## International Conference Call
## Natura Cosméticos S/A (NTCO3)
## 4Q23 and 2023 Earnings Release
## March 12th, 2024

**Operator:**

Good morning, everyone, and thank you for waiting. Welcome to the Natura&Co 4Q23 and full year of 2023 earnings conference call.

It is important to point out that we have a simultaneous translation tool available on the platform. To access it, just click on the “interpretation” button through the globe icon at the bottom of the screen and choose your preferred language, Portuguese or English.

For those who are listening to the video conference in Portuguese, there is the option to mute the original audio in English by clicking on “mute original audio”.

On today’s call are Fábio Barbosa, CEO of Natura&Co and Guilherme Castellan, CFO of Natura&Co. João Paulo Ferreira, CEO of Natura&Co Latin America, will join for the Q&A session.

The presentation they will refer to during this call is available on the Natura&Co Investor Relations website.

I will now hand it over to Fábio Barbosa. Please, sir, go ahead.

**Fábio Barbosa:**

Thank you and good morning, everyone. We greatly appreciate your participation today. 2023 was a year of key advancements in our strategy operations, financial performance and enhanced overall financial position. I am encouraged that we delivered solid results in the 4Q23 and for the full year, marking a significant process in our transformation.

I would like to start with a quick overview of what drove our 2023 performance and contributed to our success. The past year was driven by three key enablers that we had established back in June 2022. They were: streamline our business, focus on profitability and cash conversion versus revenue growth and advanced structure projects.

Beginning with simplification, we closed the sales of both Aesop and The Body Shop in the second half of the year. We also continued to optimize the holding structure by giving more autonomy and accountability to the business units. Then, early this year, we announced the delisting of our ADR from the New York Stock Exchange and, last month, we released the material fact informing the market our plan for assessing a potential separation of Natura&Co Latam and Avon.

As you all know, we are still in a very early stage of this process and, of note, there can be no assurance at this time that the separation will be approved by the board. We will keep you and the market posted with any relevant update on this process.

Next: financials. We are pleased that our business is moving in the right direction. We strengthened our margins, improved our cash flow and the leverage to be in the net cash position at the year end. The positive free cash flow to funds, alongside our much stronger balance sheet, allow us to start moving to a more optimal capital structure and to announce a R$979 million dividend payment for this year.

Moving to the structure projects: in Brazil, Wave 2 already led to a fourth quarter where we saw enhanced productivity, cross-selling and recovery of the distribution channel activity.

Furthermore, the initial challenge mentioned in the last earnings calls showed improvements. At Avon International, I would highlight that the entire business is already being managed from two lead regions, down from the previous four lead ones, showing further simplification of the business model.

Lastly, our strategic focus and investment in our ESG goals has been and will always be a priority for us and to our key stakeholder and is totally embedded in our business strategy. In this sense, I want to highlight important initiatives from this year that we are very proud of, which have to do with our people. We not only met our goals to ensure a living wage for all Natura&Co employees, but also reaffirmed our commitment to eradicating the gender pay gap across the Organization.

With that, I will turn the call over to Guilherme, who will provide more details on our 2023 financial results.

**Guilherme Castellan:**

Thank you, Fábio, and hello, everyone. I will start on slide six, with consolidated revenue from Natura&Co, which stood at R$6.6 billion, up 4.5% in constant currency. In reais, sales were down 17.4%, reflecting the depreciation of some currencies in the countries in which we operate versus the real and the impact of hyperinflation accounting. Excluding Argentina, this decline was 5.1%.

We will look at the performance by B shortly, but in a nutshell, we posted constant currency growth of the Natura brand which was up 8.5%, but down 4.7% excluding Argentina, mainly driven by a solid Natura Brazil performance offset by the Avon brand.

At Avon Latam, we saw an expected decrease given the roll out of Wave 2, which included planned reduction in reps coupled with portfolio optimization, especially in the Home & Style category. On a positive note, we could see improvement in the downward trend in Brazil when we compare 4Q23 to 3Q23. The changes implemented in the Home & Style category were also responsible for most of the decline seen at Avon International.

Now, turning to slide seven, the Adjusted EBITDA margin was 10.1% in 4Q23, expanding 370 bps year over year, from 6.4% in 4Q22, marking another strong quarterly improvement with solid expansion across all businesses. Excluding the hyperinflation accounting impact, the expansion would have been 510 bps year over year.

This reflects improved results at Avon International with margin expansion of 150 bps year over year, driven by both higher gross margin and transformational savings being implemented, along with the strong impact from SG&A savings. Natura&Co Latam also registered a solid margin expansion of 250 bps year over year, also driven by higher gross margin and improving G&A expenses.

It is important to note that we saw expansion of our EBITDA margin in every quarter during 2023. We are particularly pleased with the trend in corporate expenses, which have declined approximately 40% in over two years, as Fábio also mentioned. The improvement in our cost structure is a big contributor to our improved Adjusted EBITDA margin.

Moving to slide eight, let us now look at our bottom line. The reporting net loss in 4Q23 was R$2.7 billion, compared to a net loss of R$890 million in the same period last year. This is mainly explained by discontinued operations, which includes the capital loss due to The Body Shop divestment and the Avon International non-cash goodwill impairment of R$664 million.

When we look at the underlying net income, which excludes transformational costs, restructuring costs, discontinued operations and PPA effects from net income, we get to a net loss of R$506 million, versus a loss of R$49 million in 4Q22.

As higher Adjusted EBITDA was more than offset by higher net financial expenses, many related to the peso devaluation, hyperinflation accounting and also tax expenses given the mix of profitable and unprofitable countries, in the year, reported net income was positive R$3 billion, an improvement from the loss of R$2.8 billion reported in 2022.

In the full year of 2023, free cash flow from continued operations was -R$2.8 billion, many impacted by the R$1.5 billion settlement of the derivatives related to the liability management exercise we executed in the second half of the year and a higher working capital consumption.

Free cash flow to the firm in the same period was positive R$59 million, adding back the effects and interest on that and derivative lines, versus -R$561 million reported in the full year of 2022.

Working capital was impacted by accounts receivables, given higher revenue sales from Natura Brazil that is exposed to the longest receivable terms and inventories impacted by write-offs as a consequence of portfolio optimization in Latam Wave 2.

On slide 10, you can see our liquidity profile. We ended the quarter with a cash balance of R$7.8 billion, up from R$6 billion a year ago, as a direct result of the sale of Aesop. The proceeds from the sale allow us to pay down most of our debt in the second half, becoming cash positive in R$1.7 billion and reaching a negative net debt to EBITDA ratio of -0.79 times.

During the quarter, we also concluded the tender offer of US$880 million related to the bonds maturing May 2028 and April 2029. The average maturity of our debt now is 4.7 years.

Our balance sheet is strong and sufficient to support our investments in growing the business and, combined with a positive free cash flow, allow us to move to a more optimal capital structure, and we are announcing R$980 million in dividends payment for this year. We will maintain a balanced and disciplined approach to capital allocation with respect to our strategic priorities.

Before turning to our performance by business unit, let me update you on our Wave 2 progress. The rollouts continue to evolve, with a solid performance from the Natura brand in Brazil and a recovering trend from Avon. We continue to see enhanced productivity and cross-selling, coupled with a recovering distribution channel activity in Brazil during 4Q23.

We are also already noticing improving trends related to some of the issues that we disclosed last quarter. In Brazil, more specifically, most of the backlog of delayed deliveries was resolved in the beginning of the year, restoring on-time delivery and lead times for both brands to their bridge disruption level. The efforts to reorganize sales leadership are already showing signs of stabilization, and the performance indicators are already aligning with historical norms.

The level of inventory shortage has seen improvements on a quarter on quarter basis, despite the seasonal strong demand in 4Q23. It is worth noting that these adjustments are ongoing as we speak, as we get to better understand the new levels of demand from the combined business.

In Hispanic Latam, the level of service in Peru and Colombia is also better, and we saw improved satisfaction from our consultants. With the experience gathered and lessons learned since the first roll out of Wave 2 in August, we were able to implement a smoother integration process of Natura and Avon in Chile in the beginning of this year.

Let us now look at performance by business unit, starting with Natura&Co Latam. Excluding Argentina, revenue was down 4.7% in reais. The Natura brand continued to post strong momentum with year on year growth of 8.6% in the quarter in Brazil in constant currency, demonstrating solid performance despite the operational challenges related to the Wave 2 roll out that I just mentioned.

Still, these results were fueled by non-direct selling channels, including retail and digital, which we saw significant growth, contributing to a larger share of total revenues and improving contribution margins.

In Hispanic Latam, excluding Argentina, revenues were broadly stable year over year. Mexico faced challenges due to the adjustments in its commercial model, while Chile experienced a dip in performance as it prepared for the early 24 Wave 2 roll out.

For the Avon brand in Latam, net revenue in the Beauty category was down 5% in constant currency, mainly impacted by the 12% drop in Brazil, still impacted by the Wave 2 roll out. Although still in negative territory, this was an improvement from the 25% decline reported in 3Q23.

In Hispanic markets, net revenue was broadly stable in constant currency, but down 19% excluding Argentina, reflecting ongoing challenges and similar trends to 3Q23, particularly related to the preparation and execution of Wave 2.

Finally, the Home & Style category recorded a 31% revenue decrease in constant currency year over year, directly related to the portfolio optimization strategy we announced before.

We will now turn to Natura&Co Latam profitability figures. The Adjusted EBITDA was R$557 million, and Adjusted EBITDA margin was up by 250 bps, to 11.4%. Excluding hyperinflation accounting impact, margin expansion would have been 410 bps year on year.

Natura&Co Latam was, again, a solid performer in terms of profitability, driven by a strong performance from Natura Brazil and an evolution of the performance of Avon in the region. We saw gross margin expansion of 380 bps mainly by Avon Hispanic, which was boosted by commercial adjustments.

Although we are pleased with the progress to date, Avon is not yet where it needs to be. Overall, the improvement of profitability in Natura&Co Latam was due to gross margin expansion, driven by effective pricing strategies, product mix enhancements, portfolio optimizations and reductions in G&A expenses. These gains were partially balanced by planned increase in marketing.

Now let us turn to the performance of Avon International. Moving to slide 16, Avon International 4Q23 revenue was down 6.1% year over year in constant currency and 16.9% in reais, an underperformance when compared to the last couple of quarters, when it was broadly stable. The main impact here is the Home & Style category, while Beauty revenue was down 2.6%.

Avon International is also improving digital sales penetration, which increased by 2.2 percentage points year over year to 8.3% of total revenue. Profitability, in turn, showed an important evolution with Adjusted EBITDA margin reaching 11.3%, an expansion of 550 bps year on year.

The expansion reflects gross margin improvements coupled with a decline in selling and G&A expenses. The year over year comparison base was easier, as 4Q22 was significantly impacted by phasing of expenses, which helped 4Q23 margin expansion, despite sales, deleverage.

I will now turn the call back to Fábio for his closing remarks.

**Fábio Barbosa:**

Thank you, Guilherme. 2023 marked a pivotal chapter in the Company's history, setting the stage for the ambitious horizons we aim to reach in 2024 and onwards. We are encouraged with the positive results from the strategy set approximately 18 months ago, but we must continue evolving our strategy as margin and cash remain as a priority in the short term, paving the way for additional investments in brands and technology.

During 2024, resource allocation will continue to be a critical driver for future value creation, with a focus on investment in key growth markets and products. We continue to expect volatility in the top line, but with margins improvements in the full year, particularly excluding Argentina. I am excited to build upon the success of the past year and the leveraging of our long term objectives.

We are now available to take questions.

**Operator:**

Thank you. Ladies and gentlemen, we will now begin the Q&A session. Remembering that, to ask questions, you must click on the #Q&A# icon at the bottom of the screen and write your question, to join in the queue. Upon being announced, a request to activate your microphone will appear on the screen and then you must unmute your microphone to ask questions. We kindly request that all questions be asked at once.

Our first question comes from João Pedro Soares from Citi. João, we will open your audio so you can ask your question. Please proceed.

**João Pedro Soares, Citi:**

Thank you, I appreciate it. Good morning, Fábio, Guilherme and everybody. I have a couple of questions on my side.

The first one: I just want to understand the capital structure going forward after the dividend payment, looking to the first quarter where you have a seasonally worse cash cycle. What would be the optimal capital structure now, looking specifically at leverage?

The second point that I wanted to discuss: in Brazil, I understand that you already solved the delayed deliveries, but we still see some issues with the inventory shortfall in the 4Q23. So, I want to understand if this is fixed or if you should have expected other effects.

I also wanted to discuss the wrap base, as we still see a decline in the wrap base in the 4Q23. Where are we exactly in that cycle? When should we see a reversion in terms of the wrap base?

Lastly, if I may, what would be the recurring EBITDA in the recurring earnings, excluding the effect of Argentina? Thank you.

**Guilherme Castellan:**

Hi, João, thank you for the question. I hope you are well. I am going to take the first question about capital structure and then I am going to pass the ball to João so he can expand a little bit more on Brazil and your questions on inventory, and then we can talk a little bit about the last question.

On capital structure, let us remind everybody that this is something that we have been talking to the market since we closed the Aesop transaction, back in the second half of last year, and there are basically two drivers now that allow us to move to a more optimal capital structure. Those drivers are the strong balance sheet position - as you can see, we finished the year with R$1.7 billion in cash -, and the second one is this strong free cash flow to firm generation.

As you probably remember, João, we have been consuming cash on an annual basis, mostly driven by free cash flow from operations, but also due to the high interest expense that we had on an annual basis. And now, with the liability management with our cash position, that number is much better, of course. It is not impacting us negatively as before.

Plus, the confidence that we have in the plan shows us that, again, we are in a very good position to go back to strong cash flow generation in the upcoming years, even keeping in mind that, in 2024, we have potential one-offs such as continued transformation costs and tax expenses related to capital gains of 2023.

But, having said that again, we are confident in the plan and we believe that that allows us to announce the R$979 million in dividend for 2023, which is the maximum of our profit reserves, and also allow us to move to a more optimal capital transaction that, as we have been disclosing to the market, should be around 1 to 1.5 times leverage, which is not going to happen overnight.

I am going to reiterate that point: it is not something that we are going to move immediately, but, of course, we are going to be targeting that level as the business progresses. With that, I am going to pass the word to João.

**João Paulo Ferreira:**

Thank you, Gui. Hi, João. As regards our Brazilian operation, indeed, the late deliveries have been sorted out at the end of the year, and it is now back to normality.

As regards product shortages, we experienced a very high figure throughout 4Q23 as we started stabilizing and learning more about the combined demand of Natura and Avon, and currently is operating at a much lower number than we experienced in 4Q23, although higher than our historical levels. So, we are still learning from this new combined portfolio and from the improving trend of our business in Brazil.

Gui, I think the next one goes to you, on the recurring margins.

### Guilherme Castellan:

João, I think you probably had a chance to look at the release, where we put a table there indicating what is the impact of the hyperinflation. I reaffirm here that, even though we should expect big macro volatility in the country, Argentina continues to be a paramount region for us to win and, by the way, one that we have done extremely well in the last few years, and we will continue, of course, to be focused in that region.

Of course, there is a hyper inflation impact, which, as you probably saw on the table, negatively impacts Latin America margin expansion. And, again, we should continue to expect some impact of that type during 2024.

Having said that, it is very important for us to reaffirm and record what Fábio said, that we are expecting to see margin improvements in Latin America, particularly excluding Argentina. It is very difficult to predict what is happening and what will happen in Argentina, especially in the scenario of consumer constraint, but we are confident that the plan is working and, of course, with that, it will result in continued margin expansion.

I hope that the table helps and, of course, if you have any other questions on that, we can take it offline. Thank you.

### João Pedro Soares:

Thank you, Guilherme and João.

### Operator:

Our next question comes from Joseph Giordano from J.P. Morgan. Joseph, we will open your audio so you can ask your question. Joseph, please proceed.

### Joseph Giordano, J.P. Morgan:

Good morning, Fábio, Guilherme and João. Thank you for taking my question. There are a few ones, actually, here.

The first one goes into the Latam perimeter. Those are, maybe, simple questions. We still have the Wave 2 being implemented in Brazil, but, in 4Q23, we did see some acceleration in the shrinkage of sales reps in Brazil. The question here is: when should we be seeing that normalization?

The second one, about Latin America, goes with what Guilherme was commenting now, just trying to exclude the noise from Argentina. Could you share what is the margin level in Latin America, excluding Argentina? We ask that because, when we look at it on a constant currency basis or anything like that, we still have some inflationary gains on inventories that tend to distort the reported margin figures.

Moving to Avon International, I have two questions on this front. We do see the top line still contracting, but a much healthier EBITDA margin level. So the first question is: how far are we from having this operation at a cash flow neutral stance? And the second one is: do you have any updates on the potential spin-off of this operation? Thank you very much.

**Guilherme Castellan:**

OK. I think João is going to kick off with Latam and then I will take the other ones.

**João Paulo Ferreira:**

Joseph, basically our rep count base has stabilized at the end of the year. That also happened in Peru and Colombia. It is now stable and the operation is progressively back to regular standards.

I want to call your attention, of course, that the productivity gains have been huge, especially in Brazil. So, as of 1Q24, you will see sort of regular trends progressing.

**Fábio Barbosa:**

If I may just add an example, our objective has been to clean up a little bit the basis and go for the consultants which are actively operating and, thus, João Paulo emphasizes here that the productivity goes up. Of course there is a limit on what I am saying here, but the idea, more than going for more and more consultants, is to make sure that we have consultants which are active and very productive. And that is what João Paulo is working on, which, by the way, is also the case in Avon International.

**João Paulo Ferreira:**

Indeed, Fábio. By the way, Joseph, let me call your attention to the fact that, if you look at Brazil in 4Q23, Natura brand grew and the Avon brand, which was -24 in 3Q23, is now -11 in 4Q23. That is an ongoing trend, a very positive trend going forward. So, we are focusing on productivity gains, as Fábio just highlighted.

**Guilherme Castellan:**

Thank you for the questions, Joseph. I am going to start by talking a little bit more about Argentina and, again, making a link to what I said to João in the first question. And I apologize, Joseph, if I did not understand your question correctly, but I think I can answer both right now.

Let us start with the fact that Argentina has historically a very high EBITDA margin, especially driven by the Natura brand and, of course, especially driven by the high market share that Natura has in particular but, of course, both Natura and Avon have in the country. We do not disclose that margin, but you should expect it to be above the average of Latam, especially driven, again, by Argentina.

If I can flag a couple of things related to Argentina, I keep saying, Joseph, and can expand more, that Argentina remains a key country for us. It is a country where we have a huge market share. It is a country where the Natura brand has a huge brand equity and is performing extremely well. And yes, we operate in Latin America, we face countries that are volatile, but again, we remain very much focused on winning in Argentina, even amid this short term volatility.

Having said that, Argentina, which, in the past, represented almost 15% of our results, now, as you can see in the financial release, it represents less than 8%. Of course, the devaluation of the currency has an impact on the total weight. So, even though Argentina has a very strong margin, above the average of the country - and, by the way, the 2023 margin was impacted by the macro volatility there, so it is not as strong as before -, we should expect the Argentina weight in the total mix of things to diminish. That is all I can say, as we do not disclose margin by country.

Moving on to Avon, it has been on a journey. It has been three years since the acquisition. I think that in the last three years, we have been mainly focusing on stabilizing the business. And I think that the team, which is led by Angela and Kristof, has done a fantastic job in being able to stabilize the business.

The results speak for themselves when we talk about improvements. When you compare the results of Avon International in 2023 to 2021 and even to 2022, not only do you see a margin expansion, but you also see a big improvement in the way that cash has been managed.

There is still a small cash consumption coming from Avon, but the improvement has been tremendous, and again, we expect to see Avon printing positive cash in the upcoming year, so we are very excited to see the plan evolving in the right way, even though there are some uncertainty, related, as well, to the countries where we operate, and we may expect to see some volatility in top line as we have disclosed in the release.

This links to your next question, which is the studies on the potential separation. Just to be clear, at the end of the day, we are aiming to unlock shareholder value with those studies, if that is the decision from the board. But, in the end, we are only in a position to announce something like that because of the work that Avon has done in the last few years.

What we are trying to do, ultimately, is to seek the best outcome for both Avon and Natura brand, which, as we have disclosed in the past, are our core assets. And, at the end of the day, we are only able to announce these results because of the results that we have there today.

The results were announced basically, as we mentioned before, because we do not see a lot of synergies between the two regions. It is a continuation of what Fábio has announced back in the middle of 2022 about the simplification of the business, giving more autonomy to the B.U.s and letting them have flexibility on their investment capacity. And, of course, at the end of the day, we see that we are in a potential position that we can announce something like that and, if the board approves, execute it.

But, as Fábio mentioned, we are in early stages, we do not have anything else to announce at this point. I know that the market gets anxious and curious, but it is not something simple, as you can imagine, there are a lot of things that have to be carefully analyzed, but we will continue to study. And, of course, we understand that we have a commitment to the market to return soon with a position on that, and that is what we are going to do.

**Joseph Giordano:**

Perfect, thank you very much.

**Operator:**

Our next question comes from Gustavo Senday from XP. Gustavo, we will open your audio so you can ask your question. You may proceed, please.

**Gustavo Senday, XP:**

Good morning, everyone. Thank you for taking my questions. I have two questions.

The first one I think is more towards João, looking at Wave 2. In the release, you mentioned that cross-selling has evolved in the quarter, but could you provide more details in terms of categories being cross-sold, what is the percentage of Avon's base that is already cross-selling with Natura and how that trend compares by country?

Also, given that the operational challenges were adjusted in 4Q23, can we continue to expect the logistical integration of both brands to take place in 2Q24 in Brazil or has that plan been slightly postponed?

The second question is for Guilherme. G&A control was a positive surprise in the quarter. I just wanted to understand if we can expect further gains going forward or if the main adjustments have already been made. Thank you.

**João Paulo Ferreira:**

Hi. As regards cross-selling, I think we mentioned in previous occasions that it is extremely high in the Andean countries, Peru and Colombia, where we first started. In Brazil, it is not as high, because, as you noticed, logistics have not been integrated. So, there are some additional barriers to placing combined orders in Brazil. Having said that, the number is much higher than we expected, although lower than what you see in the Andean countries, where that has already been integrated.

By the way, we have just launched Chile, where we see the same very high cross-selling numbers that we saw in the first countries and now with no operational issues whatsoever.

So, back to Brazil: yes, we are working to integrate logistics. The distribution centers in the Northeast part of the country have already been physically integrated. The ones in the South and Southeast will take longer. Having said that, we are preparing another round of commercial integration and order simplification by mid this year, between June and July.

**Guilherme Castellan:**

Thank you, Gustavo, for the question. It is great to hear from you. As we have been telling the market, cost control has been one of our priorities in the last few months, since basically the second half of 2022, alongside the margin and cash conversion.

It is very important to mention that we will continue to evolve in this agenda. I think a lot has been done. You can see the results as we disclose on the holding website, but you can also see the results on the B.U.s, especially in Latam and, of course, in Avon International.

As we have disclosed one year ago, it is important for us to be clear as well that we benefit from an easy comparable in that sense too, given the phase of expenses that happened in 4Q22. But even without that and even without the reallocation of the lines between sales and marketing and G&A in Latam, we have been able to deliver significant gains in G&A in the year.

This is something that the market needs to put us in check, because, as we have been disclosing, we are investing a lot in transformational costs and restructuring costs, as you can see in the release in 2023, both in Avon and Latam there were significant expenses related to those transformational costs and, of course, they have to pay yields.

Not all those numbers that we have disclosed here are cash related, there are some non-cash impacts there, but most of them have to pay yield, either to optimize the structure of the business or to generate more efficiencies in our technology, but they have to pay yield, and this is something that the market should ask us on a continued basis, because of our commitment to continue to work on costs and margins going forward.

**Gustavo Senday:**

It was very clear. Thank you.

**Operator:**

Our next question comes from Ruben Couto from Santander. Ruben, we will open your audio so you can ask your question. You may proceed.

**Ruben Couto, Santander:**

Good morning, everyone. Actually, I want to do a couple of follow-ups, Guilherme, particularly on what you just mentioned about non-recurring expenses in 2024. Can you share a bit about how much you are expecting for the year and how you are working to reduce this going forward?

And a second one is on Natura Brazil sales. Can you guys quantify how much of sales growth would actually have been, if not for the inventory shortages that you faced in the quarter?

And a little bit on the competitive environment in Brazil, how are you seeing competitors reacting to the adjustments at falling sales at Avon? Are you seeing some moves to try to capitalize on that? How are you seeing this competitive environment evolving throughout the year as well? Thank you.

**Guilherme Castellan:**

Hey, Ruben, thank you for the question. I am going to start with the first one and then I am going to pass to João so he can talk about Natura Brazil.

I think that the best source for that would be the presentation that we did to the market on Wave 2 back in August, when, again, we mentioned a little bit about the transformational costs that we have in Latam there. Most of the transformational costs that we have in Latam, actually, if not all, are related to the Wave 2 integration short term, so, as we disclose about that in the past, you should still expect to see those recurring expenses high in 2024, however, not in the same magnitude of 2023, just to be clear. Basically, in 2025, that number has to be significantly smaller.

Of course that the situation is fluid, and we can decide to accelerate or postpone projects depending on how things evolve, but that is the plan that we have right now, to continue with those transformational costs, which are purely related to Wave 2 in Latam. But I repeat: not in the same magnitude of what we had in 2023.

And, related to Avon, it has been in this journey for two years. You have seen transformational costs especially related to what we call the central costs of Avon. Of course, as Latin America continues to progress on Elo, we should continue to see a reduction in central costs from Avon International as well.

Obviously, that will incur expenses in the short term, so we are not expecting to see significant deviations in terms of transformational costs, especially compared to the past, but, again, Fábio has mentioned that the capital allocation will continue to be key for us in the short term. Especially in Avon, there are gonna be some key bets in specific countries for us to win, and that may, indeed, generate some volatility in those transformation costs in a single quarter.

But the expectation is, on a recurring basis, for us to still see significant costs in 2024, but diminishing significantly in 2025. Not in the same magnitude of 2023, though. Thank you, Ruben.

**João Paulo Ferreira:**

Hi, Ruben. As regards the shortages in Brazil during 4Q23, I can tell you that the effects on the top line were not marginal, or else we would have seen a significant top line uplift, if not for those shortages.

As regards the competitive environment, we are not seeing anything different from previous quarters. The market as a whole is not showing significant volume increases, but still benefiting from price increases in general, and we are monitoring price competitiveness very closely.

**Ruben Couto:**

Awesome. Thank you.

**Operator:**

Our next question comes from Andrew Ruben from Morgan Stanley. Andrew, we will open your audio so you can ask your question. You may proceed.

### Andrew Ruben, Morgan Stanley:

Hi, thank you very much for taking my question. I am curious about if you could dig in a bit more on the gross margins. In Latam, we saw expansion through the year. You have mentioned the pricing pass through the mix and the commercial adjustments, so I am curious how much more room to run there is on these initiatives.

You talked about the 2024 outlook that mentioned some margin improvement on a full year basis. So, I am trying to get a sense how much of that could be gross margin driven still? Thank you.

### Guilherme Castellan:

Andrew, I am going to pass the word to João. He can talk a little bit more about Latam and, then, I can talk a little bit about the consolidated.

### João Paulo Ferreira:

Andrew, as Guilherme mentioned before, looking ahead, we still see room for margin expansion in Latam, including gross margin. There is a mix of countries. Remember that, in the second half of last year, we basically were implementing Elo in a few countries, so we are not yet stable, we are getting into stability in half of the countries with more than half of the revenues. That should reflect somehow. We are still facing more challenges with the stand alone Avon operations in Mexico, Central America and Argentina, where we have been building more efficient solutions going forward.

As regards pricing, as I mentioned before, we keep an eye on the competitive landscape and we are pricing accordingly. Overall, we still see some room for gross margin improvement, as Guilherme mentioned before.

### Guilherme Castellan:

And I think the same thing can be said about the overall consolidated numbers. We are benefiting from a mixed impact here as well. Of course, mix of regions, but especially mix of categories, as we continue to deprioritize fashion at home as well, both in Avon Latam and in Avon International.

Again, as we mentioned in the last quarter, we continue to analyze price increases and we are going to be more tactical on that, depending on the category, the country and the macro situation of the country. But I think, overall, comparing apples to apples, we definitely see space for us to continue to expand gross margin, even though it is important to mention that we are seeing some pressure in costs coming from a few places.

**Fábio Barbosa:**

I just want to add, if you allow me, that, in both cases, Natura brand or Avon brand, we have been working on price, and I would say that even the strengths of Natura brand were well accepted, we did not have the major decline just because we were recuperating margins.

In the case of Avon, likewise, to a smaller extent, of course, but we are also working on strikes in the brand so that you can work on prices instead of being competitive just because of price strategy or something like that. So we are very glad to see the reaction on the market.

Also, that is in line with what we said from the beginning, that, instead of focusing on a major increase in sales, we are focusing much more on increasing margins. Of course, having an eye on sales all the time, but we are very happy that we are implementing that strategy successfully.

**Andrew Ruben:**

It makes a lot of sense. Thank you for the color.

**Operator:**

Our next question comes from Irma Sgarz from Goldman Sachs. Irma, we will open your audio so you can ask your question. You may proceed.

**Irma Sgarz, Goldman Sachs:**

Hi. Thank you for taking my question. I have a quick question on the working capital. I know that, in 4Q23, there were obviously many moving parts with Brazil taking more share in the overall revenue mix and there are obviously some impacts from deconsolidation year over year. But I was hoping you could just provide us a little bit more color on how we should think about this working capital dynamic going forward. What are some of the opportunities that you are working on? And when should we start seeing a more stabilized trend?

On the restructuring expenses, could you provide some color on where these are cash expenses - it is obviously very clear where restructuring or transformation expenses are related to write downs, that separate -, but where these are cash related expenses, could you just provide a little bit more? I probably think there is some right sizing of sales of employees or headcount, but, other than that, what type of expenses go through there?

I assume the Natura brand support expenses are not going through that line, but if you could provide a couple of examples of what goes through that line and then also provide an outlook for the Natura brand support expenses that you highlighted in the press release and that you did in the second half of the year. What should we think about that in 2024? Is that something you foresee to put continued investments behind?

**Guilherme Castellan:**

Hi, Irma, thank you for the question. I am going to answer it and pass it to João and Fábio, if they want to add anything. I am going to start with the working capital. It is very difficult, in the stage that we are at and the very good performance of Natura Brazil, for us to offset the mixed impact on receivables, so let us start with that.

Natura Brazil is where we have the highest receivables terms and low debt provisions. By the way, where we manage very well those loans, historically. Of course, it is a country that we need credit for the consumers and for the consultants to make the business prosper. It is different, for example, than other regions where you have much smaller receivable terms and where most of the transactions sometimes I even paid directly upfront. It is important to highlight that.

Having said that, we are far from where we want to be in working capital, so that is on us. I think that we still have a long way to progress. When we decided to focus on cash conversion a couple of years ago, with that specific focus on working capital, cash tax rates and Capex on the investment side, we have made some important evolutions on working capital, but not to the extent that we want to be.

I think that, as I mentioned before, on the receivable side it is very difficult to offset the country mix impact there, but on payables and inventories, I do believe that we ended the year not where we want it to be, and that raises a big yellow flag for us to act on that, and this is something that we will continue to work in 2024, with the aim of finishing the year reducing working capital as a percentage of net revenues, especially when you take aside the mixed impact caused by receivables in Brazil.

On the restructuring side of Latam specifically, in the release, we talk about the breakdown of those transformational costs, so, basically, there is 30%, there are several costs. Of course, you can assume that most of that, if not all, is cash related. There is 20% that we say there are write-offs of some Avon assets which are related, by the way, to the Wave 2 integration. Most of those are non-cash items, just to be clear. And you still see some IT investments in other Opex investments, which are cash related.

So, again, the majority are linked to cash expenses, especially related to severance and IT investments, but there are more or less 20% of the equation there that you should assume that, at least for 2023, are non-cash related.

And the same thing for Avon. We do not produce that breakdown for Avon in terms of transformational costs, but we should assume that the vast majority for Avon are cash related expenses.

I am going to pass the word to João, in case he wants to add anything about Brazil and Latam.

**João Paulo Ferreira:**

Hi, Irma. Still on inventory optimization, I just wanted to call your attention to three potential levers for that optimization going forward. First is the harmonization of Avon's portfolio across the region. We are halfway through, give or take, and that will help optimizing inventories. The second lever is the increase in local production. We are pushing more volume into the Mexican and Argentinian factories and the third party manufacturer in Colombia. Finally, the third lever has to do with demand planning systems, where we are trying new AI based demand planning algorithms that could help us optimize inventory as well.

You also asked about the level of support to the brands, and we remain committed to increasing the support for both brands, Avon and Natura, going forward. We publicly announced on TV a new support for the Natura brand, and we want to reinvest part of the new efficiencies into both brands going forward.

We have a very strong innovation pipeline behind the two brands this year and we want our consumers to know that, and the reaction so far has been very positive. We are tracking the return on those investments and we know that there is important room to increase those investments with the expected returns in the top line.

**Fábio Barbosa:**

Irma, I will take the advantage, although that was not your specific question, but also because Guilherme mentioned a lot of the non-cash items, just to highlight what we did on 4Q23, which was the sale of TBS, but also cleaning up the balance sheet and we looked into the impairment of Avon. We had an impairment, so the idea is to streamline this and move forward so that we can pave the way for us to get into a new life in a cash situation. We had lots of cash one-offs this year, so we cleaned up everything, but these were non-cash events.

Thus, the impact at the end on what could be paid as dividends, because of those non-cash items. But we thought we have to be transparent and clean the balance sheet as much as we can. And that is what we did in 4Q23. That is the loss that you guys see on that profit. I think it is an important highlight to be made here. Thank you

**Irma Sgarz:**

Great, thank you so much.

**Operator:**

This concludes today's Q&A session. I would like to invite Fábio Barbosa to proceed with his closing remarks. Please, sir, go ahead.

**Fábio Barbosa:**

Thank you, everybody. We will be at your disposal - Helena, Guilherme and everybody, but myself, too, if necessary. Thank you very much for your attention and let us stay in touch.

**Operator:**

This earnings conference call is now concluded. The Investor Relations department is available to address any further doubts and questions. Thank you very much for your participation and have an excellent day.