International Conference Call
Natura
Fourth Quarter 2016 Earnings Results
February 23rd, 2017

Operator: Good morning ladies and gentlemen, thank you for standing by. At this time, we would like to welcome you to Natura's 4th quarter and year 2016 conference call.

Today with us we have:

Mr. João Paulo Ferreira – CEO;
Mr. José Roberto Lettiere – CFO;
Mr. Marcel Goya – IRO;
Mrs. Andrea Alvares – Marketing and Innovation VP;
Mr. Márcio Bologna – Controller; and
Mr. Luiz Palhares – IR Manager.

This event is being recorded and all participants will be connected in listen-only mode during the Company's remarks. After that, we will start a Q&A session, when further instructions will be provided.

This conference call has simultaneous translation into English, and questions may be asked normally by participants connect from abroad.

If you need assistance during the call, please request the assistance of an operator by pressing star zero (*0).

This event is also being simultaneous webcast over the internet, and may accessed at: www.natura.net/investor. The respective slide deck is also available at the same URL.

Before proceeding, let me mention that forward-looking statements made during this conference call concerning the company's business perspectives, operating and financial targets are based on assumptions and beliefs on the part of the company's management, and also on information currently available. Forward-looking statements are no guarantee of performance, they involve risks and uncertainties as they refer to future events and depend on circumstances that might materialize or not. Investors should have in mind that general economic conditions, industry conditions and other operating factors might affect Natura's future performance and lead to results that will differ materially from those expressed in these forward-looking statements.

I’d like now to turn the conference over Mr. João Paulo Ferreira, CEO, who will start the presentation. Mr. Ferreira, you have the floor.

Mr. João Paulo Ferreira: Good morning everyone, thank you for participating. Welcome to our conference call to discuss 4th quarter results.

In this last quarter, we saw a reversal of our results in Brazil when compared to the previous quarter as we moved along with robust growth in other countries in Latin America and also in Asia. As a consequence, we have gained good consolidated results in terms of profits and cash.

We are confident that we are going through a gradual recovery journey in Brazil driven by a series of advancements we have managed to implement with significant hard work.

As we tried to revitalize our direct sales, we have launched new value propositions to our consultants, new direct sales format which will allow their professional development, a revamping of their performance, and more gains. Our consumers will receive a closer service, which will strengthen their experience with our products and our consultants will receive or will perceive Natura as a possibility to grow and prosper based on new ways of working with the company.

Another highlight is our use of technology; a powerful enabler to drive business for our consultants providing ways and information so that their relationship with their clients be increasingly more intense. We definitely have… went over the phase of using technology renovations just as an enabler for transactions; we are now becoming a data-driven company, which involves decision-making processes, productivity, and the quality of the relationship between Natura, consultants, and end-consumers.

In less than a year, over 300,000 consultants are using our mobile digital platform as a way to conduct transactions, obtain content, and information from Natura. Also, the Rede Natura (our online business unit) more than doubled its sales when compared to 2015, closing the year at R$107 million, over 90,000 digital consultants, and 1.5 million consumers. We have also advanced our retail strategy with the opening of 5 exclusive stores in shopping malls in the city of São Paulo, all of those presented above… performance which is above what we expected. We are also present in a larger number of drug stores around the country.

From the standpoint of the innovation, we continue to invest in our iconic brands, and throughout the year we have the important relaunches of the Ekos

Tododia, Chronos, Una and Humor line on top of the women's perfume Ekos Flor do Luar.

In Latin America, we continue to grow in local currency with productivity gains, operating leverage, and expansion of our consulting network. The Aesop, where we now have 100% of capital, also showed continued growth with the addition of over 41 exclusive stores throughout the year, reaching a total of 176 units in 20 countries.

Another highlight and priority has been the expense management. In Brazil, general expenses in the year and in the quarter decreased when compared to the previous year, more than offsetting the pressure coming from inflation (later in the presentation Lettiere, our CFO, will give you more details on that front). We have also continued our effort in the rigorous and efficient management of our Capex, we had used our investment in working capital, and we have also decreased our inventory coverage bringing down the conversion cash cycle.

Finally, yesterday our Board decided on dividend payout relative to the year 2016, and approved a net payout of 0.25 per share, which accounts for a payout of 40% of our net income.

These were the main highlights I'd like to present, I now give the floor over to Lettiere, our CFO, who will give you more details of our financial numbers.

Mr. Lettiere: Thank you João. Good morning everyone and thank you all for participating in our conference call to discuss 4th quarter results.

I'm going to be talking about our performances, specifically our bottom line. I'll be first talking about our financial numbers and I will also talk about our performance indicators and also our social, environmental indicators at the end.

I'll start talking about the consolidated net revenue in Brazil and abroad. Our net revenue dropped by 1.6% in the 4th quarter because of a higher effective tax rate in Brazil and also due to the lower number of units sold, and also was highly impacted by the depreciation of the Brazilian Real over the currencies we used in international operations.

In terms of net revenue in Brazil, net revenue in the 4th quarter dropped 0.5% when compared to the 4th quarter of 2015, once again the explanation is the same: highly impacted by the effective tax rate in the country. The productivity of our consultants showed a growth of approximately 10% in the period, and as to the number of consultants, we saw a drop of 7.4 percentage points.

Net revenue in Latin America in reais, we saw a drop due to the depreciation of the region's currencies, but a strong growth in local currencies. In other words, a growth of 26% with an important increase in the number of consultants, an increase of 8%, and we also saw higher productivity and a higher amount of units sold, which set around 18%. So, in Latin America we had another quarter, another year where we saw strong growth with consistent advancements.

Net revenue with Aesop, we also had a good quarter, a good progress, growth of around 29% in local currency. Aesop remains showing very consistent performance, we are talking about 176 exclusive units, 41 more than what we had in the 4th quarter of 2015, and we also saw a growth in same-store sale of 12% in the year in local currency. So, once again a very solid performance.

Now talking about the consolidated Ebitda, in the 4th quarter of 2016 we saw a growth in our Ebitda margin when compared to the 4th quarter 2015 of around… which moved from 19.4 to 20.1%. We saw a growth in Brazil, our Ebitda in Brazil grew 3.8%, we saw a growth in local currency in Latin America of 35%, and we also saw a very strong growth in Aesop of 16% also in local currency.

I have the Ebitda bridge on the next slide, which shows how we got to that Ebitda number in the 4th quarter of 2016. Basically, we focused highly on productivity reducing expenses, new business units also represented an important point, which contributed significantly to the Ebitda (I'm talking specifically about online, farma, retail), also international operations had an important contribution for our Ebitda in the quarter of around R$130 million, up from the 4th quarter 2015. And on the side of extra impact, we had an increase of the tax burden in Brazil of around R$34 million and FX effect which, in the 4th quarter was quite important, especially when we converted Latin America figures into reais.

Now moving on to the consolidated net income, we saw a good recovery in the 4th quarter 2016 when compared to the previous year; a growth of 38.8%, which resulted from a slight improvement in the consolidated Ebitda, also an improvement in our income tax rate in Brazil, now which is the result of hard work conducted by all operations in Brazil and abroad, and with that we've managed to improve or recover generating R$202 million net income in the 4th quarter.

In terms of consolidated Capex, as for Capex, we also had a year where we brought Capex down and we did it by optimizing investments, investing in projects to increase our service level to consultants, the opening of new stores, innovation, and also the digitalization process of our operations.

Our Capex has a different profile, we can see ahead we’ve been talking about that for the last conference calls, Brazil accounted for 62% of the Capex used by the company, Latin America and Aesop accounted for 38%, so the international share starts to have a higher weight when we talk about investments geared towards growth.

Our free cash generation in the 4th quarter, we had good free cash flow generation, which resulted from a higher net income generated in the period and also a more efficient working capital management reducing our working capital, which was strong in the 4th quarter.

That offset the performance we had in the first three quarters, and this generated R$403 million in the 4th quarter, which leaves us in a very positive situation and shows that our business model can generate free cash, and that means that we will be more comfortable in our future investments.

About indebtedness briefly, we closed the year with a net indebtedness ratio of 1.4 times, this is also a result of reducing expenses, improving Capex, treasury efficiency, and capturing and investing. And in December 2016, we purchased the remaining Aesop part, so that was a disbursement of about R$300 million.

To conclude our performance session, I have the last slide, which is the sustainability. In the 4th quarter since 2016, we are still very focused and ran several activities in our triple bottom line management. I would highlight here our efforts in reducing carbon emissions. Our post-consumption recycle material was also reduced, and our recyclability was also improved, especially in the Ekos line.

The consumption of Amazon inputs in comparison to our total output consumption was also improved significantly, and I would also highlight our "*Crer para Ver*" program, which had R$23.7 million funded in Brazil, accounting for R$38 million in Latin America. This was a record fundraise, which leaves us a very fortunate position of being able to contribute to such an important project in our society.

So, these were the main indicators for our triple bottom line performance.

I'm going to go back to… I'm going to handle the floor back to João, and we will hear questions. And all of our staff members will be there to answer your questions; João, Andrea, Marcio, everyone is prepared to receive your questions, so please ask. Thank you.

Q&A Session

Operator: Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please press the star key followed by the one key on your phone. If at any time, you would like to remove yourself from the queue, press star 2.

Our 1st question comes from Gustavo Oliveira, UBS.

Mr. Oliveira: Good morning. Thank you for answering questions. I have 2 questions. First, I would like to understand the front for the selling expenses line. It grew over the year, as you mentioned, there were remunerations aspect, training sessions for those sales, but you still haven't implemented several of the segmentation initiatives or they would be expended throughout the year.

When you started implementing your initiatives, will this line continue to show robust growth or do you believe that it will be leveled from now on? And also, do you think that would impact sales? That's my 1st question.

Mr. Ferreira: Good morning Gustavo, this is João Paulo. Actually, the new value proposals in segmenting consultants was an important growth curve for the year. However, this does not mean we will increase the base level of our expenses and sales.

Mr. Oliveira: So, for Brazil will you work around inflation level expenses? Do you think that that's an appropriate level for the year?

Mr. Ferreira: Well, we didn't design any structural changes.

Mr. Oliveira: Okay, that answers my question. Now my 2nd question is: About sold volume that dropped by 15% in the quarter and a productivity per volume for consultants is also dropping, so, can you please tell us what happened? I think there is a mismatch; volumes dropped, but value and productivity has not. So, what happened over this quarter in comparison to previous years?

Mr. Lettiere: Our volumes dropped throughout the year, so this last quarter is not an exception. We’ve been talking about reducing some categories, so that accounts for it. And the last quarter it was an additional effect; it is usually affected by Christmas campaigns, so you have product listed per their volume, but they include more than one item that come at a high average cost.

So, that's why there is a difference in comparison to previous quarters.

Mr. Oliveira: But wouldn't that be comparable from year to year? Last year we also had these kits, right?

Mr. Lettiere: This year we were more efficient in selling these kits, we had more attractive kits with higher cost.

Mr. Oliveira: Okay, thank you.

Mr. Ferreira: There is a lot of toiletries.

Mr. Oliveira: Oh, toiletries in kits? Okay. I see, all right, thank you.

Operator: The next question comes from Franco Abelardo, from Morgan Stanley.

Mr. Abelardo: Good morning everyone. I have 2 questions. The 1st is about indebtedness and free cash flow generation. We went to 1.4 times indebtedness during this year, which is higher than Natura's average. Do you think that this is a concerning level or do you think it's appropriate for your strategy? Are there any expectations to reduce it over 2017?

And the reduction in payouts to 40%, was this a one-off in comparison to 2016 or is it more strategic? Is Natura reinvesting some of this cash generation to their own direct sales strategy in other channels? That's my 1st question.

The 2nd question is also related to cash generation: There is a forecast that R$33 million working capital will be generated, is this comparable to the release cash, which showed 144 million for 2016? And if it is comparable, why is it so smaller in 2017? Are we going to expand due days for receivables or are there any different factors that will affect this for 2017?

Mr. Lettiere: Good morning Franco. To answer your 1st question about the indebtedness being 1.4 times Ebitda, well, previously I mentioned that our business model is directed towards cash generation, the company has tried over the last years to expand indebtedness due to the how our business trends, we have production in revenue, a reduction in the generation of the Ebitda, but on the other hand, we have moved forward significantly in managing financial components; working capital, better utilization for Capex and also what relates to capturing credit line and cash investments. So, we have become efficient in those treasury factors.

1.4 times is a level that to me is not concerning. Far from it. But obviously, we can have a better cash ratio, and that's our expectation. We hope to continue working so we can resume our growth, resume our Ebitda expansion and keep the same productivity and the same operational efficiency in cash generation components.

As to your 2nd question, you asked specifically on working capital, the generation of free cash flow. You may have noticed in our statements and in our financial results that we are reducing working capital quarter by quarter, year by year. But this is a financial direction aligned with our strategy so we can have enough cash generation to obviously be able to reinvest in our growth plan. So, revitalizing direct sales, international growth and so on.

We've concluded the year 2016 with a different level for working capital, it was quite used, but this is a several-year history. So, obviously, these estimates will be approved by the general meeting in April and, therefore, we expect 33 million in working capital, which is not that much when you consider that 2016 was finished at a very optimal point.

So, that's why we are foreseeing this amount, because it includes the presumption the 2016 has already utilized a lot of working capital.

Mr. Abelardo: Okay, about the payout 40%, do you think that's a one-off or do you think that there will be a different strategy to reinvest more of this cash generation in the business?

Mr. Lettiere: Well, the payout… this change actually started last year, the company has been paying over 90%, but due to the need of going through this new cycle this year and reinvesting in a new strategy and also due to having a difficult year with higher interest rates and with a smaller demand, I think we wanted to be safe and reducing the payout to 70 and now to 40%.

As I said, we are working hard so that our business model can focus on cash generation. Obviously, we are always going to prioritize investments towards the business because it is driven to stronger turns that we will generate more dividends.

So, we are focusing on reinvesting to generate more cash and better results, and then obviously to continue increasing dividend payouts. But this reduction was necessary according to our strategy.

Mr. Abelardo: Okay, thank you.

Operator: Our next question comes from Tobias Stingelin, from Credit Suisse.

Mr. Stingelin: Good morning João Paulo, good morning Lettiere. I'd like to ask you about productivity specifically. Do you believe that we are now riding on a trend? Can we see that going forward to?

In the past, we saw a lot of volatility; good quarters, followed by bad quarters, followed by good quarters. I know it's early, there is a series of variables that will play out, but I'd like to see how you understand productivity going forward. And if you could also elaborate on this new value proposition offered to consultants: Has this been tested in other markets?

And lastly, you brought the Ebitda numbers and we saw that new businesses contributed with 9 million if I understood correctly, at the same time, online sales contributed with R$106 million; it seems to me to be very low margin. Does it have to do with the ramp-up of the business or is it being consumed by the negative Ebitda from the opening of new stores?

But since you have broken those numbers down, I'd like to have some more color on that bridge slightly. Thank you.

Mr. Ferreira: Hi Tobias, good morning. I'll start by the end. We are very proud of our new businesses as they are already showing profits after the or ramp-up phase, we are seeing a very, very fast ramp-up as you can see by that bridge, as it refers to the productivity of consultants, we are in fact seeking to find ways to increase their productivity, but it is key that they managed to obtain higher benefits, higher profits working with Natura. That's what we're working for.

How much can we expect to see that in the future going forward, we cannot say by now. But that's what we are working for. But that's the reflection of a conscious option.

Lastly, the new format it's a bit difficult to explain everything during an earnings call, but in short, we have already started implementing those new businesses, we are talking about value propositions that are taking into account the level of dedication, the level of challenge that those consultants have, and on the other hand, we offer benefits that will gradually increase, increase with time, both in terms of financial benefits and in terms of training, and for those benefits will, as I said, increase as their volume of business with us increases as well.

Those changes were tested for more than a year, especially in the city of Porto Alegre and in the city of Belo Horizonte, and the results turned out to be very promising in terms of gains in productivity and gains in revenues.

So, those results make us confident that we'll recover our business in Brazil and, in fact, we already have data and information collected from those cities that makes us be very optimistic.

Mr. Stingelin: What's the status of the rollout of that system? How can I see that going forward?

Mr. Ferreira: Well, the whole basis should be already under the umbrella of those prepositions by mid-2017, so we are going to see a progressive curve until mid-year. By then, all the base, the entire base will have joined in.

Mr. Stingelin: Okay. One more question about the Ebitda. I imagine that stores are still showing negative Ebitda. You've been over a year in the farma business and the online as well. I'd like to understand where do you need a better ramp-up to prove those numbers?

Mr. Lettiere: Tobias, that's a bridge as essential, those 9 million that you see there is a variation actually, so we have another number at the base, that's a variation. What I can tell you (I'm not going to repeat what João said, but) we are talking about… this is which are going through a ramp-up phase and they are all generating positive results, and that's within our expectations for all those businesses.

And as I said, we are happy and very optimistic about that, and that's within and falls under our strategic line.

Mr. Stingelin: Okay, thank you and have a good day.

Operator: Next question from Joseph Giordano, from JP Morgan.

Mr. Giordano: Good morning everyone. Morning João Paulo, Lettiere, thanks for taking my question. I have 2 questions actually about direct sales. I try to understand what you see happening at the beginning of the year in terms of trend. When you look at market numbers, the company has improved a lot in the past quarters, but you're still losing share when we look at Avon, which is our best proxy for direct sales. They continue to grow slightly above Natura. So, I'd like to have more color.

On top of those benefits and incentives to consultants, the efforts to increase productivity and everything, I'd like understand what you understand in terms of products. We see a better level of innovation, but still I'd like understand a little more what do you see going forward in terms of products, client demand? How can you differentiate your line from that of your competitors'? Thank you.

Mrs. Andrea Alvares: Hi Joseph, this is Andrea. Starting with the market share observation, in the year, the whole year, we saw some drop, but we see also a clear trend of recovery in gross margins in the 1st quarter of 2017, and this is also in line with a reversal of trends in terms of acceptance, and also in line with the launch of new products.

So, last year we relaunched Ekos, Chronos, Una and Humor, we launched the female fragrance Ekos Flor do Luar, and all those products performed better-than-expected, but generated better results only starting the 2nd half of the year. So, that's when we saw numbers changing, especially for toiletries.

We still had a full-year where there was a significant drop in the volumes, but when we look at the whole year, we saw a recovery of value, something we did not see in the 1st half of the year, where there was a clear loss of value, a clear trade down in the business, so we saw a recovery of average prices in the 2nd half.

So, I think we are moving in the right direction, the relaunches that we implemented last year brought the results we expected. Now we have to move forward, and I think what we have seen in the beginning of the year on top of the investments we've made, we have just relaunched our Faces makeup line, which is positioned for a younger consumer and which is being very well received by our consumers and our network.

Mr. Giordano: Okay, thank you.

Operator: Next question comes from Guilherme Assis, from Brazil Plural.

Mr. Assis: Good morning, thank you for taking my question. I have a few questions. Looking at the results or the numbers, something that caught my attention was that the margin was slightly below what I expected when we compare figures of last years (I'm talking about Brazil specifically); a drop of 50 billion.

When we look at that throughout last year, you saw a significant growth in the 1st half, and then in the 2nd this growth was not followed by competitors in the 1st half, and then in the 2nd half we saw less or fewer price increases, whereas competitors hiked up their prices.

So, when you talk about margins, I was expecting margins to be slightly above, a little more in line with what we had in the previous year. So, I'd like understand what happened. I understand the dynamics which is inherence to the mix, I understand that you have focused on toiletries, on kits, and of course that helps explain the issue of volume vis-à-vis prices, but it seems to be that you offered more promotions than I had expected.

So, I'd like to understand your policy on that front a little better. I think if your campaigns… speaking of 2017, we see campaigns where we have promotions in the line of toiletries. So, my question is: Are you going to be able to support that increase in productivity from consultants? Thank you.

Mr. Lettiere: Hi Guilherme. Speaking of the margin, I understand you're talking about the gross margin, right?

Mr. Assis: Yes, right.

Mr. Lettiere: Okay, there's a very important fact, which is the effective tax rate. When we compare the 4th quarter of 2016 with the 4th quarter of 2015, we have an increase of 5% in terms of taxes. In the other lines, we saw very good level of efficiency, even with the pressure from the FX rate our promotional efforts or management… I mean, if you take away the tax rate effect, we see an evolution in terms of margins; we gain margins *pro-forma* speaking.

And the 2nd part of your question will be addressed by João.

Mr. Ferreira: Okay, from the point of view of promotion investments, Guilherme, on average last year we saw lower figures, we invested less in promotions last year, and we do not expect to increase those notional investments this year because we are being more selective if you will in terms of what products and what consultants will be offered promotion.

We are now increasingly using digital mechanics, so we can customize offers according to our consultants, so there is an efficiency gain there. And as you noticed, toiletries are one of the years' priorities, specifically for the beginning of the year, that's part of our options for the beginning of the season; we intend to gain more market share in toiletries and do that faster in the beginning of… early on in the year.

Mr. Assis: Okay, so one final question if I may. In what concerns the difference with Avon, as it was mentioned before, Avon showed a slightly higher growth than you last year, they did not provide many things, but they announced a good growth in PDD.

When you look at your numbers that doesn't seem to be happening, that leads me to think that maybe they were perhaps more aggressive in conceiving credits, maybe too aggressive, and did say in their call that they will adjust that. I'd like understand your perception about that: Did you see that happening in your consumer base, and should we expect a reversal in that dynamics going forward?

Are you getting ready, are you preparing the company to recover that market share, the market share that might be going towards Avon? So maybe with this effect you might speed up that reversal process, which was mentioned earlier in the call. That's my question, thank you.

Mr. Lettiere: I think it's important to highlight one thing: The training of our consultants and our relations network has improved. When you see an effective like that, obviously, your base is healthier and is less vulnerable to defaults. Of course, like any other company in any other sector in Brazil, when you are facing a recession you have higher default level. But working with the base, everything that we have done in terms of training, our network, this obviously brings us to a healthier position.

One other aspect is, as you know from some other calls, I've talked about our investments in technology and in training how we manage credit, how we manage analytics, charges, so we have a control panel both on sales as well as credit that I would say is quite acceptable.

Mr. Ferreira: I'd just like to add that, in fact, recovering in our penetration in households is one of our priorities. We intend to do it, that's part of our strategy, that's in our choices.

Of course, whenever our competitors slip up, we hope that we'll present itself as an additional opportunity for us.

Mr. Assis: Okay, thank you very much.

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

Mrs. Sgarz: Good morning, thank you. I have a couple of questions. The 1st one is related to volume growth. We saw even in the 3rd quarter that volumes in Brazil were still dropping by about 15% in comparison to other years. So, what about for 2017? What should we expect in terms of recovering productivity for consultants? Obviously, something that helped at the 4th quarter was a reduction in the number of consultants, and the increase in price per unit.

Now looking at 2017, are you implementing any… well, the price increases are below inflation if I'm not mistaken, so the growth should result from volumes sold.

Looking at the 1st cycles of this quarter, what have you been seeing in terms of volume? What do you think can help to expand this volume in the future?

Another question is: About the Capex for the year, in previous years, we announced Capex plans for the year, so I'd just like to understand a bit about your plan for Capex in 2017.

My final question is about the Faces brand. Do you also have plans of including that plan into the portfolio or… I'd just like to know when that will happen in drugstores. Thank you.

Mrs. Alvares: Hi Irma, let me answer part of your question. First, about volume recovery, in fact, our focus this year is to recover household penetration. We had an increase in price last year to recover our margin and on the short term this led to a not-so-good result, but we have been seeing this as positive because our price increase was not as significant this year, which will give us a better access to the market. We have been seeing this as part of our household recovery strategy, and of course on focusing our marketing matrix in key categories, such as gifts and toiletries, something that we have mentioned before.

Now about Faces being launched, we have just introduced that proposal for our network, for our consultants, and this was very well received. This is a brand that we will explore in other channels as well, specifically with partnerships with Raia Drugstore, and also some department stores, specifically Renner.

So, we are going to start trying the product out with these channels in the makeup category. We know that the drugstore channel is good for impulse buying and trying out for the 1st time, so we have to… that's how we intend to work in that channel as well.

Mr. Ferreira: In terms of Capex, Irma, we have included this from the menu that CVM… capital for the year was R$350 million, and obviously, this will have to be approved in the general meeting in April, but this is a level that matches our needs of accelerating, recovering growth, supporting multi channels and also our operational expenses that will have a demand in capital to expand growth.

Mrs. Sgarz: And that includes 25 new stores, right?

Mr. Lettiere: Well, we are not disclosing this yet, but obviously, our intention is to grow in Brazil, in Aesop, in Latin America, so this will be a new growth cycle that will require Capex, and we have expectations of continuing generating cash and this model seems well in tuned with our growth strategy.

Mrs. Sgarz: Okay, thank you.

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

Mr. Ford: Good morning, thank you for taking my question. In the retail channel, what is the percentage of sales, and what is the comparison of sellouts?

Mr. Ferreira: Robert, I'm not sure if I understood your question correctly. You asked about the percentage of our retail operations, right?

Mr. Ford: Yes, that's right.

Mr. Ferreira: Our performance was above expectations, so we are learning about how these operations work, consumer preference, the brands that are most attractive, how holidays will work in that channel. So, we have been testing and examining these issues. But everything's been successful so far. So, this boosts our confidence that we will continue to grow.

We are adjusting and learning, but we feel pleased right now with our experience so far.

About selling and sellout, did you mentioned retail or direct sales?

Mr. Ford: Just retail. I think in direct sales that would be difficult to measure.

Mr. Ferreira: Well, the sell-in equals sell-out in retail for us right now. We don't have inventories and sales advances anywhere, so sell-in is the same the sell-out.

Mr. Ford: Okay, and the data you have on the press release that that include the sales of the retail?

Mr. Ferreira: Yes, total volume.

Mr. Ford: Okay, thank you very much.

Operator: Our next question comes from Alex Robarts, Citibank.

Mr. Robarts: Thank you, good morning everyone. I also have 2 questions, and the 1st one goes back to the topic of the consultant base in Brazil.

I think that your goal is very clear: Having a good base of consultants, that is the most efficient it can be. Looking at the figures for Brazil, 1.25 million consultants, this is our lowest in 3 years in absolute numbers, this is 2nd drop quarter by quarter, in the 4th quarter now. So, I just want to understand up to which point do you think that you should try to maybe provide better incentives, or do you think that this base will drop by a bit more once you reach a certain level or will it stop? This on the short term and middle term.

And what can we expect? Can you tell us a bit in terms of the… well, do you think that that base will reduce over the year? And finally, are you thinking about changing incentives to stop this drop? What number do you think is acceptable or optimal: 1.2, 1.3 for our direct sales to continue? Thank you.

Mr. Ferreira: Thank you for your question Alex. We have invested in training our consultants network, this makes the process a bit more selective, both in credit, as we mentioned, as well as training and recruiting. This is essential for our productivity to recover and to strengthen the brand through consultants.

With that being said, our intention is to have the biggest base possible, to have well-trained consultants, and what we hope will happen in the short term is to have a stable number of consultants in our base.

If there are variations, we hope that they will be slight in terms of our existing base, so we hope to be stable in the short term.

Mr. Robarts: Okay, so you wouldn't accept the base below 1.1 million of consultants, right?

Mr. Ferreira: All of the training processes for our consultants and all of the value propositions will take us to new configurations. It is still early to say what the new balance point will be. What I can say right now is that our intention is to stabilize our base on the short term.

Mr. Robarts: Okay, okay, I understand. My 2nd question is about the international side of the operation. If we were to calculate figures adding up Latin America and Aesop, the margin has really dropped, about 10 basis points, and of course the gross margin in Latin America dropped and also administrative expenses… expenses in Aesop have gone up.

So, I know that there is a currency exchange effect there, but today, if I'm not mistaken, 60 or 70% of products are being exported to these countries, and that results in a currency exchange effect.

Do you think that in the next years local production will be… will go up? Could it reach 50% of the business or even more? Or are we always going to export two thirds of it from Brazil?

The 2nd part of my question is: Will Aesop see a major growth on the administrative side in 2017? Can we expect any changes in that sense? I just want to understand this item of administrative expenses in Aesop. Thank you.

Mr. Ferreira: Starting with the margin part of the question, the gross margin (I understand you're talking about the gross margin), an important component is to assess LATAM's gross margin, that can be explained basically by the foreign exchange impact. Now we have… we produce… we manufacture those products here in Brazil, so we saw an important foreign exchange impact on Latin America's margin. Part of it coming from the US dollar and part of it coming from the subsequence appreciation of the real against all the Latin American currencies.

As for Aesop's growth margin, there was a growth of 1 percentage point, so we are somewhat comfortable in terms of margins. If we look at the 2nd issue you mentioned, about the G&A or expense management, administrative expenses, with the acquisition of 100% of Aesop there is no impact whatsoever in terms of the trenches on expenses or anything like that, from the moment we bought our

1st stake in the company and now with the full purchase, the company has remained totally independent.

Of course, with increasingly more synergies with Natura, but never (and it's not in our plans) we will have or will produce a negative impact on the company’s G&A. The expectation is to continue to grow with the same take on productivity, on efficiency, on growth, leverage by the operational side.

Mr. Robarts: Okay. Just to be sure, the margin in 2015 for Aesop at 20.9 Ebitda, 19.8 last year. Is that the level that you see happening in the midterm for Aesop, or could we expect that level to go up throughout time as you increase number of stores? In other words: Is there room for that Aesop margin to grow in the future?

Mr. Ferreira: Growth was extremely fast for the past few years. Of course, as we have new stores open, we don't see margins going at the same pace of course. But what we see when we look at the numbers is that we have our margins sitting at very solid levels for the segments where Aesop operates.

So, what I can tell you right now is that our plan is not going to dilute that number. Our investments will be geared towards improving our margins. But I’ve no doubt that we have reached a margin level for the segment, for this market, which is quite good I’d say. Of course, we need to grow organically, but we are at a very comfortable level.

Mr. Robarts: Thank you, thank you.

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

We now close the Q&A session. I'd like now to turn the conference back over to Mr. Ferreira for his final remarks.

Mr. Ferreira: Well, once again I'd like on behalf of the executive committee to thank you all for participating in our conference call, in particular to the quality of the question we have received, which were always an incentive for us.

We are quite confident in our basis, our strategic foundation, and we see a new growth cycle starting for Natura. We know that our products, our network, our brands are the vehicles to generate positive impacts on society.

With that, I remain available and we will be seeing you again in April when we come back with our 1st call of the year. Thank you and have a nice day.

Operator: Natura's conference call is over. Thank you for participating. Have a nice day.

natura
bem estar bem