

**Rating Action: Moody's assigns Ba2 ratings to Natura Cosméticos and its proposed issuance and Ba3 rating to Natura &Co; stable outlook**

---

21 Apr 2021

New York, April 21, 2021 -- Moody's Investors Service, ("Moody's") has today assigned a Ba2 issuer rating to Natura Cosméticos S.A. (Natura Cosméticos) and a Ba2 rating to its proposed senior unsecured notes. At the same time, Moody's has assigned a Ba3 corporate family rating to Natura &Co Holding S.A. (Natura). The proposed notes will be fully and unconditionally guaranteed by Natura. Moody's has also assigned a Ba3 issuer rating to Avon Products, Inc. (Avon). Avon's corporate family rating was withdrawn and the Ba3 rating assigned to the senior unsecured notes issued by Avon and stable outlook remain unchanged. The outlook for all the ratings is stable.

The proposed issuance is part of Natura's liability management strategy. The proceeds will be used to pay down Natura Cosméticos' upcoming debt maturities, namely its BRL2.1 billion Brazilian debentures due 2021 and the \$750 million international notes due 2023.

The rating of the proposed notes assumes that the final transaction documents will not be materially different from draft legal documentation reviewed by Moody's to date and assume that these agreements are legally valid, binding and enforceable.

This is the first time Moody's assigns ratings to Natura and Natura Cosméticos.

Ratings assigned:

..Issuer: Natura Cosméticos S.A.

....Issuer Rating, Ba2

Proposed Gtd senior unsecured notes: Ba2

Outlook:

....Outlook, stable

..Issuer: Natura &Co Holding S.A.

....Corporate Family Rating, Ba3

Outlook:

....Outlook, stable

..Issuer: Avon Products, Inc.

....Issuer Rating, Ba3

....Outlook, stable

Ratings unchanged:

..Issuer: Avon Products, Inc.

....5.000% Senior Unsecured Notes due 2023, Ba3

....6.950% Senior Unsecured Notes due 2043, Ba3

Outlook:

....Outlook, stable

Ratings withdrawn:

Issuer: Avon Products, Inc.

....Corporate Family Rating, Ba3

## RATINGS RATIONALE

Natura's Ba3 rating primarily reflects the company's size and scale as the fourth largest pure cosmetics group globally operating through four well-established brands (Natura, Avon, The Body Shop and Aesop) with significant cross-selling and synergies opportunities. The company's leading market position in several markets where it operates and good geographic diversification, although with a high concentration of operations in growing, but potentially volatile, developing markets also support the rating. Natura has a proven know-how in managing the direct selling network model and strong digital capabilities and online presence through its Natura, Aesop and The Body Shop brands, as well as a track record of financial discipline. Natura has shown a conservative approach regarding leverage and liquidity overtime, with a Moody's-adjusted total debt/EBITDA of 4.3x and BRL8.3 billion in cash at the end of 2020, sufficient to cover debt amortizations through 2027 pro forma to the proposed issuance.

Natura's ratings are constrained mainly by the execution risk stemming from Avon's ongoing turnaround process, and its potential impact on Natura's consolidated credit metrics and liquidity, which balance the strengths coming from the Natura Cosméticos (Ba2 stable) businesses. Avon, Natura Cosméticos and the parent Natura remain independent legal entities, and Natura &Co and Natura Cosméticos do not provide upstream, downstream or cross-debt guarantee to Avon, however Natura has provided financial support to Avon and Moody's believes the company would be willing to continue to do so based on Avon's strategic relevance for the group.

Avon's sales and earnings were weak even prior to the pandemic and were hurt in 2020 by the coronavirus outbreak because of social distancing measures that have impaired the company's ability to recruit its sales force and hampered the ability of its representatives to meet customers and collect orders. Moody's forecasts that Avon's operating performance will recover in 2021-22, supported by the benefits from its integration with Natura, with leverage approaching 6.0x by the end of this period (3.0x excluding the intercompany loan with Natura), after peaking at 18.2x in 2020 (9.4x excluding the intercompany loan). However, execution risks remain high. Avon contributed 48% of Natura's consolidated revenue in 2020 and will become a significant source of cash generation to the group in the future as Natura collects top line and cost synergies, which it currently estimates at about \$350-450 million through 2024.

Natura's remaining business, represented by the Natura, Aesop and The Body Shop brands under the entity Natura Cosméticos are stronger than Avon's and support Natura's credit quality. Natura Cosméticos posted relatively stable in constant currency in 2020 in all its brands, leveraging on the group's omnichannel strategy, brand strength and leading market positions. Natura Cosméticos' adjusted leverage has hovered around 3x-4x since 2015 (except in 2017 after the acquisition of The Body Shop), while liquidity remained strong overtime based on a resilient free cash flow generation even after marketing and innovation investments.

Natura was able to reduce reported gross leverage to 3.4x at the end of 2020 from 6.7x in the first quarter of the year and net leverage to 1.0x from 3.9x in the same period, mainly because of the strong performance of Natura Cosméticos and because of a \$1 billion capital increase concluded in October 2020 that was used to fund the call option for Avon's \$900 million secured notes due 2022. Going forward, Moody's expects Natura to maintain a conservative approach to leverage and liquidity, reporting net leverage below 1.0x and maintaining a solid liquidity profile to mitigate execution and liquidity risks for Avon.

## STRUCTURAL CONSIDERATIONS

Natura Cosméticos' ratings stand one notch above Natura and Avon's ratings reflecting the priority of claim of its creditors to the company's cash flows and privileged position within the group's capital structure. Natura Cosméticos, the main cash generator of the group, holds approximately 70% of the group's total debt, with the remaining 30% being structurally subordinated at Avon and Natura levels. Although Natura Cosméticos is fully owned by Natura, there are some protection mechanisms that would limit cash upstream and leakage between the companies of the group, such as financial and incurrence covenants and limitations on sale, transfer or combination of assets in Natura Cosméticos' outstanding debt instruments, including the proposed new issuance. The new notes' indenture also contain clauses granting that Natura Cosméticos would unconditionally and irrevocably guarantee the notes even under an event of issuer substitution, which

preserves the privileged position of these bondholders.

Avon's ratings stand at the same level as Natura's reflecting the close ties between the two companies following several pieces of evidence over the past year of stronger support from the parent Natura to Avon. As an example, Natura has provided intercompany loans to Avon including a \$960 million to pay Avon's outstanding notes due 2022. The consent solicitation to include Natura as a guarantor of Avon's outstanding notes due 2023 granted in January 2021 that will become valid in the future, and a more centralized debt and cash management within the group are also practical examples of Natura supporting Avon.

## LIQUIDITY

Natura's liquidity is currently strong, backed by BRL8.3 billion (\$1.6 billion) in available cash at the end of 2020, enough to cover debt amortizations through 2027 pro forma to the proposed issuance and investments required to integrate Avon's business. Moody's believes refinancing risks are low for Natura given the company's longstanding relationship with Brazilian and international banks and access to both the international and local capital markets.

Moody's expects Natura to proactively pursue liability management initiatives to lengthen its debt amortization schedule and equalize the group's capital structure. Moody's also expects Natura to reduce cash needs during the execution of the turnaround process of Avon while the company provides financial support to the latter.

Avon posted a cash burn of \$325 million in 2020, mainly related to the integration and acquisition costs, while Natura Cosméticos generated positive BRL1.8 billion (\$357 million) free cash flow, reflecting the strength of its businesses even during the pandemic. Going forward Moody's expects Natura to adjust capex and dividends to its internal cash generation to generate positive free cash flows even during the integration and turnaround of Avon.

## RATING OUTLOOK

The stable outlook reflects Moody's view that despite the high execution risks on Avon's turnaround process, Natura will benefit from Natura Cosméticos' performance and maintain adequate leverage and liquidity to preserve its credit quality in the next 12-18 months.

## FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Natura's ratings could be upgraded in case there is a successful execution of Avon's turnaround initiatives leading to material improvement in Natura's operating performance, with EBITA margin approaching 10% (6.9% in 2020), Moody's-adjusted gross Debt/EBITDA below 4.0x (4.3x in 2020), and materially positive free cash flow, all on a sustained basis. A sustained improvement in Natura Cosméticos' metrics or credit profile could also translate into positive rating actions for Natura.

The ratings could be downgraded in case Natura fails to restore Avon's operating performance, such that Natura's credit metrics or credit worthiness deteriorate, with leverage above 4.5x and interest coverage (measured by EBITA to interest expense) below 2.5x (1.4x in 2020) without prospects for improvement. A deterioration in Natura Cosméticos' credit quality could also lead to negative rating actions for Natura.

The principal methodology used in these ratings was Consumer Packaged Goods Methodology published in February 2020 and available at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1202237](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1202237). Alternatively, please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

## COMPANY PROFILE

Natura &Co is the fourth largest pure cosmetics group globally, with presence across 100 countries and in the skincare, haircare, body care, men care, fragrances, color, fashion and home segments. The company has a leading market position in several markets, with a particular focus on emerging markets such as Brazil, other Latin American countries and Russia, and operates through a multi-channel strategy through its four brands Avon, Natura, The Body Shop and Aesop. In 2020, Natura &Co reported \$7.2 billion in revenues and adjusted EBITDA margin of 11.6%.

Fully owned by Natura &Co, Natura Cosméticos is a leading beauty product company with a particularly strong position in Latin America, and one of the largest direct sellers with around 1.6 million active representatives. Natura Cosméticos's product mix is composed mostly of fragrances, skin care, bath and body products, make

up, among others. In 2020, Natura Cosméticos generated about BRL18.3 billion (\$3.6 billion) in revenue and BRL3.6 billion (\$695 million) in EBITDA (Moody's-adjusted).

Avon Products, Inc. (Avon) is a global beauty product company and one of the largest direct sellers with around five million active representatives. Avon's products are available in more than 70 countries and are categorized as color cosmetics, skin care, fragrance, fashion and home. Following the completion of its acquisition in January 2020, Avon is now a fully owned subsidiary of Natura. Avon generated about \$3.6 billion in revenue and \$110 million in EBITDA (Moody's-adjusted) in 2020.

## REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on [www.moody.com](http://www.moody.com).

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website [www.moody.com](http://www.moody.com).

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_1243406](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1243406).

At least one ESG consideration was material to the credit rating action(s) announced and described above.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the EU and is endorsed by Moody's Deutschland GmbH, An der Welle 5, Frankfurt am Main 60322, Germany, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that issued the credit rating is available on [www.moody.com](http://www.moody.com).

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the UK and is endorsed by Moody's Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK endorsement status and on the Moody's office that issued the credit rating is available on [www.moody.com](http://www.moody.com).

Please see [www.moody.com](http://www.moody.com) for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on [www.moody.com](http://www.moody.com) for additional regulatory disclosures for each credit rating.

Carolina Chimenti  
Asst Vice President - Analyst  
Corporate Finance Group  
Moody's America Latina Ltda.  
Avenida Nacoes Unidas, 12.551  
16th Floor, Room 1601  
Sao Paulo, SP 04578-903  
Brazil  
JOURNALISTS: 0 800 891 2518  
Client Service: 1 212 553 1653

Marcos Schmidt  
Associate Managing Director  
Corporate Finance Group  
JOURNALISTS: 0 800 891 2518  
Client Service: 1 212 553 1653

Releasing Office:  
Moody's Investors Service, Inc.  
250 Greenwich Street  
New York, NY 10007  
U.S.A.  
JOURNALISTS: 1 212 553 0376  
Client Service: 1 212 553 1653



© 2021 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

**CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE,**

## **HOLDING, OR SALE.**

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moodys.com](http://www.moodys.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.