

Tear Sheet:**Natura & Co Holding S.A.****April 4, 2025**

This report does not constitute a rating action.

The corporate reorganization does not change our ratings on Natura & Co Holding S.A.

(Natura&Co). The proposed new structure, yet to be approved, consisting of Avon Products and other subsidiaries below Natura Cosméticos, with Natura&Co incorporated by Cosméticos does not change S&P Global Ratings' analysis. This is because the ratings on Natura&Co already reflect our consolidated view of the group, and the remaining debt has cross guarantees among the entities. In our view, the change aims to achieve tax benefits, equity optimization that should allow Natura to increase dividend distributions from Cosméticos' profit reserve, and to eliminate some redundant corporate structures, slightly decreasing costs.

The company's profitability is recovering, but slower than expected. After bottoming at 6.7% in 2022, S&P Global Ratings-adjusted margins reached 9.9% in 2024. However, top line suffered from the AESOP and The Body Shop divestments, and simplification of the portfolio, with higher prominence in beauty categories and less focus on fashion and home. As a result, revenue declined more than 40% in the same period, with S&P Global Ratings-adjusted nominal EBITDA of Brazilian real (R\$) 2 billion-R\$2.4 billion, versus R\$4 billion previously. In our forecast, we consider that most of the integration between Natura and Avon already occurred in Latin America, and profitability improvements should be more consistent moving forward. We expect adjusted margins of slightly above 10% for 2025 and approaching 11% in 2027.

Leverage has spiked but remains comfortable for the current rating. Natura became net cash in December 2023 following the sale of AESOP. However, after R\$1 billion in dividends, R\$1 billion in working capital consumption, and an uptick in marketing expenses, leverage reached 1.9x in December 2024. We expect debt to EBITDA of close to 2.0x, with EBITDA approaching R\$3 billion in 2026, and improved profitability to offset the expected R\$450 million-R\$550 million of dividend payments per year.

The company's integration of brands, strategy, and capacity to generate cash are decisive for ratings transition. Natura should complete the integration of the Avon and Natura brands in Mexico and Argentina by year-end 2025. As a result, transformation and integration costs, such as severance, should remain elevated throughout 2025, dragging the company's cash generation. Its ability to generate cash in Latin America, and to turnaround or sell Avon Products, will guide our ratings analysis.

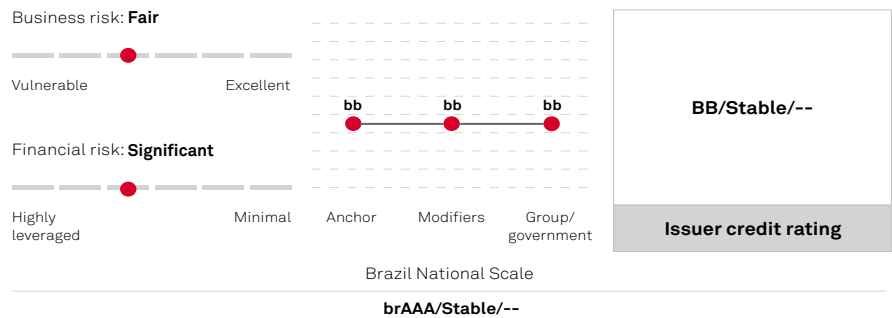
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Ratings Score Snapshot



Recent Research

- Natura&Co And Natura Cosméticos Ratings Affirmed Despite Weaker Management And Governance Assessment; Outlook Stable, Aug. 15, 2024

Company Description

Natura&Co is among the largest global cosmetic groups, with revenue of R\$24 billion and EBITDA of R\$2.4 billion in 2024. The group controls Natura Cosméticos and Avon Products (API) and owns the Natura and Avon brands. It operates in more than 100 countries, with a leading position in Brazil, and has a diversified portfolio 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 4 million representatives and over 1,000 stores and franchises globally.

Natura is negotiating to sell a portion, or all, of Avon International. In 2025, it should represent about 13% of revenue, and 5% of EBITDA generation.

Outlook

Natura&Co: The stable outlook reflects our expectation that Natura will gradually recover profitability, while integrating Natura and Avon’s brands in Latin America. We will monitor the company’s strategy in terms of shareholder returns and mergers and acquisitions (M&As) to see if the recovery is sustainable.

Natura Cosméticos: Given our view of Natura Cosméticos as a core subsidiary, the ratings on it move in tandem with those on its parent, Natura&Co.

Downside scenario

Natura&Co: We could downgrade Natura&Co in the next 12 months if the improvement in profitability stalls, dragging down the company’s cash generation and increasing leverage. Also, we could lower the ratings if the group becomes more aggressive in terms of M&A or shareholder returns, raising net debt to EBITDA to about 4x.

Natura Cosméticos: We could downgrade Natura Cosméticos if we take the same rating action on the parent or if we revise down its subsidiary status.

Upside scenario

Natura&Co: Although less likely, we could upgrade Natura&Co in the next 12 months if it is successful in integrating the Natura and Avon brands across its Latin American operations, improving profitability and cash generation. This would also require Natura&Co to maintain a conservative financial policy regarding leverage and shareholder payments. We would expect net debt to EBITDA to remain below 2x, funds from operations to debt above 45%, and free operating cash flow to debt above 15%.

Natura Cosméticos: We could raise the ratings on Natura Cosméticos if we do the same on the parent.

Key Metrics

Natura & Co Holding S.A.--Forecast summary

Period ending	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027	Dec-31-2028
(Mil. BRL)	2021a	2022a	2023a	2024a	2025e	2026f	2027f	2028f
Revenue	40,165	36,350	26,737	24,090	28,582	29,439	30,502	31,932
Gross profit	28,945	25,786	18,650	16,686	18,581	19,138	19,863	20,794
EBITDA (reported)	3,910	2,134	1,433	1,877	2,710	2,956	3,134	3,309
Plus: Operating lease adjustment (OLA) rent	--	--	--	--	--	--	--	--
Plus/(less): Other	274	296	683	512	140	140	140	140
EBITDA	4,183	2,430	2,116	2,389	2,850	3,096	3,274	3,449
Less: Cash interest paid	(1,004)	(1,009)	(1,192)	(607)	(767)	(718)	(627)	(560)
Less: Cash taxes paid	(977)	(580)	(381)	(718)	(386)	(448)	(509)	(563)
Plus/(less): Other	--	--	--	--	--	--	--	--
Funds from operations (FFO)	2,203	841	542	1,064	1,697	1,930	2,139	2,326
EBIT	1,467	301	1,378	1,665	2,087	2,249	2,361	2,474
Interest expense	858	964	1,014	629	801	756	665	599
Cash flow from operations (CFO)	(114)	672	(2,348)	(2,553)	818	1,091	1,481	1,725
Capital expenditure (capex)	1,479	1,103	947	548	786	810	839	878
Free operating cash flow (FOCF)	(1,593)	(431)	(3,295)	(3,101)	32	282	642	847
Dividends	--	181	--	1,023	450	460	542	615
Share repurchases (reported)	174	120	--	--	--	--	--	--
Discretionary cash flow (DCF)	(1,768)	(732)	(3,295)	(4,124)	(418)	(178)	100	232
Debt (reported)	12,717	13,592	6,112	6,843	6,843	6,843	6,843	6,843
Plus: Lease liabilities debt	3,548	3,271	1,150	977	1,081	1,113	1,153	1,208
Plus: Pension and other postretirement debt	--	--	--	--	--	--	--	--
Less: Accessible cash and liquid Investments	(5,986)	(5,996)	(7,775)	(4,458)	(3,906)	(3,579)	(3,492)	(3,506)

Natura & Co Holding S.A.--Forecast summary

Plus/(less): Other	(132)	635	437	1,263	1,263	1,263	1,263	1,263
Debt	10,147	11,502	--	4,624	5,280	5,640	5,767	5,807
Equity	28,567	22,351	23,120	15,672	16,222	16,907	17,652	18,450
FOCF (adjusted for lease capex)	(2,440)	(1,508)	(3,967)	(3,310)	(206)	99	415	575
Interest expense (reported)	845	945	979	589	762	717	625	559
Capex (reported)	1,479	1,103	947	548	786	810	839	878
Cash and short-term investments (reported)	5,986	5,996	7,775	4,458	3,906	3,579	3,492	3,506

Adjusted ratios

Debt/EBITDA (x)	2.4	4.7	--	1.9	1.9	1.8	1.8	1.7
FFO/debt (%)	21.7	7.3	NM	23.0	32.1	34.2	37.1	40.1
FFO cash interest coverage (x)	3.2	1.8	1.5	2.8	3.2	3.7	4.4	5.2
EBITDA interest coverage (x)	4.9	2.5	2.1	3.8	3.6	4.1	4.9	5.8
CFO/debt (%)	(1.1)	5.8	NM	(55.2)	15.5	19.4	25.7	29.7
FOCF/debt (%)	(15.7)	(3.7)	NM	(67.1)	0.6	5.0	11.1	14.6
DCF/debt (%)	(17.4)	(6.4)	NM	(89.2)	(7.9)	(3.2)	1.7	4.0
Lease capex-adjusted FOCF/debt (%)	(24.1)	(13.1)	--	(71.6)	(3.9)	1.8	7.2	9.9
Annual revenue growth (%)	8.8	(9.5)	(26.4)	(9.9)	18.6	3.0	3.6	4.7
Gross margin (%)	72.1	70.9	69.8	69.3	65.0	65.0	65.1	65.1
EBITDA margin (%)	10.4	6.7	7.9	9.9	10.0	10.5	10.7	10.8
Return on capital (%)	4.0	0.8	4.8	7.7	10.0	10.2	10.3	10.4
Return on total assets (%)	2.4	0.5	2.8	4.2	5.4	5.4	5.6	5.7
EBITDA/cash interest (x)	4.2	2.4	1.8	3.9	3.7	4.3	5.2	6.2
EBIT interest coverage (x)	1.7	0.3	1.4	2.6	2.6	3.0	3.5	4.1
Debt/debt and equity (%)	26.2	34.0	--	22.8	24.6	25.0	24.6	23.9
Debt fixed-charge coverage (x)	4.9	2.5	2.1	3.8	3.6	4.1	4.9	5.8
Debt/debt and undepreciated equity (%)	26.2	34.0	--	22.8	24.6	25.0	24.6	23.9

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. R\$--Brazilian real.

Financial Summary

Period ending	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024
Reporting period	2020a	2021a	2022a	2023a	2024a
Display currency (mil.)	R\$	R\$	R\$	R\$	R\$
Revenues	36,922	40,165	36,350	26,737	24,090
EBITDA	4,001	4,183	2,430	2,116	2,389
Funds from operations (FFO)	2,412	2,203	841	542	1,064
Interest expense	1,352	858	964	1,014	629
Cash interest paid	1,258	1,004	1,009	1,192	607

Natura & Co Holding S.A.

Operating cash flow (OCF)	1,286	(114)	672	(2,348)	(2,553)
Capital expenditure	674	1,479	1,103	947	548
Free operating cash flow (FOCF)	611	(1,593)	(431)	(3,295)	(3,101)
Discretionary cash flow (DCF)	529	(1,768)	(732)	(3,295)	(4,124)
Cash and short-term investments	8,342	5,986	5,996	7,775	4,458
Gross available cash	8,342	5,986	5,996	7,775	4,458
Debt	7,611	10,147	11,502	0	4,624
Common equity	27,387	28,567	22,351	23,120	15,672
Adjusted ratios					
EBITDA margin (%)	10.8	10.4	6.7	7.9	9.9
Return on capital (%)	5.4	4.0	0.8	4.8	7.7
EBITDA interest coverage (x)	3.0	4.9	2.5	2.1	3.8
FFO cash interest coverage (x)	2.9	3.2	1.8	1.5	2.8
Debt/EBITDA (x)	1.9	2.4	4.7	0.0	1.9
FFO/debt (%)	31.7	21.7	7.3	NM	23.0
OCF/debt (%)	16.9	(1.1)	5.8	NM	(55.2)
FOCF/debt (%)	8.0	(15.7)	(3.7)	NM	(67.1)
DCF/debt (%)	6.9	(17.4)	(6.4)	NM	(89.2)

Peer Comparison

Natura & 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/--	BB+/Stable/--	A-/Negative/A-2	AA/Stable/A-1+
Local currency issuer credit rating	BB/Stable/--	BB+/Stable/--	A-/Negative/A-2	AA/Stable/A-1+
Period	Annual	Annual	Annual	Annual
Period ending	2024-12-31	2024-06-30	2024-06-30	2023-12-31
Mil.	R\$	R\$	R\$	R\$
Revenue	24,090	33,965	86,649	220,872
EBITDA	2,389	6,275	16,927	53,568
Funds from operations (FFO)	1,064	3,766	11,539	41,638
Interest	629	1,527	2,418	1,228
Cash interest paid	607	1,551	2,335	1,227
Operating cash flow (OCF)	(2,553)	3,459	15,303	40,785
Capital expenditure	548	1,361	5,102	7,984
Free operating cash flow (FOCF)	(3,101)	2,098	10,201	32,801
Discretionary cash flow (DCF)	(4,124)	853	4,749	11,729
Cash and short-term investments	4,458	1,670	18,848	21,684
Gross available cash	4,458	1,670	18,848	21,684
Debt	4,624	24,903	40,391	26,918

Natura & Co Holding S.A.--Peer Comparisons

Equity	15,672	22,791	29,501	155,971
EBITDA margin (%)	9.9	18.5	19.5	24.3
Return on capital (%)	7.7	5.5	12.3	25.5
EBITDA interest coverage (x)	3.8	4.1	7.0	43.6
FFO cash interest coverage (x)	2.8	3.4	5.9	34.9
Debt/EBITDA (x)	1.9	4.0	2.4	0.5
FFO/debt (%)	23.0	15.1	28.6	154.7
OCF/debt (%)	(55.2)	13.9	37.9	151.5
FOCF/debt (%)	(67.1)	8.4	25.3	121.9
DCF/debt (%)	(89.2)	3.4	11.8	43.6

Environmental, Social, And Governance

Social factors are negative to our credit analysis of Natura&Co. The company, through its subsidiary API, was subject to 429 lawsuits related to asbestos in its discontinued products of talcum powders and has already been subject to fines related to it. The company applied for chapter 11 and entered an agreement with creditors. Governance factors are a moderately negative consideration given the deficiencies in internal controls to map and address the risks its businesses are exposed to, as seen with the lawsuits targeting API.

Rating Component Scores

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

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024

- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

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