll be making some comments about the impact we are feeling with the tax burden, which we saw an increase of 3.4 percentage points in the tax burden when compared to the first quarter of 2015.

We had also a price increase year on year, an increase of 9% in the first quarter. We also saw a deleveraging when compared to our market performance, which is quite different from what we had before as you well know. We have also seen a slowdown in the market so we had a drop in sales volume of 11%.

But at the same time we have some good indicators, for example: Our channel, which grew 4.5%. That's very important, the channel needs to continue growing.

Another important element I'd like to mention, and which was also important for us in the first quarter, is that we have when we compare to the first quarter of last year the Mother's Day campaign, which is quite important for our operations. This year we concentrated our activities in the month of April, so we transferred revenue from March to April, which was not the case last year. So that's another important element, which also impacted our revenues for Brazil in the first quarter.

In the next slide still about Brazil, according to Euromonitor data we see a sequence of figures of our... concerning our market share in this first quarter – the first quarter 2016 – we saw a negative variation of 0.3, but as we can see this has been slowing down and with our plans in place we are going to have to be working closely that, but that's an important piece of data.

We can now really see some indication of change even though the market is a bit more restrictive, but the trend is positive in terms of market share.

For Latin America, the next slide, It has been performing well overall, has been showing good growth at 31.8% in all operations, in all countries where we operate. If we exclude the currency impact, we have grown in local currency at



28% with the number of consultants growing 18% and with a very significant level of activity when we compare that to the first quarter of last year; a growth of 11.4%.

So Latin America as a whole has been providing strong growth at a very important challenging moment for the company and has also been contributing significantly to our results.

If we move on to the next slide, we still see some market share data – the source is again from Euromonitor. We can see a gain in market share when compared with 2014, we can see 2015, 2014 and the historical basis. So a breakdown by region, Latin America went from 3.5% to 4.1% and we saw a growth in all countries, which also makes us very confident that we are following in the right path in terms of growth in Latin America as a whole.

Still about international operations, on the next slide we have net revenue for Aesop. Aesop has been performing quite well, in terms of top line we saw a growth of 96.5% in the first quarter. When we exclude the currency impact between the real and the Australian dollar, the growth level was still extremely relevant; at 52%.

Another highlight is that Aesop stores posted or a same-store sale growth of 20% when compared to the first quarter of 2015, which shows the strength of the brand Aesop in Australia.

Moving on to profitability or Ebitda generation on the next slide, we can see the consolidated Ebitda and we can see that we have suffered with a drop in the first quarter 2016, and consequently we have also suffered, our margins have also suffered.

Another important point: the tax burden as I've mentioned before when I talked about Brazil's net revenue. Tax burden increased to 3.4%; that's an increase when compared to 2015.

Another factor is the currency exchange, or the foreign exchange rate. When we compare those figures with the first quarter 2015, we see strong impact even with the mitigation, because our contract controls our net exposure, but still we had an important impact in terms of currency devaluation, which led to a negative impact in our margins.

Another important factor is the operating deleveraging as I mentioned before when I talked about Brazil. We saw a drop in volume and we managed to offset that with higher productivity, but obviously it was not enough when faced that significant drop in volumes.



So that's a summary of some of the important impacts on our margin.

Now the growth in our operating... international operations were also important, but at a lower margin when compared to Brazil, so when we make a weighted average of those numbers the numbers are still negative.

But our international operations remain going well, and they account as I said before for 30% of our Ebitda generation. Something else important to highlight is that our cost controller (Opex) remains very much under control and that has also helped us to partially offset and mitigate those negative impacts I've just mentioned.

On the next slide, the net income. In this quarter we have had a few extraordinary adjustments. The business adjustments I mentioned when I talked about Ebitda generation, those adjustments brought about in terms of income a contribution of R\$105 million.

I'd like to explain some of those extraordinary effects, non-cash effects, such as the market to market factor.

When we see over derivatives operations, when we talk about the older contracts, we need to use the 16 million market to market adjustments. And another important impact has to do with Aesop operation. Operationally Aesop has been growing significantly, but based on IFRS we need to include the impact of the valuation of Aesop and that impact in this quarter because of the business leverage level and also because of the foreign exchange valuation the impact was at 62 million non-cash impact on the net income, which was subtracted from our net income.

In terms of debt service, financial expenses, we also had an important impact because of the increase in interest rates we have in Brazil. The foreign exchange variation and derivative hedge and some injunctions, some legal issues which also caused several significant impacts on the business and lastly, we also had the income tax impact. Income tax is calculated independently country by country and we had positive results both in Latin America and in Australia.

So we had a consolidated impact, which was still negative. So our net income in the end was minus R\$69 million. That's the first net income that we have calculated in the company's history, but those extraordinary effects are contributing strongly to that result, they were important drivers to that negative number on the right.

On the next slide we talk about the Capex, consolidated Capex. We have approved our Capex for R\$350 million for 2016 when compared to 383 for 2015



and that includes the company's investment level at a new level. So for 2015 and 2016 we are ready going towards a new direction concentrating on sales, IT, new channels; slightly different from what we had before when our investments focused on infrastructure expansion, manufacturing, services to ensure we could recover our growth levels.

So in the 1Q we have maintained a very controlled Capex level and we spent around 48 million. A highlight here for (once again) the international operations, where they account for 14 million of those 48 million.

In terms of free cash flow, our working capital in 2015 so a strong drop when we compare to our track record. When we compare March this year with March 2015 we saw a drop of 891 million to R\$611 million at the end of March.

Once again, in 2015 we had a very strong performance, a very high demand to decrease over inventory, but in the beginning of the year due to the seasonality of our business, especially in Latin America, we have managed to resume investments and inventories, especially in Latin American, and because of that our working capital when compared to December 2015 (where we set at 489 million) we saw an increase in our inventory.

But our administrative procedures remain focused on controlling inventory. So our average working capital for March 2015 was 10.7 and in March 2016 we are talking about 7.5%. So that's the highlight for the working capital, which remains an important driver for free cash flow generation.

In terms of the net debt, we had an increase when compared to the first quarter 2015 mainly due to the reduction of the consolidated Ebitda over the last 12 months. We went from 3.3 times, a very normal stable level, and we are now paying very close attention to that and trying to manage our flows the best way as we can with a strong control.

If we continue to talk about our triple bottom line, we talk about sustainability. We have our main indicators, here highlighting a few of them: material recycle of [0:23:40 unintelligible], consumption, comparing both quarter in the first quarter 2016 we closed at 3.7, in terms of water consumption 0.5 to 0.45% and the "*crer para ver*" penetration (our social project) we have a very important portfolio in this 1Q; several innovations which have helped this project to move along and remain important.

Basically those are the main drivers, the main financial numbers. I will now give the floor back to Roberto and we will then move on to the Q&A and investors and shareholders.

You have the floor.



**Mr. Lima:** I think we can move on to the Q&A session.

### Q&A Session

**Operator:** Ladies and gentlemen we will now begin the Q&A session. Press star key to ask a question followed by one.

The first question comes from Robert Ford, Merrill Lynch.

**Mr. Ford:** Good morning everyone, thank you for answering my question. You're saying that sales dropped in April. Could you elaborate what's the rationale behind it?

How do you compare the sales cycles vis-à-vis last year's sales cycle?

**Mr. Lima:** Actually that's a calendar effect. This year we had a change in important dates, Carnival and Easter, and we use those dates... those dates and we postponed the launch of the Mother's Days campaign, so impacting sales in March and part of that impact are going to be carried over to April. That's based on the calendar, that's the civil calendar that these are moving holidays.

The second part of the question was about the performance of the Mother's Day sale cycle. We are still within the mother day's sales cycle, it's a very important time for us, we still have 1 or 2 weeks in the month of May, so we cannot anticipate results. Campaign results will be announced in Q2.

**Mr. Ford:** Can you talk about price a little bit more? What about the demand and what's the competitors' take? How are they reacting?

**Mr. Lima:** Actually last year we had some strong impact in our cost structure, an increase in tax burden and devaluation of local currency that of course impacts imported goods and those that are priced in dollars, and on top of that we had a local inflation of about 10%.

We had to transfer that impact to prices, there were no choice about it and we did that in Q1. That has reduced volumes, but we could not take any chances of having margins deteriorate dramatically. We would be difficult to recover that in the future.



At the same time, we are working hard to reduce our promotions so that we can have additional resources to invest in marketing, in communication and to activate our sales channel.

**Mr. Ford:** Roberto, what's your take on the competition? Are they increasing their prices too at the same level?

**Mr. Lima:** We have low information. Survey institutes do not provide information. These are just market data and I could not elaborate on what they are doing exactly; we are concentrated on our operations.

Today our focus is to stop that market share loss we've had in recent years, but we are producing margin, we are not interested in something that is not to help, of course.

**Mr. Ford:** Thank you very much.

**Operator:** Next question Thiago Macruz, from Itaú BBA.

**Mr. Macruz:** Hello, good morning. If I'm not mistaken, you've created a few clusters for consultants in Brazil. My question is: Can you determine those who are suffering the most in the past 18 months? What types of consultants have had less productivity in Brazil?

**Mr. Lima:** It is true, we've been trying to segment our channels so that we can have different sales offers, but we don't see major differences in more or less productivity within the segment. Overall, it happens across the board in Brazil maybe because of price.

We've increased prices in minimum orders and we have more productivity in terms of ticket price, but we have fewer orders. But they are major differences within the segments.

**Mr. Macruz:** Let me just ask you another question: You've been talking about revitalizing the direct sales channel, retail may be a good opportunity.

Are you in anyway considering creating new brands so that you can stop market share loss in direct sales by using your own brand? Is that a possibility?

**Mr. Lima:** Yes, it is a possibility. We are considering it, we are studying it, we have designated teams to study. I cannot make any announcements, we are at a very early stage if we are going to introduce a brand or even segment or any type of service, offer.



But you are correct; we are... we of course have to look into any opportunity to innovate by using... by resorting to another brand.

**Mr. Macruz:** Thank you very much.

**Mr. Lima:** Thank you, thank you Thiago.

**Operator:** Next question comes from Guilherme Assis, Brasil Plural.

**Mr. Assis:** Good morning Roberto, good morning everyone, thank you. Let me just try to explore 2 things actually. First, my question is about the dynamics between margins and price.

What we see is that the current scenario is not favorable and it should remain... will remain so. So when you think about income and employment rate and consumers' confidence, but at the same time we see that you have a better margin in the first quarter based on what I was expecting actually.

So here's my question: Do you think you may have to increase prices even more to recover that margin in the near future? And do you think it can happen? What's the thirst of consumers so that you can increase sales volume too?

So let me just ask the second question: About this Sou rollout in drug stores that you just mentioned, you have expanded somewhat and pretty soon you'll have a more than 1000 stores, maybe all of the stores of the Raia Drogasil network.

So here is my question: I've noticed that Raia is also considering other categories, they are selling other cosmetics products. Aren't you willing to enter that segment or have you studied expanding to other product categories through drugstores? Thank you.

**Mr. Lima:** Thank you, thank you for your questions. The first one is about price, I understand. Despite the fact that I have showed you an average number of price increases, this is not an across-the-board increase, not for all products, not at the same rate. We've had selective price increases for some products and some categories and of course there are some products that haven't suffered any price increase, but most of them have in Q1.

As to the impact in volumes, I understand your frustration, we are frustrated as well, but despite the fact that we are not... we do not talk about plans, we are within... the results we've got are within our expectations. That's not too far from what we hoped, we expected.



There would be sales volume impacts, but in the previous quarter when we had the call for Q4 2015 I remember saying that clearly: Pricing. Because of the inflation, tax burden and the foreign exchange devaluation and a recession that worsened in Q4, I mentioned that pricing would be one of the most delicate issues because we had to deal with it.

The decision we made it seems to be correct, we couldn't afford to delay for too much and then find out later on the price increases would have to be much greater to recover margins. We have a price to pay in volumes, but we've noticed that we managed to capture most of that.

Now, as to the Sou project at the drugstore, we are very pleased with that project. A couple of months ago we introduced the project in the countryside of the state of São Paulo, initial results were very encouraging and then we'll move to 700 drug stores and now in the first semester we are going to reach 1200 drugstores, and results are very good.

That will be... we don't know whether it's going to increase sales over all, but for the Sou brand with the growth we can achieve with this new channel can be very representative for the brand, and that brand will be better known; that's one of our objectives and the channel have responded... has responded positively based on our initial expectations.

As to other categories, your question was whether we disconsidered or disregarded that. No, that's not the case. The fact is: we cannot do everything at the same time. An entire operation would be very cumbersome, we have to find out whether we could do it, we could pull it off and now we are currently studying whether this is feasible or not to have other categories within the same channel.

**Mr. Assis:** Roberto, let me just go back to the first question about the price dynamics. When you look at your average price, there is an impact of effective sales price increase and in the mix. In the quarter was 12.5% and you said that the average price was a 9.1, and you highlighted that these are price increases by category.

When you look at 9.1 that's the average price increase in products or is that the average for all price increases, for all products?

**Mr. Lima:** I'm not sure I understand your question. Quarter over quarter?

**Mr. Assis:** No, what I meant to say is: Have you quantified the price increase? It was 9.1, right? You did not increase prices for all products, right? So this 9.1 was just for the products you increased the price or is that the overall price increase?



**Mr. Lima:** No, that was the total increase in the past 12 months. That 9.1 represents the weighted increase for all categories, for all brands in the past 12 months ending March 31.

**Mr. Assis:** I got it. So these price increases are dynamic, right? So they will keep on happening based on the category for every cycle, is that correct?

**Mr. Lima:** Yes, it is based on the calendar. We may have some more price increases in some categories, especially those brands that haven't have their prices increased.

**Mr. Assis:** When you talked about that in Q4 and you talked about a price increase in February, there was one of 1.7 and now a 2 percent increase.

How does that relate to what you said in Q4? Are there any elements you can quantify based on data from that call up until today?

**Mr. Lima:** Yes, we had the call in February and we had price increases in March. Yes, that is correct. The average was 6.5%, 6.6 if I'm not mistaken back in March...

**Mr. Assis:** And then you add that 9.1. Now it's clear, thank you.

**Mr. Lima:** Thank you, thank you for your question.

**Operator:** Next question comes from Franco Abelardo, Morgan Stanley.

**Mr. Abelardo:** Good morning everyone. Let me go back to the price issue. When you look at your gross margin in Q1 there was a more relevant drop in Brazil, more than what happened in Q4 despite that price increase.

Looking at the rest of the year, do you think that the March increases will help stop the loss of growth margin in Brazil? Or are there any other things; FX or inflation in costs? Are there any other negative impacts on the way?

**Mr. Lima:** Gross margins suffered a lot because of the 3.4% tax burden increase. The real devaluation was also important; these are the 2 major negative factors for impacting the gross margin.

This year based on the political scenario, we may not see further devaluation in the real, so the exchange rate won't be a problem.



As to the tax burden, we do hope there aren't any increases, but these are decisions made on a state-by-state basis, they may change sales tax individually.

But if we are led to increase prices to offset tax burden increases, volumes drop and once that happens that impacts employment, demand and so one and so forth.

We hope we do not have any further increases in the tax burden.

**Mr. Lettiere:** Let me just follow up to that question. So taxes, foreign exchange and to offset these 2 negative factors we had price increases and you've reduced promotions. That's the equation that makes up the gross margin for Brazil.

Of course the operational deleveraging I've already mentioned when I first spoke that about also impacted.

**Mr. Abelardo:** Was there any additional impact increase in Q1? But the impact had already happened in Q4. I did not understand why the gross margin drop was bigger now.

**Mr. Lima:** Yes, but there is something, there is something else: We had increase of MVA, some states when we compared to Q1 in 2015 we did not have that. When you compare industry tax IPI in Brazil excise tax has increased in some categories; that was implemented last year in May. When you compare 16 the entire year we do not have the same impact in Q1 for 2015.

So the comparison are two quarters, but the tax burden was different; 16 is bigger for these 2 reasons. The tax burden if you were to separate taxes last year, for example, there was a new law implemented to extended excise tax all the way to distribution. We questioned that and that shows up in our accounts, but it has sales tax, 2 effects in real and the rate in 1Q 16 14 Brazil and estates increased their sales tax rates that will impact our operation.

So Q1, yes, there was a tax increase in Q1 2016.

**Mr. Abelardo:** That's very clear, thank you. The second question is about nonrecurring expenses. If I'm not mistaken, with reducing the number of employees what was the impact in Q1 and what about Q2? Are you going to level that often Q2?

**Mr. Lima:** No, those are additional expenses to reduce personnel, the severance payment we have to make in the first quarter.



**Mr. Lettiere:** If I may, when you compare that to the first quarter 2015 we had 8 million in severance pay when compared... 16 when compared to 15. And we expect further impacted throughout the year.

**Mr. Abelardo:** Negative impact you mean?

**Mr. Lima:** No, no. We should now feel an impact coming from the cost reduction. We have to let some employees go so there is an initial cost relative to those severance payments, but moving forward our payroll should drop.

But that's what I can say for now.

**Mr. Abelardo:** Okay, thank you.

**Operator:** The next question comes from Andrea Teixeira, from JP Morgan.

**Ms. Teixeira:** Good morning, thank you for taking my question. Roberto, Lettiere, I'd like to go back to a previous question concerning March... January through March.

I understand the movements towards Mother's Day, but if you could give us some more color about that decrease in revenue and also the drop in productivity; what can we expect in those fronts for the remaining of the year?

And a second question about fixed costs. I understand that you have made some savings, but how can you forecast that margin... I understand the effect of the US dollar, of raw materials, but I'd like to understand since you've already paid out 8 million severance pay, how much more are you going to be able to save?

In other words, what's the percentage of the fixed cost that you have both for SG&A, which remains slightly high... I mean, they remain flat year-over-year, but in percentage points it has grown because of the operating leveraging.

So if you could give us some color in terms of doing the math in terms of the operating deleveraging. Thank you.

**Mr. Lima:** Okay, concerning the 10% drop, you are talking about 8.9% drop in gross revenue?

**Ms. Teixeira:** Yes, that's right.

**Mr. Lima:** I mean, net revenue. Yes, net revenue and then 5.5 percent drop in gross revenue. That shows a strong impact coming from the tax burden. And you're also referring to the productivity level of our consultants.



What we see today is that because of the price increase we had to change our association between the number of points per minimum order so the amount of the minimum order has grown, so we have an effect coming from higher activity and not from higher productivity; we have fewer orders, but larger orders, so more activity and that's now being addressed with specific measures depending on the different geographies.

As concerns fixed costs, we did 2 things: The impact will be felt, you have observed that from one year to another in Brazil we saw a drop similar to that of an inflation in nominal terms, in consolidated terms the fact that we are growing in Latin America also reflects in Brazil and there are also affected by the real devaluation, and that's of course offset by an increase in revenues in those countries.

But to say how our prices will behave going forward given the fact that we still have measures to implement, I'd say it would be precipitated to forecast fixed costs for the remainder of the year.

**Mr. Lettiere:** I could help a little bit Andrea. If you look back and take expenses— that's the basis for this information – variable expenses I'd say also concerning fixed expenses, if you consider the expenses for the first quarter of 2014 and compare that figure with the first quarter of 2016, we see a drop in nominal figures in terms of expenses of about 5% again in nominal figures.

So we are enjoying better synergies and we are focused on reducing expenses and especially in Brazil.

**Ms. Teixeira:** Okay. And that figure, 5% as Roberto said, might increase, right, given that there are other initiatives to be implemented? Or would you say that inflation will be a barrier for that?

I'd like to understand what kind of opportunity you have ahead of us and I'd like to thank you for that observation as well.

**Mr. Lima:** We have implemented cost reductions, but you need to remember that even though our situation in Brazil is a bit more difficult, we grow strongly in Latin America. So we have to consider the whole of the operations and not Brazil isolated.

So we spent significantly in marketing, which is quite complex in terms of logistics in Latin America, so there is a limit in terms of cost reduction.



**Ms. Teixeira:** Roberto, sorry to interrupt, but we have the figures for Brazil. For example, for SG&A is broken down. I'd like to understand what happens in Brazil.

I understand, I can see what happened in the other countries in Latin America and that's basically good news. I'd like to understand what happens in Brazil Roberto, if you could.

**Mr. Lima:** What I was saying is that we have structures in Brazil that service the business throughout the continent, so the overhead in Brazil cannot be simply reduced thinking only on Brazil, because they work, they provide services to Latin America as a whole.

So what we're doing here is trying to renegotiate some contracts, trying to phase out processes that we do not use anymore, trying to renegotiate with suppliers, suppliers who are very understanding of our needed to adjust margins. That's what we have been working on.

**Mr. Lettiere:** And Andrea, I'd like to emphasize that expense reduction in Brazil when we see and inflation of 17.5% we managed to reduce costs by 5%. We will of course continue our efforts to optimize our cost anyway we can.

**Ms. Teixeira:** I understand. I understand. I understand it's ever more difficult to do that with the inflation levels we have right now.

But I have another question: Going back to the gross revenue, which dropped by 5% in Brazil, so in Brazil it is -10 and January and February was flat. Is that how we should see the trend in the first quarter? Or January and February were special difficult in nominal terms? How do we see this quarter as a whole?

**Mr. Lima:** Well, in March we had a major impact coming from the tax burden, as I mentioned before. 14 states increased their rates throughout the quarter mainly towards the end of the quarter.

Maybe Lettiere can add something to that.

**Mr. Lettiere:** Yes, when we look at the calendar, an important element which we mentioned was the seasonality of the mother day's campaign. If we exclude that effect on the mother day's investments and we compare Q1 2016 with last year, instead of 9.8 we would have a 6.8 to drop.

**Ms. Teixeira:** But that's excluding only the calendar effect, right?

**Mr. Lettiere:** Right.



**Ms. Teixeira:** You are not excluding the tax burden effect, right? Okay, but if you we are talking about gross revenue that might be easier out of those 5%. From what I understand of course you have no impact in the growth revenue, you don't have an impact of the sales tax, right?

**Mr. Lettiere:** Just a second, I'm looking for further data here. Hang on a second, please. Just a second.

We are trying to access the percentage points on a monthly basis, but they are not available right now, we have only on a quarterly basis. But we could forward that to you later.

Fabio will get back to you on that, okay?

**Ms. Teixeira:** Okay. Thank you Roberto.

**Mr. Lima:** Thank you.

**Operator:** Next question comes from Tobias Stingelin, from critics we split.

**Mr. Stingelin:** Good morning everyone. Roberto, that strategic planning you are implementing is being deployed at the expected speed. You also said that results are not far from what you imagine.

So the question is: Were you expecting such a difficult year, such a difficult quarter? So that we can have a better idea of the trends as compared to your expectations before.

**Mr. Lima:** As concerns the plan, I think it's being deployed at the pace we expected. Of course we are talking about 5 elements; internationalization is 1 where the pillars are different, we have operations, which are already in place, others which are not, and so the other focuses are revitalization of our business in Brazil and the multichannel front.

The other strategic access are being developed; communication, innovation, and that's why the results are not totally clear, but the multichannel management is of course a priority.

So our initiatives happen on a weekly-basis. New apps, which are adopted by the consultants immediately, we have a significant number of downloads for those apps, we are now trying to increase the use of those apps, also electronic payment through debit cards.

All of that is taking place right now and it's going at the expected speed, the expected pace.



When I said I expected a very tough first quarter, we postponed the budget because we could not really see what was going to happen after the first quarter. It took us some time to assess all the impact, but we anticipated that the 1Q could be very tough for a series of reasons.

We are very confident in what we are doing too, recover margins and mainly recover sales volumes. This might not happen immediately given the scenario we are now facing, but we do expect that consumers' confidence levels also increases, along way the confidence on the part of the industry so that we can all move ahead.

**Mr. Stingelin:** Just a follow up then. Just thinking about what you just said, when you made your first remark you said: "This year we are getting things in order, we are sort of waiting for what's going to happen", or something like that.

So this year clearly you are working through a transition, so it's going to be difficult for us to concretely perceive an impact of those initiatives, and then obviously maybe next year you will be able to reap all those benefits.

Is that how we can expect to move ahead? So it's a transition year in short?

**Mr. Lima:** If we add our 3-year plan, 2016 has many challenges: structural challenges, a higher level of digitalization of our direct channels, the revitalization I've just mentioned, the implementation of best practices for those digital platforms. That could provide us with a more prompt impact.

We've been surprised by some of those initiatives, such as the implementation of electronic payment devices. So we have good news as well, but we cannot lose focus of what we still have ahead of us.

We need to improve the positioning of the brand, we need to recover the strength of the sub brands, such as Chronos and Ekos, and for that we need to make a very strong communication effort, which is being financed by the decrease in investment in promotions. So we are focused on what needs to be done.

Our budget is quite challenging, we know that it's going to be a very difficult first half of 2016, but if the economic scenario peaks up we might have a year which will not only be a transition year, but better than that.

We expect to be able to benefit from a higher sales volume still this year and the Sou project is an example; it was clear to us that we had to scale that up so we are now closer to 200 stores, and that could have a positive double digit growth still this year for the Sou plan.



So we have several initiatives such as those, and we will see the results of those this year.

The results of course can be stronger with the reactivation of direct sales, which is our core business.

**Mr. Stingelin:** So one final question. In the release you said we've launched an e-commerce platform for final consumers. And my question is: How does that relate to your digital strategy? Was there a consultancy company helping you out?

**Mr. Lima:** No, actually, we have maintained our platform with our consultants, we have thousands of active consultants now, we have over 700,000 clients who regularly buy through e-commerce, our best buyers are those who are brought in the system by our consultants, but we have of course eventual not so regular clients who come to us without the help of a consultant. So it is rather a question of convenience than anything else.

So we are trying to bring our platforms to mobile and this will affect the speed of the purchase, the experience of the purchase, we want to make clients' life easier.

But the Rede Natura with the consultants adds considerable value to the brand because they give good guidance to the client, many of them have told us that things they could no longer do on a person-to-person basis because of geographical businesses, now they can through the chat platform and other communication means.

So we strongly believe in our digital network, which is activated by our consultants.

**Mr. Stingelin:** Are the conditions the same in terms of pricing, freight, shipping and handling?

**Mr. Lima:** Price conditions are the same. Products are shipped to consumers' homes. When I say homes, I mean the clients' home. Even if they bought through a consultant they receive that at home.

So the logistics conditions are being adapted to the different cases.

**Mr. Stingelin:** Okay, thank you.

**Mr. Lima:** Thank you.



**Operator:** Next question comes from Irma Sgarz, from Goldman Sachs.

**Ms. Sgarz:** Good afternoon Roberto and Lettiere. I've 2 quick questions. You talked about the rationalization of the SKUs portfolio and also the focus on the core beauty concept.

Could you give us more color on what categories are included in the core beauty category and where we should see the highest cuts of SKUs?

And also along the lines of that strategy of renewing the channel, I see the debit cards machines and everything, of course that has helped consultants, but also I believe that consultants might perceive that you are gradually... you are gradually starting a plan of opening your own stores, you are selling at drugstores, you are now launching e-commerce platform.

Is there any concern on the part of the consultants because of that?

And at the same time prices are increasing, you are increasing minimum orders. What kind of reaction are you seeing on the part of a consultants in terms of volumes and engagement? Are you at all concerned that competition that you face from other brands will backlash for the company?

And still along those lines, if you could perhaps give us more detail about the different ages brackets. In terms of direct sales, of course you have younger consumers who of course will have already downloaded the app and will quickly get on board. But – unless I am wrong – there is an important number of consultants who are in age brackets who are not that much used to downloading a app, for example, and they might feel excluded from the process.

How do you see the positioning of those, let's say, older consultants?

**Mr. Lima:** Well, accepting digital... the digital world has less to do with age or geographic reason. What I can say for sure is 61% of our consultants do have a smartphone and they are used to downloading apps.

That number grows by 30% a year and that will depend on... I remember saying that we are working hard to expanding digitalization through education, removing barriers, guiding and being true partners of our representatives. Of course they will be more and more exposed to the digital world.

As to the negative impact, of course that is part of our daily concerns. Fortunately, they express themselves through social media and that's very positive. We can open that channel, that dialogue and we can of course adjust our plans to mitigate that backlash you refer to.



The goal to have our own stores and go to the drugstores and I go back to the test that we had in drugstores for a couple of months, in the region we tested one of the variables we wanted to see was whether there would be a reduction in sales in that category; that did not happen. There was no increase in direct sales, but there was no reduction whatsoever.

We believe there will be synergy; customers that purchase from a drugstore they can purchase online, they can purchase through a consultant, we want to be closer to customers because they want more convenience and we believe that this effect the will indeed happen.

Our stores will not be that many in the time frame we are expecting in order to reduce sales through consultants. We had consultants at the opening of new stores and they all agreed that that's necessary: Natura must show its product. The quality is fantastic; that can make a difference in the market because we must show and display our products so that customers can try our products.

We believe the effect will be positive in sales through consultants. We have to make that very clear throughout communication channels, but we believe the results can be just like in other activities that were created in e-commerce, in the digital world and now they have physical stores.

We believe that direct sales can move on to the digital world and through the stores and there will be synergy the way we see it.

Well, that's it. I think I've addressed all your questions. Yes, there is one: As to the rationalization of the portfolio. We are trying to detect brands or categories based on the ingredients that were used and they were not the best ingredients for that particular use. For hair we had a very broad line, but just a few ingredients have very good results, so we are rationalizing. In other words, we are reducing the number of SKUs available in the marketplace.

And very often results are positive. Maybe just one shampoo and one conditioner. We have product that sales better than the full previous products, just like in the Ekos shampoo and conditioner have better results.

**Ms. Sgarz:** Thank you Roberto. If I understood you correctly, by rationalizing the catalog has more to do with the depth in some categories where you realize you don't need that many SKUs in that category. It's not a matter of cutting some categories to highlight other categories; that's what you are trying to do, right?

**Mr. Lima:** No, we are not discontinuing any categories. When we say we have core categories we believe that they can perform very well. Natura *corpo* (or



body), in fragrances we are leaders and those that are [1:09:53 unintelligible] core are going to receive communications, marketing. But that does not mean we are going to overlook the other ones.

The digital world allows us to display our products very effectively at much lower costs, so our marketing metrics is more comprehensive and we can sort categories and we know that they are core to our brand.

**Ms. Sgarz:** Thank you.

**Operator:** Next question from Alex Robarts, Citi.

**Mr. Robarts:** Good morning, thank you very much. I would like to start by asking a question about the industry. In the press release you said that you had stable market share last year. Could you please break that down into categories; frequency, personal hygiene, toiletries? Can you describe the industry growth since last year?

And along those lines, thinking ahead I believe that the industry this year will not perform as well as it did last year. Are you trying to protect your market share? Are you comfortable with losing some market share because of price increases? What's your outlook, what's the outlook for the market in 2016? That's my first question.

**Mr. Lima:** Let me talk about the industry first. For the first time, in 2015 there was a negative growth above 8%; 8.8% reduction in the Brazilian market size after 23 years of continuous growth.

For 2016 we don't see any major growth in our radar, but we believe market is performing not as good... not as well as last year. We may not see growth rates like in the past.

Last year we managed to reduce our market share loss; we lost less than we were losing before, and this year we want to have a stabilized market share and it's more difficult when you increase your prices. Yes, it is.

We placed our bets, we are going to increase our prices, we would reduce our promotions, but we would increase investments in marketing and we would invest in activating the channel. So that's within our expectations so far. So we believe we have made the right decisions.

As to the question to break down categories that grew and did not grow, whether we increased market share, I don't think we are in a position to announce that data. I think you have consolidated figures for the country and for our international operations.



**Mr. Robarts:** Let me try to understand that. You said that CFT reduced 8.8%, right? Is that what you're saying?

**Mr. Lima:** Yes, that's correct. That's the market information we have. After 23 years of growth for the first time the market retracted.

**Mr. Robarts:** The second semester was worse, was weaker than 8.8%, right? I did not understand what you said about this year; do you expect any growth for the industry this year?

**Mr. Lima:** I think it's early. Our scenario is not clear to define. I don't know whether political decisions will affect consumer confidence, businesspeople confidence. Any predictions right now are too far out.

Volumes may drop, companies may offset that because of cost increase through tax burden, inflation, and they will be readjusting their prices, these are not increases; it's just a recovery of losses through inflation.

But it's too soon to determine whether the market will grow or not.

**Mr. Robarts:** I understand. I have a second question about the Natura's stores. Congratulations for this week. I was at one of the openings.

I actually understood after the meeting maybe 5 to 10 stores would be enough. What are your plans by years-end? So what are the metrics that you are looking into for these key-stores to determine whether the project was successful or not?

Is 200 stores feasible short-term objective? 3, 4 years? To have a better understanding whether the initiative is positive or not. Thank you.

**Mr. Lima:** Thank you Alex for your question and thank you for praising our store.

We are at an initial phase; everything that we conducted at the store, tests, we have to confirm that in the real world. We must be certain that the portfolio that was chosen is the right one. It may vary on a region by region basis, but we have a core portfolio and we have to fully test all the services we want to render.

It's not just a shelf with products. We want to relive the Natura commitment; the experience consumers have without our representatives at the store. We have many things to test and concepts. We have learned a lot with Aesop because they have very strong proposal as to the customer experience at the store and



we are right now at a stage that pretty soon we may open 5 stores to test these things in several... in different areas.

But initially, we must confirm that the model is right. It will meet our expectations to better serve end-users. And of course test if the model is economically viable. These are not concept stores; these are stores that have to have a positive PNL statement.

And at the second stage we are going to expand. At that phase with our own capital and maybe at the third step we may resort to franchise. We haven't made any decisions yet, but once we have a very fine-tuned model, well-defined concepts and we believe that there won't be any setbacks or any negative results for that matter.

Once we scale we will have a Capex decision to make, to find out what the best model is through our own stores or whether we will open up to franchises.

Right now we want to establish the Natura store. It's proposal, it's concept, will be measured by sales and also through our costumers' satisfactions index.

**Mr. Roberts:** I understand. Thank you.

**Mr. Lima:** Thank you for your question Alex.

**Operator:** Next question comes from Gustavo Oliveira, UBS.

**Mr. Oliveira:** Thank you Roberto. My first question has to do with your gross margin. You have new product, you are rationalizing your portfolio considering that you have price increases in March; shouldn't we be seeing better gross margins now once compared to Q1 results? Yes, or no? If not, is Sou bringing a negative or positive result in your gross margin? Because Sou sales in drugstores is one of the few brands that has major growth.

I want to understand that better... to better understand the dynamics of your gross margin.

**Mr. Lima:** Well, let me address to the Sou product line. It has a positive margin, yes, that's true, and in the gross margin it ends up helping the brand, it absorbs some of the costs and of course it does help the drugstore channel.

But the dimension is smaller. It's an important brand, over R\$100 million at sales and the growth is the growth of the brand that helps overall of course. There is no question about it. But to determine the gross margin for next quarter we cannot do; that depends on variables we cannot control, such as tax burden,



taxes rates may change any time. So there would be premature to speculate and specially to state what Q2 margins would be.

But of course, Gustavo, we are controlling... we are looking at it every day. We are monitoring on a daily basis to recover our margins. That was one of the first things I mentioned in my presentation.

It's a dynamic scenario, you look at the short-term what you cannot control, but of course looking ahead into the future with a strategy, and down the road we may of course... we are considering recovery margins of course.

**Mr. Oliveira:** I understand, the only thing that it's not clear is the contribution of Sou. Does it have a gross margin that is below the average for the company?

**Mr. Lima:** It's a personal-care category. The gross margin and the attributed margin that is smaller than that of the average of fragrances, for example.

**Mr. Oliveira:** Thank you. My second question is about the portfolio rationalization. What stage are you at? Are you starting, are you concluding it? So that I can better understand the type of impact he may have in your sales.

You are saying that sales impacts for Q1 have some macro impacts, the moving of the mother days further down the calendar; are there any effects attributed to the portfolio rationalization too?

**Operator:** Excuse me. Wait a minute, we will be back shortly. Thank you.

Ladies and gentlemen please standby.

**Mr. Lima:** Yes, we are back.

**Mr. Oliveira:** I'm not sure you listened to my question.

**Mr. Lima:** Just a second Gustavo, we are still reconnecting. Just a few more seconds. Could you repeat the question, please?

**Mr. Oliveira:** Yes. I'd like to understand where do you stand in the portfolio rationalization; are you beginning, are you finishing? And has that affected your first quarter sales?

**Mr. Lima:** Okay. We are far from over, we are in the first stages of the rationalization process of the portfolio, we have some launches and relaunches ahead, but where we think we can interrupt marketing we know we have replacement products.



We would hardly use any sales volume because of that rationalization process. So in the worst-case scenario it would be neutral effect.

**Mr. Oliveira:** Neutral?

**Mr. Lima:** Yes, neutral.

**Mr. Oliveira:** Yes, I understand. In what concerns the revitalization of direct sales, you talked about digital platforms and all, but could you give us an update on that process? You used to have of the small outlets, small stores, you had about 100 stores when you started. Has that moved ahead or not?

I believe those stores have a high productivity level, it's like by now over 1000 points of sales you could be addressing. Where does that stand?

**Mr. Lima:** Yes, the improvement project addressed at those sales points with a new visual aspect, with architectural plants; that's in place, that has been very successful.

We already see that we can increase our market share, increase of 4%, a sales increase of something close to 8%; a very successful project. First, we concentrated on São Paulo and Rio, but when we talk about revitalizing direct sales we see a clear mean to focus on the regions.

We need to value, to appreciate the local regions, the all different regions where we operate, we need to have a higher specificity in terms of offerings to all those regions so we can have the chance to work with different pricing, and that flexibility will allow us to be much more successful in addressing that small store projects, we have higher royalty level from the consultants, we have higher market shares, we have higher sales volumes. So it is a successful project,

We are willing to create structures to prepare in place, we have consultants who help out, those who are consultants/entrepreneurs will help introduce the products. We are very satisfied with the results.

Other segmentation projects are in place; we have to identify those consultants who are more capable of working as consultants per se for those stores. So we are increasingly more focused in identifying a consumer segment and the best ways to tap on those segments.

**Mr. Oliveira:** Okay, one last question: With all those initiatives in place, you should see a drop in your active consultants' base. You are relocating budget, different points of sales; you are changing the business.

Should you expect a drop in the active base of consultants in Brazil for 2016?



**Mr. Lima:** I said in the first quarter we had a drop in activity, especially because of the fact that the minimum order increased. But we'd seen a very reactive power on the [1:28:54 unintelligible] consultants. We can now make individual offers to our consultants.

Those who use smartphones, for example, when they open the app they already have an offer right there and then for a specific category with a different type of pricing, and 15% of those consultants end up accepting that offer.

So because of the price increases at the point-of-sale leads to a drop in activity, that does not mean that we are passively observing that. We have immediate reaction to that and we have different tools today in place to help us identify where we can help consultants become more active.

We saw our channel grow this year over all in the number of consultants, so the effort now is to increase training and the loyalty level of those consultants.

**Mr. Oliveira:** Okay, thank you.

**Mr. Lima:** Thank you for the question too.

**Operator:** Once again, to ask a question press star one.

**Mr. Lima:** If there are no more questions, we can perhaps close and move on to our final remarks.

Okay, once again I'd like to thank you all for participating in our call and thank you very much for the excellent quality of the questions, they are inspiring, and to say that even facing a very challenging context we are confident that we are building a leaner organization, more efficient, less costly, much more in line with current times.

We do believe we have a midterm plan which is quite strong, which was fully approved by our Board, a Board which is made up of professionals who are knowledgeable about our industry – Roberto Marques and Ricardo [1:31:03 unintelligible] has just joined – and are very knowledgeable in the industry, so the initiatives we are putting in place already show positive initial results, which makes us confident that we are moving in the right way.

We now need to pay attention to speed pace, but we are confident that we are treading the right way towards higher competitiveness and towards recovering growth, of course hoping that the Brazilian economy will recover sooner than later.



At the same time, we will keep close attention to continued growth in our international operations both in Latin America and as for Aesop, and we hope that all our initiatives and also counting on the dedication of all our associates, on the dedication on the part of our consultants, we hope to be able to put Natura where the company belongs; in the leadership role, not only committed to investors, but also committed to the improvement of the community where it operates.

We never lose focus of our mission, of our cause, difficult as the situation may be with, we will not abandon the pillars that made for the success of the company, not only in Brazil, but also abroad.

Once again thank you all for participating, thank you for the questions and I hope to see you again at the end of the 2Q, where we will discuss our results in June.

Thank you and have a nice day and a nice weekend.

**Operator:** Natura's conference call is now over. Thank you all for participating, have all a nice day.