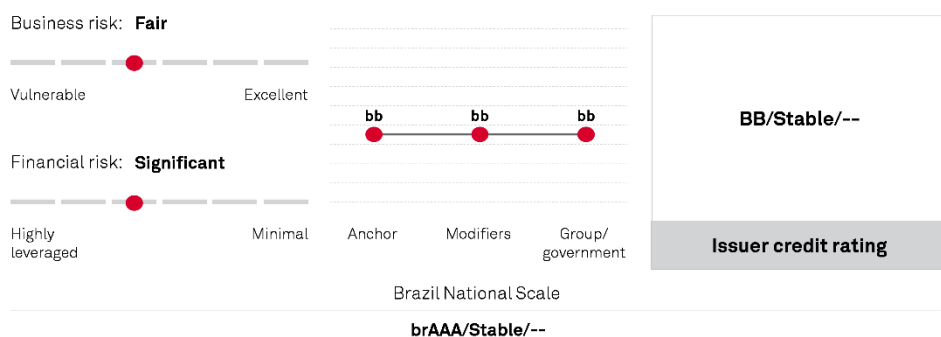


# Natura & Co Holding S.A.

April 14, 2022

## Ratings Score Snapshot



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## Credit Highlights

### Overview

#### Key strengths

Product innovations and diversified sales channels.

Geographic diversification, with leading market shares in Latin America, along with a strong brand portfolio.

Robust balance sheet and solid liquidity position.

#### Key risks

Possible risks associated with conflicts in Eastern Europe, considering Natura&Co's operations in this market.

Weaker global economy and high inflation are pressuring margins, making the cost structure higher, and limiting Natura&Co's ability to adjust prices.

### Weaker economic conditions and inflationary pressures challenge margin recovery.

We think that high inflation and the weaker economy could limit Natura&Co's ability to adjust prices and, in turn, could prevent it from expanding margins in the next 12 months. Input costs have risen for items such as palm oil, plastic resins, cellulose, and paper, which are used to produce consumer staples. Consumers have traded some private label brands for generic ones and demand has lessened for discretionary products such as cosmetics, although demand for hygiene products continues to be strong. Despite these

factors, Natura&Co's 2021 EBITDA margins were 10% supported by a tighter financial policy, structural changes mainly at Avon International Inc., and synergies achieved principally in Latin America. Considering the momentum from these synergies, we expect the company's consolidated margins to be near 11% in 2022 and 2023.

**Subsidiary Avon's brand repositioning, efficiency improvements, and margin recovery remain risks.**

Avon Products Inc.'s (Avon; BB-/Stable/--) adjusted EBITDA margins were only 2.1% in 2021, hampered by restructuring costs; higher selling, general, and administrative (SG&A) expenses to revamp its brand; and lingering effects from the pandemic hitting its direct sales. On top of that, the recent Russia-Ukraine conflict and related sanctions have led to increases in energy and commodity prices, which will further delay the turnaround of Avon's international operations—5%-10% of Avon's revenues come from Russia. Avon has suspended exports from Russia and now is evaluating shipments from Russia to other markets, but has maintained efforts to continue to supply operations at its Russian plant. However, Avon may transfer its fragrance portfolio--produced at the Russian plant--to a new facility in Poland, which further increases costs. We now expect Avon's margins to improve to 5%-7% in 2022. In 2023, we forecast margins closer to 10% as the turnaround plan evolves, restructuring costs dissipate, and synergies gain traction.

**Robust balance sheet and liquidity support credit quality.**

Natura&Co has a strong balance sheet to withstand the current volatile conditions and fund its growth strategy. It ended December 2021 with a cash position of R\$4 billion and an adjusted net debt to EBITDA of 2.4x. We expect the company to use the proceeds of its recent announced bond to pay down the bonds at Avon, reducing refinancing needs in the next 24 months. The group continues its efforts to optimize its capital structure. Natura&Co redeemed approximately \$750 million in debentures and promissory notes, and in 2021, Natura Cosméticos concluded the offering of notes linked to sustainability goals for the total principal amount of \$1.0 billion with an exchange protection instrument, guaranteed by Natura&Co.

We view Avon as a strategically important subsidiary to Natura&Co. We think that Avon is important to the group's long-term strategies, that it is unlikely to be sold, and would receive extraordinary support from the group in most foreseeable circumstances. However, the extent of group support is not fully clear yet, which precludes a higher support category and prevents us from equalizing our ratings on Avon with those on Natura&Co.

## **Outlook**

The stable outlook on Natura&Co reflects our expectation that the group will preserve its credit metrics and healthy liquidity cushion even amid the effects of inflation and price volatility from the conflict in Eastern Europe. We expect 2022 debt to EBITDA to be close to 3x and funds from operations (FFO) to debt around 33%.

## **Downside scenario**

We could downgrade Natura&Co in the next 12-24 months if we see material changes in the European market with global repercussions, weaker demand than we expect, and/or higher working capital needs that could pressure its credit metrics. In addition, if Natura&Co keeps a more aggressive approach toward acquisitions or shareholder remuneration, or if the group's credit quality worsens because Avon continues to drag down cash, it could lead to a downgrade. In those scenarios, we would likely see:

- Consolidated debt to EBITDA close to 4.0x and FFO to debt below 20%, consistently; and
- Weaker liquidity position and thus tighter covenant headroom at subsidiary Natura Cosméticos S.A. (BB-/Stable/--), which would also limit our ability to rate Natura&Co above our ratings on Brazil.

A downgrade of Natura&Co would lead to the same rating action on its subsidiaries. Regarding the subsidiaries' stand-alone credit profiles (SACPs):

- We could revise downward Natura Cosméticos' SACP if we see debt to EBITDA close to 4.0x and FFO to debt below 20%, consistently.
- We could revise downward Avon's SACP if its debt to EBITDA remains above 5.0x in 2022 and 2023 and FFO to debt below 12%.

## Upside scenario

A positive rating action on Natura&Co would stem from a much stronger-than-expected improvement in Avon's business that would boost consolidated margins and EBITDA by unlocking synergies, despite competition and currency swings. In this scenario, we would expect Natura&Co to maintain its debt to EBITDA below 2.0x, FFO to debt above 45%, and to improve FOCF (free operating cash flow) to debt consistently above 15%. We would also expect the company to sustain its healthy liquidity cushion, low margin volatility, and its ability to withstand a hypothetical default of Brazil.

An upgrade of Natura&Co would lead the same rating action on its subsidiaries. Regarding the subsidiaries' SACPs:

- We could revise upward Natura Cosméticos' SACP if it sustains a longer record of debt to EBITDA below 2.0x, FFO to debt above 45%, and FOCF above 15%, amid stable profitability even while it continues pursuing growth.
- An upward revision of Avon's SACP would be triggered by debt to EBITDA closer to 4.0x, FFO cash interest consistently above 2.0x, lower volatility, and a manageable debt amortization profile.

## Our Base-Case Scenario

### Assumptions

- Consolidated revenue contraction in Brazilian reais of about 1% in 2022, mainly driven by the drop in Avon's revenue due to fewer sales representatives, and revenues then growing 4% in 2023;
- Revenue growth of Natura&Co's Latin American operations (including Brazil) at 2%-3% in 2022 and 2023;
- Avon's international revenues to drop about 12.5% in 2022, but grow 6.0% in 2023;
- Natura&Co's consolidated EBITDA margin between 9% and 11% in 2022 and 2023;
- Avon's EBITDA margins of 3%-4% in 2022, hampered by lower sales, and then gradually recovering starting in 2023;
- Consolidated capital expenditures (capex) of R\$1.1 billion in 2022 and R\$1.4 billion-R\$1.6 billion afterward. The lower capex this year is due to a tighter spending policy to try to protect margins, especially in the short term; and
- Dividend payout of 30% of the company's net income.

### Key metrics

#### Natura&Co Holding--Key Metrics\*

Mil. \$	2020R	2021A	2022F	2023F	2024F
Revenue	37	40	39-42	41-44	42-45
EBITDA	3.5	3.9	3.7-4.2	4.5-5.0	5.3-5.8
EBITDA margin (%)	9.5	9.7	9.5-9.7	10.9-10.2	12.4-12.7
Funds from operations (FFO)	2.4	2.2	2.5-3.0	3.2-3.7	4.1-4.6
Capital expenditure	0.6	1.4	1.1-1.3	1.4-1.6	1.5-1.7
Free operating cash flow (FOCF)	0.6	(1.5)	0.9-1.2	1.4-1.8	2.2-2.6
Debt to EBITDA (x)	1.9	2.4	2.6-3.1	2.1-2.6	1.6-2.1
FFO to debt (%)	31	21	24-29	33-38	46-51
FFO cash interest coverage ratio (x)	2.9	3.2	3.1-3.6	3.9-4.4	5.1-5.6
Free operating cash flow/debt (%)	8	(15)	9-14	15-20	25-30

\*All figures adjusted by S&P Global Ratings. R--Realized. a--Actual.f--Forecast.

**Natura Cosméticos--Key Metrics\***

Mil. \$	2020R	2021A	2022F	2023F	2024F
Revenue	18	20	22-26	23-27	24-28
EBITDA	3.5	3.7	3.9-4.4	4.5-5.0	4.7-5.2
EBITDA margin (%)	19	18	17-19	19-21	19-21
Funds from operations (FFO)	2.7	2.2	2.9-3.4	3.4-3.9	3.6-4.1
Capital expenditure	0.4	0.9	0.7-1.0	0.9-1.2	1.0-1.3
Free operating cash flow (FOCF)	2.5	(0.6)	1.6-2.1	2.3-2.8	2.5-3
Debt to EBITDA (x)	1.6	1.8	1.7-2.1	1.5-1.9	1.4-1.9
FFO to debt (%)	50	34	43-48	49-53	53-57
FFO cash interest coverage ratio (x)	5.9	4.6	4.5-5	5.4-5.9	5.8-6.4
Free operating cash flow/debt (%)	46	(1.0)	25-30	33-38	36-41

\*All figures adjusted by S&P Global Ratings. R--Realized. a--Actual. f--Forecast.

**Avon Products Inc.--Key Metrics\***

Mil. \$	2020R	2021A	2022F	2023F	2024F
Revenue	3,625	3,404	3,200-3,400	3,300-3,500	3,500-3,700
EBITDA	90	73	134-140	188-200	296-310
EBITDA margin (%)	2.5	2.1	4.1-4.5	5.6-6	8.4-8.9
Funds from operations (FFO)	(101)	(26)	52-57	120-125	215-220
Capital expenditure	44	68	65-70	83-86	86-90
Free operating cash flow (FOCF)	(287.9)	(289.1)	(44.3)	31-33	104-108
Debt to EBITDA (x)	9.8	11	4.1-5	3-4	1.9-3
FFO to debt (%)	(11)	(3.1)	9.6-12	22-24	38-42
FFO cash interest coverage ratio (x)	0.4	0.6	1.6-2	2.9-4	4.3-5
Free operating cash flow/debt (%)	(32.4)	(34.6)	(8.1-9)	5.7-7	18-20

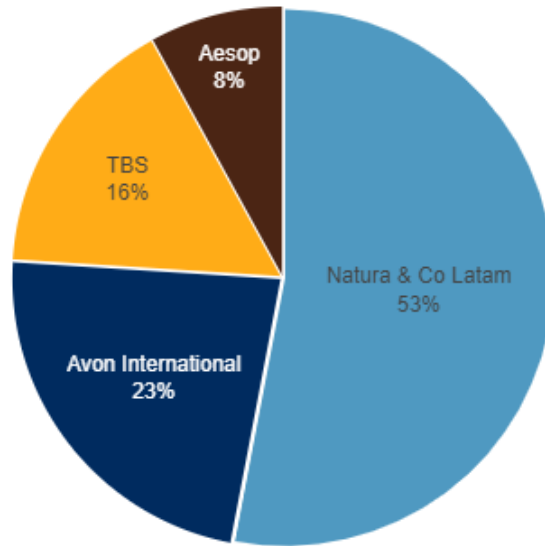
\*All figures adjusted by S&P Global Ratings. R--Realized. a--Actual. f--Forecast.

**Company Description**

Natura&Co is the fourth largest global cosmetic group, with annual revenue of R\$40 billion and EBITDA of R\$4.1 billion in 2021. The group controls Natura Cosméticos S.A. and Avon Products Inc. and owns the brands Natura, Avon, Aesop, and The Body Shop. The group operates in more than 100 countries across all continents, with a leading position in Brazil, and has a wide portfolio

diversification, with offerings to various customer tiers and channels. The group has strong brands and a leading position in the direct sales model for cosmetics, with more than 6 million representatives and more than 3,000 stores globally.

**Revenue Composition**  
As of December 2021



Source: S&P Global Ratings.

## Peer Comparison

We select as peers of Natura&Co two market leaders with very strong financial metrics: L'Oréal and Estee Lauder.

L'Oréal (AA/Stable/A-1+) is the world's largest beauty and personal care company. It held an estimated 14.2% share of its market in 2021 and had solid diversification by product category, brand, region, and price point. The company recovered rapidly post pandemic, with strong growth in e-commerce. Like Natura&Co, it made good use of its digital channels, increasing its operating profit by about 11% compared to the pre-pandemic period. Moreover, in 2021, L'Oréal was able to control its cash flow thanks to its operating leverage and prudent capex use.

Estee Lauder (A+/Stable/A-1) is also solidly positioned in the global beauty industry, especially when it comes to premium products. Similar to what Natura&Co has experienced, inflation has been an increasing factor for the cost of basic consumer products. However, considering Estee Lauder's position in the super-premium market and its target demographics, we don't think that rising inflation will interfere significantly with its growth.

We also include Coty Inc. (B/Stable/--) as a peer. Coty, together with its subsidiaries, manufactures, markets, distributes, and sells beauty products worldwide. Among the selected peers, we consider Coty's metrics to be the weakest because its competitors have stronger product portfolios with better growth prospects due to higher sales volume in emerging markets. L'Oréal, Estee Lauder, and Natura also benefit from a history of product innovation and stronger credit metrics.

## Natura &amp; Co Holding S.A.--Peer Comparisons

	Natura & Co Holding S.A	Coty Inc.	Estee Lauder Cos. Inc. (The)	L'Oreal S.A.
Foreign currency issuer credit rating	BB/Stable/--	B/Stable/--	A+/Stable/A-1	AA/Stable/A-1+
Local currency issuer credit rating	BB/Stable/--	B/Stable/--	A+/Stable/A-1	AA/Stable/A-1+
Period	Annual	Annual	Annual	Annual
Period ending	2021-12-31	2021-06-30	2021-06-30	2020-12-31
Mil.	R\$	R\$	R\$	R\$
Revenue	40,165	23,224	81,337	177,827
EBITDA	4,183	3,286	21,349	42,429
Funds from operations (FFO)	2,203	1,749	16,866	33,861
Interest	858	1,643	1,167	588
Cash interest paid	1,004	1,457	1,152	206
Operating cash flow (OCF)	(114)	1,683	20,252	40,996
Capital expenditure	1,479	872	3,195	6,177
Free operating cash flow (FOCF)	(1,593)	811	17,057	34,819
Discretionary cash flow (DCF)	(1,768)	760	9,563	20,902
Cash and short-term investments	5,986	1,272	24,870	40,695
Gross available cash	5,986	1,272	24,870	40,695
Debt	10,147	36,108	24,966	0
Equity	28,567	15,388	34,852	184,222
EBITDA margin (%)	10.4	14.1	26.2	23.9
Return on capital (%)	4.0	0.1	36.4	16.6
EBITDA interest coverage (x)	4.9	2.0	18.3	72.2
FFO cash interest coverage (x)	3.2	2.2	15.6	165.5
Debt/EBITDA (x)	2.4	11.0	1.2	0.0
FFO/debt (%)	21.7	4.8	67.6	NM
OCF/debt (%)	(1.1)	4.7	81.1	NM
FOCF/debt (%)	(15.7)	2.2	68.3	NM
DCF/debt (%)	(17.4)	2.1	38.3	NM

## Business Risk

Natura&Co's margins are exposed to the current high inflation and weaker economic growth, making it difficult to adjust prices. It is exposed to emerging economies, which account for about 50% of the group's revenues. These economies have historically higher volatility than developing countries, but also have stronger growth prospects. In addition, Natura&Co's EBITDA margins are 10%-13%, mainly weighed down by the consolidation of Avon. These margins are below the industry average and highlight the company's operating efficiency challenges. Avon still has weak profitability, although we expect it to improve in the next few years as it executes its turnaround plan and speeds up the digitalization of its platform, supported by Natura&Co's expertise.

The company's sales channels have shown strong diversification in recent years, with emphasis on expanding digital channels. At Avon International, sales representatives' adoption of the "Avon On" sales application has consistently grown in recent quarters. In Natura Latin America, orders through consultants' online stores in 2021 were above 2019 levels. In addition to these initiatives, &Co

## Natura & Co Holding S.A.

Pay, the group's own payment and credit system, benefited from adopting Brazil's central bank's instant payment service (Pix), which boosted revenue. Another strength is Natura's continuous focus on product innovation. By the end of 2021, the company had developed enhanced end-of-year gifts across all brands, such as advent calendars from The Body Shop and Natura and Aesop gift kits linked to charitable institutions. The group also launched a zero plastic personal care brand with vegan, natural formulation, and recyclable packages. This initiative could attract new customers who value products with lower environmental impacts, and highlights Natura's focus on sustainable innovation.

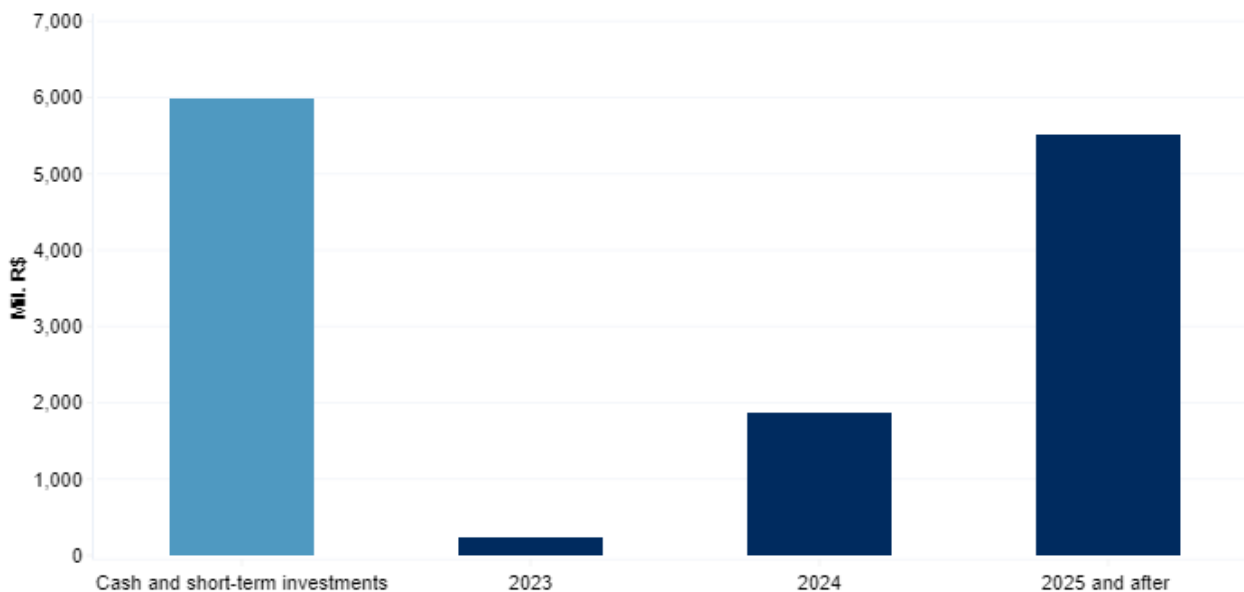
## Financial Risk

Potential volatility, stemming from execution risks on the turnaround of Avon's operations and risks associated with the pandemic, weighs on Natura&Co's financial risk profile. However, we also consider the counter-cyclical measures of lowering dividend payouts and obtaining an equity follow-on to contain leverage while the company pursues global growth. Our debt position includes the operating leasing reported under International Financial Reporting Standards (IFRS) 16.

## Debt maturities

### Debt Amortization Schedule

As of December 2021



RS--Brazilian real. Source: S&P Global Ratings.

## Financial Summary

### Natura & Co Holding S.A.--Financial Summary

Fiscal year ended Dec. 31

(Mil. R\$)	2021	2020	2019*	2018*	2017*
Revenue	40,165	36,922	32,942	34,966	28,790

**Natura & Co Holding S.A.**

EBITDA	4,183	4,001	3,628	3,876	3,629
Funds from operations (FFO)	2,203	2,412	1,815	1,948	2,221
Interest expense	859	1,352	1,204	1,401	1,095
Cash interest paid	1,004	1,258	1,275	1,319	882
Cash flow from operations	(114)	1,286	1,794	1,730	2,548
Capital expenditure	1,479	674	814	852	685
Free operating cash flow (FOCF)	(1,593)	611	981	877	1,863
Discretionary cash flow (DCF)	(1,768)	529	788	664	1,735
Cash and short-term investments	5,986	8,342	8,161	4,493	6,591
Gross available cash	5,986	8,342	8,161	4,493	6,591
Debt	10,147	7,611	11,745	13,706	13,015
Equity	28,567	27,387	1,729	(898)	(733)
Adjusted ratios					
Annual revenue growth (%)	8.8	12.1	(5.8)	21.5	N.M.
EBITDA margin (%)	10.4	10.8	11.0	11.1	12.6
Return on capital (%)	4.0	5.4	15.6	18.6	17.6
EBITDA interest coverage (x)	4.9	3.0	3.0	2.8	3.3
FFO cash interest coverage (x)	3.2	2.9	2.4	2.5	3.5
Debt/EBITDA (x)	2.4	1.9	3.2	3.5	3.6
FFO/debt (%)	21.7	31.7	15.5	14.2	17.1
Cash flow from operations/debt (%)	(1.1)	16.9	15.3	12.6	19.6
FOCF/debt (%)	(15.7)	8.0	8.3	6.4	14.3
DCF/debt (%)	(17.4)	6.9	6.7	4.8	13.3

N.M.--Not meaningful. \*Pro forma figures. R\$--Brazilian real.

**Reconciliation Of Natura & Co Holding S.A. Reported Amounts With S&P Global Adjusted Amounts (Mil. R\$)**

	Debt	Shareholder equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2021									
Company reported amounts	12,717	28,546	40,165	3,910	1,118	845	4,183	(114)	0	1,479
Cash taxes paid	-	-	-	-	-	-	(977)	-	-	-



## Reconciliation Of Natura &amp; Co Holding S.A. Reported Amounts With S&amp;P Global Adjusted Amounts (Mil. R\$)

	Debt	Shareholder equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Cash interest paid	-	-	-	-	-	-	(1,004)	-	-	-
Lease liabilities	3,548	-	-	-	-	-	-	-	-	-
Postretirement benefit obligations/deferred compensation	0	-	-	14	14	14	-	-	-	-
Accessible cash and liquid investments	(5,986)	-	-	-	-	-	-	-	-	-
Share-based compensation expense	-	-	-	228	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	304	-	-	-	-	-
Noncontrolling/minority interest	-	21	-	-	-	-	-	-	-	-
Debt: Foreign currency hedges	(379)	-	-	-	-	-	-	-	-	-
Debt: other	247	-	-	-	-	-	-	-	-	-
EBITDA - Gain/(loss) on disposals of PP&E	-	-	-	4	4	-	-	-	-	-
EBITDA: other	-	-	-	28	28	-	-	-	-	-
Total adjustments	(2,570)	21	0	274	349	14	(1,980)	0	0	0
<b>S&amp;P Global Ratings adjusted</b>	<b>Debt</b>	<b>Equity</b>	<b>Revenue</b>	<b>EBITDA</b>	<b>EBIT</b>	<b>Interest expense</b>	<b>Funds from Operations</b>	<b>Operating cash flow</b>	<b>Dividends</b>	<b>Capital expenditure</b>
	10,147	28,567	40,165	4,183	1,467	858	2,203	(114)	0	1,479

## Liquidity

We consider Natura&Co's liquidity as adequate. We expect sources over uses of cash over the next 12 months to be about 1.6x and net sources to remain positive even if EBITDA drops 15%. Natura&Co has significant cash position, strengthened by the revolving credit facility, and has a fairly smooth debt amortization profile. Its next significant maturity is Avon's 2023 notes totaling \$460 million. We also consider that Natura&Co has a well-established relationship with banks and high standing in credit markets, indicated by its ongoing ability to access equity and debt capital markets.

### Principal liquidity sources

- Cash position of R\$4 billion as of Dec. 31, 2021; and
- FFO of R\$2.5 billion over the next 12 months.

### Principal liquidity uses

- Working capital outflows of R\$342 million in the next 12 months;
- Seasonal working capital of R\$700 million for the next year;
- Capex of R\$1.1 billion in the next 12 months; and
- Dividend payment of R\$182 million for 2022.

## Covenant Analysis

### Requirements

Natura&Co and Avon don't have financial covenants on their debts. The covenant calculation excludes the impact of IFRS 16, with reported lease liabilities of R\$3.5 billion at the end of 2021.

### Compliance expectations

The debenture held by Natura Cosméticos has a 3.0x net debt to EBITDA covenant that could trigger a debt acceleration. We expect covenant cushion to exceed 30% in the next year.

## Environmental, Social, And Governance

Natura&Co Holding and Natura Cosméticos

### ESG Credit Indicators

E-1	<b>E-2</b>	E-3	E-4	E-5	S-1	<b>S-2</b>	S-3	S-4	S-5	G-1	<b>G-2</b>	G-3	G-4	G-5
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ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

ESG factors are an overall neutral consideration in our credit rating analysis of Natura&Co.

Avon Products Inc.

### ESG Credit Indicators

E-1	<b>E-2</b>	E-3	E-4	E-5	S-1	<b>S-2</b>	S-3	S-4	S-5	G-1	G-2	<b>G-3</b>	G-4	G-5
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- N/A	- N/A	- Risk management, culture, and oversight
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N/A—Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

Governance factors are a moderately negative consideration in our credit rating analysis of Avon Products Inc., while environmental and social factors are an overall neutral consideration. Avon's historically weaker operating performance than that of peers, which led to consecutive turnaround plans and changes in strategy for its brands and products as well as the lack of a long-term portfolio strategy, took a toll on the company's brand recognition. We expect these deficiencies to lessen due to Avon's integration into Natura&Co's operations, with early signs of a stronger operating performance amid synergy gains and lower restructuring costs.

## Group Influence

Natura&Co is the ultimate parent and sole shareholder of Natura Cosméticos S.A. and Avon Products Inc. The subsidiaries are legally independent entities, with no cross-guaranteed debt between them. We view Natura Cosméticos as a core entity to the group, reflecting its importance to the group--it represents about 80%-90% of total EBITDA and cash flow contribution--its integral role to the business strategy, and reputational links. Also, Natura&Co guarantees Natura Cosméticos' 2028 notes, which highlights the group's commitment to support Natura Cosméticos. Therefore, the group's credit profile drives the rating on Natura Cosméticos.

We view Avon as a strategically important subsidiary to Natura&Co. We believe Avon is important to the group's long-term strategies, that it is unlikely to be sold, and that it would receive extraordinary support from the group in most foreseeable circumstances. However, the extent of group support is not fully clear, which precludes a higher support category and prevents us from equalizing the ratings. Due to its strategically important status, Avon's 'BB-' rating receives two notches of uplift from its 'b' SACP.

## Rating Above The Sovereign

We tested Natura&Co's ability to withstand a sovereign default scenario in order for us to rate it above our 'BB-' foreign currency rating on Brazil. We tested a default of Brazil because it's the only country where the company has more than 25% exposure, even considering The Body Shop's operations.

In the stress test, we assumed the following:

- GDP decline of 10% in Brazil in the next 12 months, hurting domestic volumes;
- Inflation at about 18% in that year, increasing costs and SG&A;
- Limited ability to adjust prices;
- A 10% haircut on cash and bank deposits and a 70% haircut on short-term investments held in Brazil;
- Currency depreciation of 50%, affecting costs indexed to the dollar and debt and cash position held in foreign currency;
- Capex at maintenance level; and
- Doubling of interest rates for floating debt.

The sizable cash and cash flows from outside Brazil and a limited debt maturity schedule for the next 12 months enable Natura&Co to pass the stress test. This means that its sources of liquidity exceed uses by more than 1x in the stressed year.

## Issue Ratings--Recovery Analysis

### Key analytical factors

The group's capital structure in December 2021 mainly included:

- \$500 million 5% unsecured notes due 2023 (\$460 million outstanding) issued by Avon Products Inc.
- \$250 million 6.95% unsecured notes due 2043 (\$213 million outstanding) issued by Avon Products Inc.
- \$32.6 million unsecured notes issued by Avon Products Inc.
- R\$1.9 billion in local unsecured debentures issued by Natura Cosméticos, maturing in 2022 and 2024.
- R\$279 million of promissory notes issued by Natura Cosméticos due in 2022.
- R\$526 million of The Body Shop's facility agreement.
- \$1.0 billion (or about R\$5.5 billion) senior unsecured sustainability-linked notes issued by Natura Cosméticos.

## Natura & Co Holding S.A.

We consider that following a hypothetical bankruptcy process, the company would be restructured and continue to operate, generating higher value to creditors versus a liquidation. We value Natura Cosméticos using a 6.0x multiple applied to our projected emergence-level EBITDA of R\$1.0 billion, arriving at a stressed enterprise value of R\$6.3 billion. We value Avon using a 5.5x multiple applied to our projected emergence-level EBITDA of \$165 million, arriving at a stressed enterprise value of \$910 million. Avon's multiple is lower than Natura Cosméticos because Avon is still amid a difficult operational turnaround.

We also consider the new senior unsecured notes issued by Natura&Co Luxembourg. The new notes are guaranteed by the parent company, Natura&Co, and by Natura Cosméticos. Therefore, the recovery prospect for these notes will benefit from the residual value from Avon that would upstream to Natura&Co. Nonetheless, the main recovery prospect stems from the guarantee of Natura Cosméticos, the group's main cash generator of the group--given the guarantee, we consider the new notes will rank pari passu to Natura Cosméticos' unsecured debt.

### Simulated default assumptions

- Year of default: 2027 for Natura Cosméticos and 2025 for Avon
- EBITDA multiple: 6.0x for Natura Cosméticos and 5.5x for Avon
- EBITDA at emergence: R\$1.3 billion for Natura Cosméticos and \$110 million (about R\$550 million) for Avon

### Simplified waterfall

- Net recovery value: R\$10.6 billion (R\$3 billion of Avon and R\$7.5 billion of Natura Cosméticos)
- Unsecured debt at Avon: \$728 million (about R\$3.9 billion)
- Unsecured debt recovery expectation at Avon: 50%-70% (rounded estimate: 65%)
- Secured debt at Natura Cosméticos and debt position at Natura Cosméticos' subsidiaries: R\$540 million
- Unsecured claims at Natura Cosméticos (debentures, working capital lines, and unsecured notes) R\$7.2 billion
- Unsecured debt recovery expectation at Natura Cosméticos: 50%-70% (rounded estimate: 65%)

\*All debt amounts at default include six months accrued prepetition interest.

## Rating Component Scores

<b>Foreign currency issuer credit rating</b>	<b>BB/Stable/--</b>
<b>Local currency issuer credit rating</b>	<b>BB/Stable/--</b>
<b>Business risk</b>	<b>Fair</b>
Country risk	Moderately High
Industry risk	Low
Competitive position	Fair
<b>Financial risk</b>	<b>Significant</b>
Cash flow/leverage	Significant
<b>Anchor</b>	<b>bb</b>
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Fair (no impact)
Comparable rating analysis	Neutral (no impact)
<b>Stand-alone credit profile</b>	<b>bb</b>

## Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Ratings Detail (as of April 14, 2022)\*

### Natura & Co Holding S.A

Issuer Credit Rating

BB/Stable/--

*Brazil National Scale*

brAAA/Stable/--

### Issuer Credit Ratings History

**Ratings Detail (as of April 14, 2022)\***

21-Apr-2021		BB/Stable/--
21-Apr-2021	<i>Brazil National Scale</i>	brAAA/Stable/--

**Related Entities**

**Avon International Operations Inc.**

Issuer Credit Rating		BB-/Stable/--
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**Avon Products Inc.**

Issuer Credit Rating		BB-/Stable/NR
Senior Unsecured		BB-

**Natura & Co Luxembourg Holding**

Senior Unsecured		BB
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**Natura Cosmetics S.A.**

Issuer Credit Rating		BB/Stable/--
<i>Brazil National Scale</i>		brAAA/Stable/--
Senior Unsecured		
<i>Brazil National Scale</i>		brAAA

\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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