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**International Conference Call
Natura
Second Quarter Earnings Results
August 10th, 2018**

Operator: Good morning ladies and gentlemen, thank you for waiting. At this time, we would like to welcome everyone to Natura &Co conference call on the second quarter 2018 results.

Today with us we have:

Mr. Roberto Marques – Executive Chairman of the Board for Natura & Co;
Mr. João Paulo Ferreira – CEO of Natura;
Mr. José Filippo – Chief Financial and Investor Relations Officer of Natura & Co;
Ms. Viviane Behar – Investor Relations Director of Natura & Co.

This event is being recorded and all participants will be in listen-only mode during the Company's presentation. After Natura's remarks are completed, there will be a question and answer session. At that time, further instructions will be given.

We have simultaneous translation into Portuguese and questions may be asked normally by participants connect from abroad, either in English or Portuguese

Should any participant need assistance during this call, please press *0 to reach the operator.

We have a simultaneous webcast that may be accessed through Natura's IR website: www.natura.net/investor. The slide presentation may be downloaded from this website. There will be a replay facility for this call on the website after the end of the event.

Before proceeding, please be informed that forward-looking statements are being made under the safe harbor of the Securities litigation reform act of 1996. Forward-looking statements are based on the beliefs and assumptions of Natura management, and on information currently available to the Company. They involve risks, uncertainties and assumptions because they relate to future events and therefore, depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Natura and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over Mr. Roberto Marques, Executive Chairman of the Board of Natura & Co. Mr. Marques, the floor is yours.



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Mr. Roberto Marques: Thank you Larissa and good morning to all OF you and thank you for joining us on this conference call to talk about Natura & Co second quarter results.

I am joined on this call by José Filippo, who, as you know, joined us in May as our CFO and to whom I would like to extend a warm welcome. He came to us for Embraer and brings vast experience both in Brazil and international markets. Also with me is João Paulo Ferreira, the CEO of Natura, and Viviane Behar, who recently joined us as Director Investor Relations and whom I'm also happy to welcome to our team.

I will start by presenting the highlights of Natura & Co second quarter performance, Filippo will then present our consolidated financials and performance by brand, I'll make some concluding remarks before the 3 of us can take your questions.

As usual, I will be referring during this call to the presentation that is available on our website. So, let's begin on slide 3 with the key highlights of Q2. In a nutshell, this was a very strong quarter for Natura & Co, delivering double-digit revenue and EBITDA growth, demonstrating once again the power of the multibrand, multichannel group with a global footprint that we are building.

And as you can all appreciate in the quarter that was pretty challenging for all of us, being able to report double-digit growth in revenue and EBITDA is pretty exciting and something that we are really, really pleased. And this is even more evident in the headline numbers, reported net revenue increased by 53% in Brazilian reais and by 13.6% on a *pro forma* basis, which, as you know, include The Body Shop in the base. Profitability was also up with a solid EBITDA increase of 12% on a reported base and 8.5% on an adjusted base.

This quarter we are also introducing, to help all of you, the concept of underlying operating income, which excludes non-operating results, financial expenses, income, tax and nonrecurring effects, providing a clear view of the health of each business and the group.

And in this metric, this quarter underlying operating income rose 9.4% in the quarter and 54.1% in each one. Again, Filippo will provide greater details on the numbers shortly.

Each one of our 3 brands and businesses is contributing to this performance. Natura's relationship selling and increasingly multi-channel model is continuing to deliver strong results despite the impact of the truckers' strike in Brazil, with solid sales growth, both in Brazil and in Latin America, and EBITDA also growing.



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The Body Shop transformational plan is underway and delivering its initial results underlying profitability, excluding the transformational costs that we are now implementing, was strongly up, in line with the plan to generate EBITDA margin improvement.

Sales in the quarter were impacted by the commercial calendar that helped us in Q1 as we disclosed in our last earnings call, but each one [sales] were up by a healthy 3.6%, something again that we are very pleased to see those sales number already coming from The Body Shop.

Aesop continues to deliver remarkable growth, with high double-digit growth in sales and EBITDA across all channels and geographies. We have also brought in some new leadership talents for the group in Natura and The Body Shop that I would like to highlight. I already talked about Filippo, who joined us as CFO of the group in Natura, and Viviane Behar as Director of Investor Relations, a road that has become more global.

Natura also recently announced the appointments of Paula Andrade as Head of its Retail Operations and Fernando Lemos as Head of Digital. The Body Shop also announced the appointment of Domenico Triccio to the newly created role of Chief Operating Officer, Amy Leed as Global Finance Director, and Ellen McCathew as Global Customer Director, as well as Lionel Tirol as Global Brand Director to support the CEO David Boynton and the team of The Body Shop in this brand transformation, which has gotten off to a strong start.

In line with our triple bottom line approach, we recorded also new initiatives and advances in sustainability this quarter. Let me mention in particular the new certification by the Union for Ethical Bio Trade for Natura's Ekos line and also The Body Shop global campaign Forever Against Animal Testing that is also continuing to show momentum and it's nearly in its aim of collecting 8 million signatures, which is something very exciting.

With this strong performance in Q2 in each one, Natura & Co is fully on track to deliver the medium-term target that we presented back in April at our Natura & Co Day.

With that, let me hand over to Filippo to go into our financial performance in greater details.

Mr. José Filippo: Thank you very much Roberto and good morning to everyone, it's a pleasure to have joined Natura and to be with you today, and I'm very much looking forward to our future exchanges.

Roberto mentioned that Natura & Co posted another quarter of very strong growth, on slide 5 you see that *pro forma* consolidated net revenue, which



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includes figures for The Body Shop in 2017, was up in double-digit growth both in Q2 and H1.

In the second quarter, consolidated net revenue reached R\$3.1 billion, up 13.6% versus the same quarter of last year on a *pro forma* basis, and up 8.6% at constant foreign exchange rates. This increase was driven by double-digit growth at constant exchange rates both at Natura and Aesop while The Body Shop's Q2 sales were impacted by the commercial calendar in the saving of purchases by franchisees, which boosted Q1 sales as we reported at the same time.

In the first half sales reached almost R\$5.8 billion, representing 12.4% growth on a *pro forma* basis and 8.6% at constant currency, all 3 brands posted sales growth in the half with Natura up by the same 8.6% in constant currency, The Body Shop up 3.6% and Aesop up by a very strong 33.4%. On a reported basis, Q2 sales were up 53% and H1 sales were up by 54.2%.

On slide 6 we turn to our consolidated adjusted EBITDA, which was up 8.5% to almost R\$372 million in Q2 and up 27% in H1 to almost R\$691 million. Adjusted EBITDA is a metric we are using to provide the clean reading of our operating performance excluding all one-off effects linked to The Body Shop acquisition.

This included acquisition expenses in Q2 of 2017 for R\$36.1 million and transformation costs in Q2 2018 for R\$37.5 million. As you see on this slide, all 3 businesses improve their performance and therefore contribute to our EBITDA growth in the quarter. Reported EBITDA was up by a solid 12% to R\$334.4 million after taking into account The Body Shop's transformation costs in Q2. In H1, reported EBITDA was down 1.5%.

Let's turn on the following slide to our bottom line. As shown in the graph, underlying operating income rose by a solid 9.4% in Q2 and by a very strong 54.1% in H1. Q2 growth was driven by The Body Shop and Aesop while Natura was broadly stable on lower gross margin and higher SG&A, as you will see shortly.

As Roberto mentioned, here again to provide comparable numbers our underlying operating income excludes acquisition-related effects and expenses, such as debt servicing and transformation costs. On a reported basis, net income stood at R\$31.8 million in Q2 versus R\$163.5 million in Q2 2017, reflecting this acquisition financing transformation costs. In H1 reported net income was R\$56.2 million versus R\$352.6 million and H1 2017.

On slide 8, let me conclude the rapid overview about key financial aggregate this quarter with a couple of balance sheet considerations. We recorded a free cash flow of R\$131.5 million in Q2 with a positive contribution from all 3 businesses. This compares with R\$225.5 million in Q2 2017, mainly attributed



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to a lower reported net income in the period impacted by acquisition effects and higher working capital due to seasonal inventory of The Body Shop and higher receivables from sales growth at Natura.

Our net debt to EBITDA ratio stood at 3.3 times at the end of Q2, in line with our expectations. We are on track to reach our target of 1.4 times by 2021.

With this, let's turn to a more detailed look at the performance by business. On slide 10 we begin with Natura with the key highlights of Q2 performance. Over all, Q2 saw further consolidation of Natura's transformation with sales growth in both Brazil and in Latin America and market share gains in Brazil, outstanding the impact of the truckers' strike in May. This demonstrates the strong resilience of Natura's business model.

Brazil's performance was driven by excellent Mother's Day and Valentine Days campaign this year, both outperformed last year's campaign on the back of stronger sales of key categories. Our relationship selling model continues to progress with our productivity per consultant up by a very strong 34.1% in Brazil as shown and further improvement in Latin America.

Our multichannel strategy is all advancing with high double-digit growth in online sales in Brazil and an acceleration in Argentina and Chile, and our innovation index improved again and stood at 64.3% in the quarter, up from 64% in Q1 and 52.1% in the year ago period.

Let's take a close look at top line performance on slide 11. Overall, Natura's net sales were up 9.8% in Q2 to a little over R\$2 billion and up 8.1% in the first half to R\$3.7 billion. At constant currency, growth was 10.3% in Q2 and 8.6% in H1. We grew both in Brazil and Latin America.

In Brazil sales grew by 6.7% in the quarter and 4% in the half driven by strong performance in key categories. The shift in Mother's Day to Q2 this year helped us offset the impact of truckers' strike in Brazil as well as some sales interruptions due to the World Cup. The number of consultants in Brazil stabilized and even increased slightly compared to the Q1, and productivity grew sharply.

We continue to wrap digitalization of our business with more than 50% of our consultants now using our mobile platform and online sales growing in double-digit again this quarter with significant increase in traffic, a higher average ticket, and a strong conversion rate. E-commerce now accounts for about 3% of the sales, we are also continuing to rollout our multichannel strategy with the new wave of store openings beginning this month.



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Latin America sales were up by a very strong 17.7% in Q2 and 18.8% in H1. At constant currency, growth was even stronger at 20.6% in the quarter and 21.8% in the half.

All geographies grew with a particular good performance in Argentina, Chile and Mexico. The number of consultants grew 10.5% in Latin America and we are also seeing improvement in productivity and we are rolling out our relationship selling model in Chile with positive initial results.

Let's now look at Natura's profitability on slide 12. Overall EBITDA was up by 5% in Q2 in Brazilian reais and strong growth in Latin America more than offset a broadly stable performance in Brazil. In Brazil EBITDA was down by 0.5% in the quarter, the performance was impacted by lower gross margin pressured by higher manufacturing costs as a result of the truckers' strike, foreign-exchange effects and promotional investments.

G&A expenses were up in the quarter due to a higher investment in technology to support the increasing digitalization of our business and in research and development as we strength our product portfolio to keep delivering innovative and desirable products.

Covertly, selling, marketing and logistics expenses, improved sharply falling by 260 basis points as a percentage of net sales even with higher marketing expenses demonstrating that our relationship selling model is more productive and efficient.

Latin America is maintaining its excellent momentum and its profitability was boosted by productivity and efficiency gains with EBITDA up 23.1% in the quarter. In H1, EBITDA was down 13.5% over all, with Brazil down 24%. However, it is important to note that H1 last year was boosted by a nonrecurring tax reversal of R\$154.8 million.

If you exclude this, comparable EBITDA that was up 11.7% overall and 3.5% in Brazil in H1, which constitutes a solid underlying performance.

We now turn to The Body Shop on slide 14. In Brazil reais, The Body Shop posted double-digit growth in net revenues both in Q1 and H1. In Q2 net revenues were up by 14.8% to R\$806.7 million, and in H1 they rose 15.6% to a little over R\$1.6 billion. At constant currency, the sales were down 1.1% in Q2 due to The Body Shop's commercial calendar and strong purchase and the Q1 by franchisees, in line with our forecast. Q2 did not benefit from those same effects as expected.

Looking at H1, which eliminates these effects, we saw reported sales rise by a healthy 3.6% with growth in own stores, sales by franchisees and align. In terms of geography, Asia-Pacific and Europe, Middle East and Africa region drove



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growth. This H1 growth was achieved despite having fewer stores as The Body Shop continues to optimize its store network. At the end of Q2, it had 1050 owned stores, 52 fewer than at the end of Q2 last year and 1928 franchises stores, down 6. Most of the store closures were concentrated in the UK and in the US.

On slide 15 we take a closer look at The Body Shop's profitability. As mentioned previously, The Body Shop began implementing its transformation plan and book transformational cost in Q2 of R\$37.5 million, or £7.6 million. These are part of the estimated transformation costs totaling £30 million to be booked in 2018 and 2019.

These costs are in line with our plan and are already factored in in the guidance we have provided to the market. The costs are tied to initiatives that will bring about a recurring improvement in the business with an estimate cumulative margin improvement between £105 million and £135 million over the next 5 years, in line with our guidance. These initiatives include such actions as: Renovation and redesign; store optimization; and measures to improve operational efficiency, among others.

We are already seeing strong improvement in The Body Shop's underlying performance excluding these costs. As you see on the slide, adjusted EBITDA grew in Q2 to R\$24.7 million from R\$8 million with margin of 3.1%. On a reported basis, including the transformation costs, reported EBITDA was negative R\$12.8 million in Q2. In H1, the improvement was even stronger with EBITDA increasing to R\$44.4 million on a reported basis.

Adjusted EBITDA excluding transformation costs reached R\$82 million, equivalent to margin of 5.1%. This improvement is largely due to a lower discount in the quarter as well as lower occupancy cost in own stores and better franchise sales. These numbers reinforce our confidence that The Body Shop's 5 pillars transformation plan is on track and already delivering results.

Let's now turn to Aesop, on slide 17. As shown in the graph, Aesop turned in another impressive performance both in the quarter and in the half with sales up 36.6% in Q2 to R\$225.5 million and 33.4% in H1 with R\$236.6 million at constant currency. This high double-digit growth was across all channels and geographies. This growth was supported by continued store opening including 25 new signature stores in the past 12 months as Aesop entered new markets.

Like-for-like sales in signature stores were also up by 21.6% with particular strong growth in Asia Pacific, demonstrating the brand's increase in the field. Online sales were also up in double-digit.

The graphs on Aesop profitability on slide 18 also speak for themselves and show that Aesop grows from strength to strength. EBITDA grew by remarkable



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32.5% at constant currency in Q2 to R\$25.3 million and 66.6% in H1 to R\$52.3 million. EBITDA margin reached 10.7% in Q2 and 12% in H1, a 300-basis points improvement.

On slide 19 we conclude this overview with a few sustainability highlights. First, as Roberto mentioned in his introduction, Natura became the first Brazilian brand and one of the only 2 worldwide to be awarded by a certification for its Ekos product line by the Union of Ethical Bio Trade. This reflects how Natura's sources is natural ingredients respecting fair trade, conservation of biodiversity and trust base relations with communities. Second, the United Nations Global Compact nominated Guilherme Leal, one of the founders of Natura and cochairman of the Board of Directors, as a member of its global counsel in recognition of his commitment to sustainable business practices.

And finally, with 7 million signatures in its global Forever Against Animal Testing Campaign The Body Shop is nearly in its target of obtaining 8 million signatures for the petition it intends to submit to the United Nations later this year.

Now, let me hand back to Roberto for his concluding remarks.

Mr. Marques: Thank you Filippo. Let's now conclude on slide 20 with our key takeaways.

With another quarter of growth in revenues and EBITDA, Natura is delivering and showing the strength of the group we are building, so hopefully the story of the group now becoming multichannel, multi-brand and with a more international presence is helping the growth of the business and delivering solid results despite some of the challenges that we saw in Brazil particularly in Q2, and all brands are contributing to this performance.

Natura's good momentum continues, both in Brazil and in Latin America, and its relationship selling model and multichannel strategy are advancing quarter after quarter.

The Body Shop is making significant strides to deliver its vision of the future, the transformational plan is advancing and already showing early results, as evidenced by significant improvement in sales and underlying profitability excluding the transformational costs.

And Aesop impressive growth history continues with strong growth in sales and profitability quarter after quarter.

With this solid second quarter performance, Natura & Co is on track to deliver the medium-term target it presented recently, namely a high single-digit compound annual growth in net sales and a low double-digit compound annual growth in EBITDA through to 2022, while at the same time reducing our net



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debt to EBITDA ratio to 1.4 times by 2021, one year faster than we first announced after we did the acquisition of The Body Shop.

Thank you very much for your attention, and we are now happy to take your questions.

Question-and-Answer 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 touchtone phone. If at any time you would like to remove yourself from the questioning queue, press star 2.

Our first question comes from Thiago Macruz, with Itaú BBA.

Mr. Macruz: Hello guys, good morning. My question is regarding the Brazilian operation. I would like to get more color on the impact this quarter of the truckers' strike. You've mentioned some recurring and nonrecurring effects to explain the stronger top line and softer profitability, I just wanted to make sure I understand what was the impact of the truckers' strike in profitability.

And when it comes to your strategy moving forward, is it reasonable to assume that you will adopt a more aggressive stance in terms of pricing in Brazil from now on? Should we see this is a new normal? That's my question regarding the Brazilian operation guys, thank you very much.

Mr. João Paulo Ferreira: Hi Thiago, JP speaking. So as regards the effects of the truckers' strike, it actually impacted twofold: One on top line, so our top line, which was really good, would have been even better if it wasn't for the strike, but once again be grew the high quality of the services we provide and the capabilities will built over the years that deliver us ongoing advantages in the business, but it proves itself in moments of stress like this, so that was the first impact; and indeed we had impacts on costs because we had some idle assets, we produced as much as we could of what we could, our distribution centers did their best, but, however, we did face some idle time with our assets reflected in our gross margin, and that's one of the reasons I'm very confident on margin improvements going forward in the second half, both in terms of gross margin, but moreover in EBITDA margin.

As it comes to pricing, as you said, we are sort of seeing a moderate (not to say shy) consumption pattern in the country, there is not much room for aggressive price increases although we do plan a slight price increase as of next month. So the overall promotion activity grew in comparison to last year, but we do think this is a temporary level and should normalize as economy picks up.



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Mr. Macruz: That super clear JP, thank you very much for your answer. Is it fair to say that the impact of the truckers' strike in the profitability this quarter was north of 100 basis points? Is this a good estimate? Just for us to really have a ballpark and be more educated in our forecasts for the remaining of the year. Thank you.

Mr. Ferreira: Yes, that is a fair assumption, it is a good ballpark. There will be a higher impact on top line and above that in profitability.

Mr. Macruz: Okay great, thank you very much.

Operator: Our next question comes from Olivia Petronilho, with JP Morgan.

Ms. Petronilho: Hi good morning guys, thank you for taking my question. I have 2 questions, actually. The first one is on the gross margin in Brazil. I'd like to understand a little bit more the effects that resulted in the drop in margins, and maybe if you can link that a little bit to the lower average ticket that we saw in the quarter. So is this a matter of mix, it is a matter of actual investments in prices, is this impacted by the new commissioning structure? If you could give is a little bit more visibility here.

The second question is regarding The Body Shop. So basically, you gave us a little bit more guidance regarding the investments in the revamping process of the banner. If you could give us a bit more visibility on which regions we should be focusing on, especially the most focused on franchisee, own stores, e-commerce, your launches and etc. So thank you.

Mr. Ferreira: Olivia, it's JP, I'll take your first question and then Roberto will take the second. So, as regards gross margin impact in our Brazilian business for Natura, for main drivers that impacted that you noticed, first of all the strike as I mentioned before, so fixed cost that couldn't be diluted, there is already showing some Forex effect, exchange rate effect in our raw materials, there was a third element of product mix, which explains your second part of the question on a lower average ticket, actually there was one of the categories with a lower price outgrew the average, and finally an increase promotional activity. So these are the 4 elements that explain the gross margin in Brazil.

Mr. Marques: Olivia hi, good morning, Roberto here. I'll take The Body Shop on behalf of David, who is not here on the call with us. So the transformational program, as I think Filippo mentioned, we now have a very very good handle in terms of the cost of transformation, we are planning to spend about £30 million between 2018 and 2019, roughly I'd say 20 million in 18 and then the other 10 million would be in 2019. Most of that is going to be related to some of the organization design to improve efficiency and efficacy of our structure, that's primarily in our company market, so Europe, North America and some parts of Asia, and also in terms of optimizing our store footprint.



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As we communicated throughout this track plan over the next 5 years, we think we are going to net with a reduction between 100 to 120 stores in some of those key market for us, again company markets. So hopefully that helps.

Ms. Petronilho: Okay. On The Body Shop it's great, if I could just have a follow-up on the Brazil margins. Do you think (strike apart, okay?) we should well should continue seeing in second half, I mean, little bit of pressure from FX and your promotional activities? Thank you.

Mr. Marques: Yes, strike effects apart, there will be a pressure on those elements, however, partially compensated by a slight price increase, moreover volume increase, because as you recall, our volumes are skewed to the second half of the year and we foresee huge flow-through through our PNL.

Ms. Petronilho: Okay, thank you.

Operator: Ladies and gentlemen, as a reminder, if you would like to ask a question, please, press star one.

Our next question comes from Guilherme Assis, with Brasil Plural.

Mr. Assis: Hi, good morning everyone, thanks for taking my question. I would like to get your views, maybe JP's views actually, on the growth of the Brazilian market. We lost some of the information that you used to have about the potential growth. So I'd like to understand, like market share wise, how you are seeing the company and how you are seeing the market growing in Brazil and the expectations for this year, maybe for next year and how do you think the market share wise Natura will perform? So that's one question.

And another question is about the consultant base in Brazil. We understand that Natura underwent like a cleanup and it seems like the churn this quarter, like in the last quarter, actually became a net addition again. So the question here is: Do you think that the cleanup is true, and should we expect the base to start growing again like in the short term? So those are my questions. Thank you.

Mr. Ferreira: Hi Guilherme, JP speaking. Thanks for the questions. Starting with the market, the market growth is very modest currently as we read it, all information... you know, following the GDP growth, a smaller GDP growth than forecasted originally, so consumption is quite contained. Having said that, we are very, very pleased to say that we continue to gain market share after achieving or recovering market leadership last year we continue to see Natura growing its market share, and actually looking forward, it's also very promising.

As you know, this end we are going to celebrate Father's Day – by the way, for all of you who are listening enjoy the day with your families –, but this is a very



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important date for us, which is being outperforming our expectations, which suggest that we will continue to increase our competitiveness in our market. So excellent opportunity for Natura going forward in spite of a lower market growth.

As it comes to your second question on the consultant base, indeed, it seems it's stabilized. So it seems that most of the cleanup is over, the total number of consultants in Q2 is very similar... actually slightly higher than end of Q1, so as of now we should see a sort of stable or perhaps an even slight growth going forward.

Mr. Assis: Okay. I think that's clear JP. Just a follow up on my first question if I may. Regarding the market share gains and when we look at the numbers like the operating data that you provided, like you mentioned before that there was a decline in the average price, I tend to think that as a mix of more promotions, but also an important part in product mix, so when you think about that and try to reconcile with market share gains, is it fair to say like that you are maybe last year the main driver for market share gains was fragrances and this year like you are more diversified in market share gains?

Mr. Ferreira: Yeah, I think it's a fair assumption, were actually gaining share in all of our categories basically, in the core once, and more diversified than last year indeed, last year fragrances was perhaps the biggest driver, it continues to be, but the other categories are performing as good as, and some of them at this moment even better. So it is a more spread growth and that has an effect on the category mix in this particular quarter.

Mr. Assis: Okay, okay. Thanks. And maybe just one last thing now that you mentioned you believe that your consultant base is already stabilizing now, so should we start to see a reduction in the productivity gains we saw? That was a big highlight in this quarter, in the second quarter should we start to see more modest productivity gains going forward?

Mr. Ferreira: Well Guilherme, that will link to our modernization digitalization strategy, so as we start filing new services and new possibilities of improving the shopping experience through the consultants, through digital services to our end consumers, if that continues to work fine, we are going to continue to see improvement gains. Whether they are going to be as sharp as they were in the last say 4 quarters, that's yet to be seen, but we are working to have that indicator continuing to grow.

Mr. Assis: Okay, that's super helpful. Thank you, JP.

Operator: Our next question comes from Richard Cathcart, with Bradesco.

Mr. Cathcart: Hi guys, good morning, thanks for taking the question. Just a couple of questions about Natura in Brazil. Firstly, you said that you're going to



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begin to open more own stores by the end of the year, should we expect to see kind of a new different updated store concept or are you continuing to rollout the stores kind of we already seen some locations in Brazil?

And in the second question is just about the drug stores channel, you got some specific products, so that channel is the faces makeup, body care and etc. Could you just kind of give us some information about how the business is performing, what your expectations are for the rest of the year and next year? Thanks very much week.

Mr. Ferreira: Thank you for the question. JP speaking again. As it comes to store concept, we are indeed opening stores in the second half of this year, we opened it Niteroi 2 weeks ago, today, this morning, we just opened in Goiânia, so there is sort of a dozen stores yet to be open or more in the second half still under the current concept. We are indeed working on a new store concept, but that should materialize next year.

When it comes to drug stores, we are happy with the performance so far, and we are looking at the opportunities to gear it up next year, so it's a work in progress understanding where the opportunities lie and a soon as we have more news on that we will inform you accordingly.

Mr. Cathcart: Okay, thanks. And if I may, just a follow-up on The Body Shop in Brazil and Latin America, I think when the acquisition was made, one of the strategies you wanted to implement in direct sales of The Body Shop in Brazil so leveraging the relationships you already have, you know, can you just give us an update on that strategy and when we should begin to see that in place? Thanks.

Mr. Marques: Hi Richard, is Roberto here. Just on The Body Shop LATAM, we still see this is one of the biggest opportunities to drive growth and we have now under David, but also under Robert Chatwin, our Chief Transformational Officer, really starting to study what potentially could even help and boost even more the presence of The Body Shop in LATAM, we are looking at the store footprint, we are looking now at the franchise models that we currently have, and we are going to be evaluating potentially direct selling as a complement.

We don't have the strategy defined yet, it's work in progress as a piggyback here on JPs point.

Mr. Cathcart: Okay perfect, thanks very much.

Operator: Our next question comes from Gustavo Oliveira, with UBS.

Mr. Oliveira: Thank you for taking my question. I wanted to talk a little bit in Brazil if I may. I understand there is a recent price increase being implemented.



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If you could comment a bit on that and whether you expect gross margin improvement in the second half of the year or not. That is the first question.

Mr. Ferreira: Hi Gustavo, as I just mentioned, yes, we will increase prices slightly and that should help of gross margins going forward.

Mr. Oliveira: João, what is the magnitude of the price increase? And just to confirm, you usually do a price increase at the beginning of the year, so I would like to understand if this is a second price increase, but you didn't do in the first half of the year, if you could give us a sense for what's the magnitude of the price increase now and also if it's more related to pressures related to the BRL devaluation or if you are seeing opportunity in the marketplace at the moment, since it seems that you are gaining share and the competitors are a little bit weaker at the moment.

Mr. Ferreira: So not a big price increase, so low single-digit. We didn't try to increase price earlier, not much room for price increases in the market.

Mr. Oliveira: Okay. And the second question is with respect to the G&A. I think in the first quarter you had very good results in G&A in Brazil, but right now your G&A expenses driven up 25% in this quarter. What we should expect for the rest of the year? Is it generally going to be growing more in line with revenues in your expectations or there should be some pressures for the rest of the year?

Mr. Filippo: Hi Gustavo, it's Filippo. Yes, in terms of the projections for the year I think we should take this number as the remaining, we don't expect to see increases on these numbers, they should be keeping this level. Again, that reflects as we indicated our investments in innovation, it's important about our digitalization and IT platform as well that we are incurring some Opex to that, and also that we took some of the IT assets in terms of the life for... we revised the useful life of some of the IT assets that also accounted for what you see there, but we expect to see this remaining nominal terms for the year. However, with the growth we definitely will dilute those costs throughout the year in the future.

Mr. Oliveira: That's very clear Filippo, thank you. And 2 last questions on The Body Shop if I may. I would like to understand a bit, I understand you are cutting probably discounts, you are reducing the level of product discounts, I want to understand where you stand on that process and whether you would expect any impact on your revenue in the second half of the year or whether the consumers are actually continuing to buy and therefore the elasticity of these discounts is actually very low or not, or whether there would be a potential deceleration on revenues going forward.

It's quite difficult still at this stage to forecast your revenue line, although I recognize it has given us a good mid to long-term guidance, but in the very



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short and short term practically in the second half it's quite difficult to understand where you are stand in terms of the potential impact of the product discounts, the reduction probably discounts on your top line.

Mr. Marques: So, it's Roberto here, let me see if I can help you. Again, I think yes we are on the process of reducing levels of discounts for The Body Shop and again we think that the brand is worth more and we're seeing them very good results in stores in couple of markets, in Europe and also in the US where we are experimenting and seeing consumers responding in terms of transaction positively even though we are reducing levels of discount.

We felt as part of our due diligence that probably the brand was too much discounted and we have great products, a great brand and the team is really starting again to work on the rejuvenation of the brand and how we can add more value. So that trend will continue.

There was a projection from a revenue perspective again we are very pleased with the results on the half 1. So if you look at our half 1 we grew a little bit above 3%, 3.5%, 3.6%, and I would say our expectation is that we will continue that trend. Again, it is a combination of improving a little bit the transformation, reducing discounts, but again, we still have a long way to go to implement this brand rejuvenation. So that's pretty much the best proxy that we can have at this point, it is based on half 1 results.

Mr. Oliveira: That's very helpful. And one last question on the gross margin for The Body Shop. In the fourth quarter of 2017 and a little bit ahead of the fact, but the fourth quarter is the most important quarter, this is a very seasonable business, and you had a margin contraction versus the third quarter 2017 number, but you are managing the company differently now. Should we still see a drop in margins in fourth quarter because of mix effects and different campaigns, or you think margins could be more stable where they are right now, gross margin?

Mr. Filippo: Hi Gustavo, we still expect to see the margins at the level we saw before, but not a reduction. You just saw the first two quarters already had a good indication about the capacity and the momentum of this business and the fourth quarter is the strongest, there is a clear seasonality on this business for TBS and we expect to see stronger fourth quarter. That's what we expect.

Mr. Oliveira: Okay, thank you.

Operator: This concludes today's question-and-answer session. I would like to invite Mr. Roberto Marques to proceed with his closing statements. Please, go ahead Sir.



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Mr. Marques: Thank you Larissa, and again, thank you all for joining us. I would like to wrap up in a knowledge and thank all of our associates at Natura, The Body Shop, Aesop for driving those tremendous results in the quarter and for the semester.

Again, we are in a journey, we are building a group that we are very proud of and the results again hopefully would agree with us are pretty encouraging and very positive on the quarter. And for the ones in Brazil we wish you a happy Father's Day, and reinforcing JP's, make sure that you are buying a Natura gift for your fathers, and thank you very much, have a good weekend, thanks everybody.

Operator: That concludes the Natura audio conference for today. Thank you very much for your participation and have a good day.