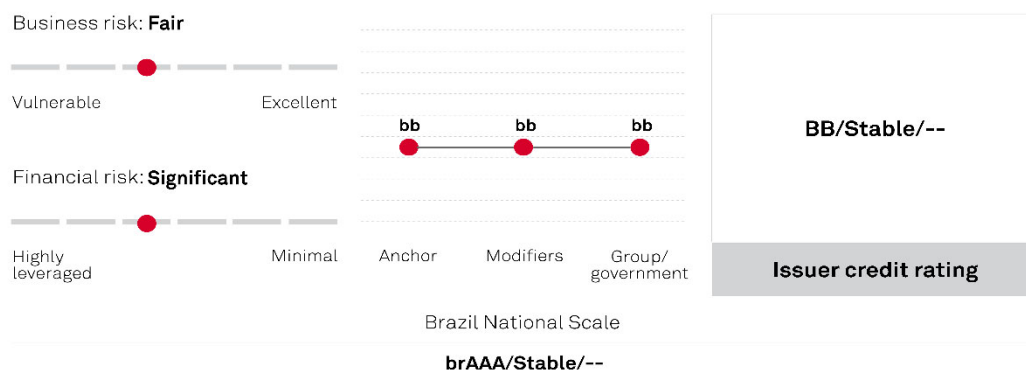


Natura & Co Holding S.A.

May 6, 2024

Ratings Score Snapshot



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Credit Highlights

Overview

Key strengths

Robust balance sheet and liquidity.

Leading market shares in Latin America, along with a strong brand portfolio.

Potential synergies and increasing consultant productivity can improve margins.

Key risks

Persistent underperformance for Avon's international operations and slow turnaround of its Latin American units.

Strategic missteps in mergers and acquisitions (M&A) took a toll on the company's operations and leverage in the past years.

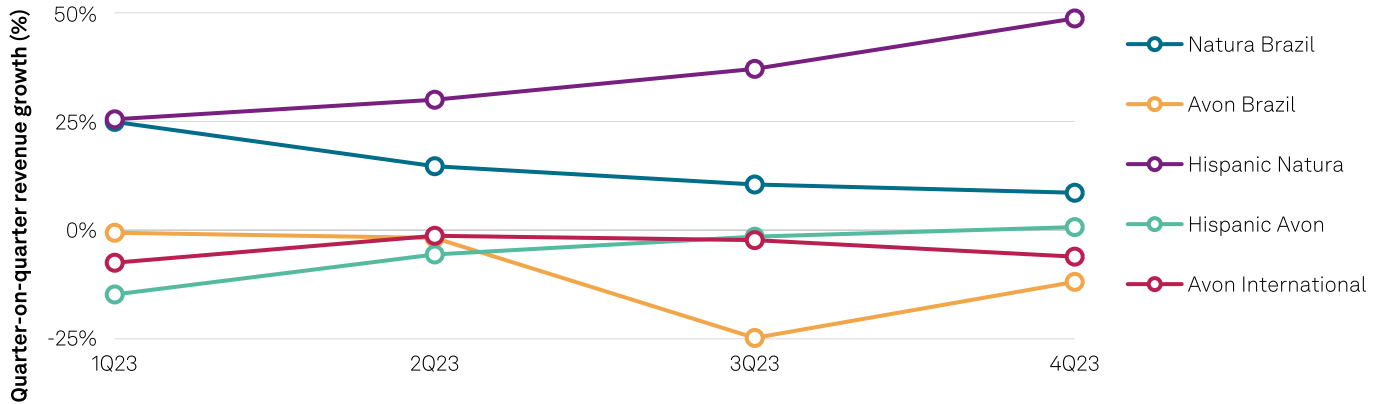
Uncertainties about Avon's strategy could continue to concentrate management's efforts in asset optimization.

Avon Products Inc. (Avon; BB-/Stable/--) remains a drag on Natura's results. The acquisition of Avon was initially presented as a strategic opportunity for Natura group (Natura) to expand into new markets and unlock synergies. However, the subsequent integration process has been fraught with difficulties. Avon has posted decreasing revenues year-over-year, with breakeven or negative EBITDA, since its acquisition in 2019. This has hampered consolidated margins and

increased leverage metrics until Natura sold Aesop and The Body Shop (TBS) in 2023. Natura expects that with the new waves of projects implemented and the continuous integration of Avon's Latin American operations, margins could return to historical levels of about 10%-11% and revenues could resume growth.

Revenue compared to the previous year

In constant currency



Source: S&P Global Ratings and company's financial statements.

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Synergies should start materializing, but uncertainty about Avon's international division's strategy could continue to deviate management's efforts from improving operations.

Natura&Co began integrating Natura and Avon subsidiaries in Peru and Colombia in the second quarter of 2023, and later in that year in Brazil and Chile. The integration project involves increasing the minimum sale per consultant along with further integration between the brands, which reduced the number of consultants by 16.7% in Brazil and by 18.1% in the other Latin American countries in the fourth quarter of 2023 versus the previous year. We expect the number of consultants to remain stable from 2024 onward, with a gradual increase in gross revenues per consultant bolstering EBITDA. As a result, Natura&Co's EBITDA margins should be 8.6% for 2024 and 9.7% in 2025, versus 7.9% in 2023.

The board is analyzing a potential spin-off of Avon's international business, which represented 23.5% of Natura's revenues. Without this segment, we forecast that margins would return to historical levels this year.

Solid liquidity cushion and balance sheet are supported by the sale of Aesop and TBS.

Natura&Co ended 2023 with a cash position of R\$7.7 billion, after amortizing over R\$7 billion of debt throughout 2023. It received \$2.5 billion for the sale of Aesop in August 2023, and around \$260 million for the sale of TBS in November 2023.

However, we don't think the company will keep its balance sheet as is. We forecast that it will increase dividends and capex or perform M&A in upcoming years. For example, Natura has already paid R\$1 billion in dividends in 2024, which is 66% more than the company distributed via dividends or share buybacks in the past four years.

Outlook

The stable outlook reflects that although Natura&Co and Natura's leverage will be net or very low in the next quarters, we will monitor the group's growth strategy in terms of M&A, investments, and shareholders' returns to assess the group's capital structure, cash flow, and leverage. In addition, we expect Avon's international performance to gradually improve, despite lower consumption in Europe and a long road to complete the business's turnaround.

Natura Cosméticos and Avon Products

The ratings on Natura Cosméticos move in tandem with those on its parent, Natura&Co, because of Natura's status as a core subsidiary. We cap our rating on Avon at one notch below the parent because we consider it a highly strategic subsidiary to the group.

Downside scenario

We could downgrade Natura&Co in the next 12-24 months if Avon's international performance remains lackluster and the group's revenues and margins continue to decline, which along with volatile profits could lead us to revise our view of its business risk. Also, although unlikely in the next 24 months, if the group becomes more aggressive in terms of M&A or shareholders' returns, raising debt to EBITDA to about 4x, we will lower the ratings.

Natura Cosméticos and Avon Products

We could downgrade Natura Cosméticos and Avon if we take the same rating action on the parent, Natura&Co, or if we change their current group status.

Upside scenario

We could upgrade Natura&Co if margins at Avon recover, Natura's operations in Latin America continue to expand and benefit from integrating businesses, and we see consistent results and a conservative financial policy regarding leverage. Even as the group pursues other growth initiatives, we would expect debt to EBITDA to remain below 2x, funds from operations (FFO) to debt above 45%, and free operating cash flow (FOCF) to debt above 15%.

Natura Cosméticos and Avon Products

We could raise the ratings on these companies if we do the same on the parent. We could also upgrade Avon if we see a higher likelihood of support from the group.

Our Base-Case Scenario

Assumptions

- Brazil's GDP growth of about 1.5% in 2024 and 1.9% in 2025;
- Average Consumer Price Index in Brazil of 4.1% in 2024 and 3.7% in 2025;
- Average foreign exchange (FX) rate in the R\$5.10 - R\$5.20 range per \$1 for 2024 and 2025;
- Consolidated revenue stable versus 2023, driven by a drop in Avon's international division's revenues;
- Revenue growth in Natura&Co's Latin American operations (including Brazil) of 2.0%-2.5% in 2024 and 2025;
- Avon's international division's revenues to drop about 7% in 2024 and 3% in 2025;

- Growing working capital consumption, which we expect to be R\$430 million in 2024 and R\$570 million in 2025, as the company reverts the declining trend in revenues and volumes;
- Avon's international division's EBITDA margins of 0.5% in 2024, and gradually growing for the next few years;
- Consolidated capex of R\$1.3 billion in 2024 and R\$1.0 billion in 2025; and
- An increase in dividend payout to R\$1.2 billion-R\$1.3 billion in 2024 from what Natura&Co already announced, and dividends of R\$450 million-R\$500 million in 2025.

Key metrics

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

Period ending	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027
(Mil. BRL)	2020a	2021a	2022a	2023a	2024e	2025f	2026f	2027f
Revenue	36,922	40,165	36,350	26,737	26,767	27,052	27,704	28,546
Gross profit	23,908	28,945	25,786	18,650	17,436	17,449	17,858	18,370
EBITDA (reported)	3,508	3,910	2,134	1,433	2,130	2,470	2,600	2,655
Plus: Operating lease adjustment (OLA) rent	--	--	--	--	--	--	--	--
Plus/(less): Other	493	274	296	683	165	165	165	165
EBITDA	4,001	4,183	2,430	2,116	2,294	2,634	2,765	2,819
Less: Cash interest paid	(1,258)	(1,004)	(1,009)	(1,192)	(410)	(282)	(246)	(247)
Less: Cash taxes paid	(331)	(977)	(580)	(381)	(195)	(274)	(284)	(267)
Plus/(less): Other	--	--	--	--	--	--	--	--
Funds from operations (FFO)	2,412	2,203	841	542	1,689	2,079	2,235	2,306
EBIT	1,315	1,467	301	1,378	1,113	1,229	1,227	1,171
Interest expense	1,352	858	964	1,014	462	316	280	281
Cash flow from operations (CFO)	1,286	(114)	672	(2,348)	1,764	1,826	1,713	1,747
Capital expenditure (capex)	674	1,479	1,103	947	1,338	1,353	1,385	1,285
Free operating cash flow (FOCF)	611	(1,593)	(431)	(3,295)	425	473	328	463
Dividends	134	--	181	--	1,291	455	639	662
Share repurchases (reported)	(51)	174	120	--	--	--	--	--
Discretionary cash flow (DCF)	529	(1,768)	(732)	(3,295)	(866)	18	(310)	(200)
Debt (reported)	13,823	12,717	13,592	6,112	4,112	3,112	3,112	3,112
Plus: Lease liabilities debt	3,858	3,548	3,271	1,150	577	583	597	615
Plus: Pension and other postretirement debt	--	--	--	--	--	--	--	--
Less: Accessible cash and liquid Investments	(8,342)	(5,986)	(5,996)	(7,775)	(4,546)	(3,173)	(2,462)	(1,850)
Plus/(less): Other	(1,728)	(132)	635	437	437	437	437	437
Debt	7,611	10,147	11,502	--	579	958	1,683	2,313
Equity	27,387	28,567	22,351	23,120	22,415	22,728	22,882	22,972
FOCF (adjusted for lease capex)	1	(2,440)	(1,508)	(3,967)	636	76	(86)	32
Interest expense (reported)	1,334	845	945	979	427	281	246	246
Capex (reported)	674	1,479	1,103	947	1,338	1,353	1,385	1,285
Cash and short-term investments (reported)	8,342	5,986	5,996	7,775	4,546	3,173	2,462	1,850

Natura & Co Holding S.A.--Forecast summary**Adjusted ratios**

Debt/EBITDA (x)	1.9	2.4	4.7	--	0.3	0.4	0.6	0.8
FFO/debt (%)	31.7	21.7	7.3	NM	291.7	217.0	132.8	99.7
FFO cash interest coverage (x)	2.9	3.2	1.8	1.5	5.1	8.4	10.1	10.3
EBITDA interest coverage (x)	3.0	4.9	2.5	2.1	5.0	8.3	9.9	10.0
CFO/debt (%)	16.9	(1.1)	5.8	NM	304.6	190.6	101.8	75.5
FOCF/debt (%)	8.0	(15.7)	(3.7)	NM	73.5	49.4	19.5	20.0
DCF/debt (%)	6.9	(17.4)	(6.4)	NM	(149.5)	1.8	(18.4)	(8.6)
Lease capex-adjusted FOCF/debt (%)	0.0	(24.1)	(13.1)	--	109.8	8.0	(5.1)	1.4
Annual revenue growth (%)	12.1	8.8	(9.5)	(26.4)	0.1	1.1	2.4	3.0
Gross margin (%)	64.8	72.1	70.9	69.8	65.1	64.5	64.5	64.4
EBITDA margin (%)	10.8	10.4	6.7	7.9	8.6	9.7	10.0	9.9
Return on capital (%)	5.4	4.0	0.8	4.8	4.8	5.3	5.1	4.7
Return on total assets (%)	2.8	2.4	0.5	2.8	2.7	3.2	3.2	3.0
EBITDA/cash interest (x)	3.2	4.2	2.4	1.8	5.6	9.4	11.2	11.4
EBIT interest coverage (x)	1.0	1.7	0.3	1.4	2.4	3.9	4.4	4.2
Debt/debt and equity (%)	21.7	26.2	34.0	--	2.5	4.0	6.9	9.1
Debt fixed-charge coverage (x)	3.0	4.9	2.5	2.1	0.9	2.0	9.9	10.0
Debt/debt and undepreciated equity (%)	21.7	26.2	34.0	--	2.5	4.0	6.9	9.1

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

Company Description

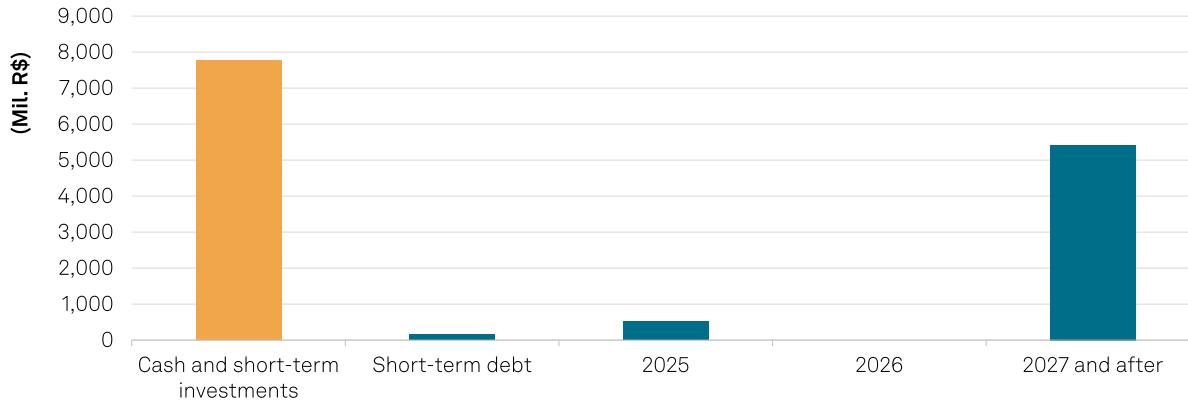
Natura&Co manufactures, distributes, and sells cosmetics, fragrances, and personal care products in Brazil, Asia, Europe, North America, South America, the Middle East, Africa, and Oceania. The company operates through its Natura Cosméticos and Avon segments. It markets its products under the Natura and Avon brands through direct selling, e-commerce, business-to-business, franchises, physical stores, and retail markets. Natura&Co was founded in 1969 and is headquartered in São Paulo, Brazil.

The company is one of the largest cosmetics groups in the world, with net revenues of R\$26.7 billion (not including discontinued operations) and EBITDA of R\$2.1 billion in 2023. The group has a leading market position in Brazil and has a well-diversified portfolio with product offerings to various customer tiers and channels. Natura&Co has strong brands and a leading position in the direct sales model for cosmetics, with more than 4.7 million representatives.

Financial Risk

Debt maturities

Debt amortization schedule



Source: S&P Global Ratings.

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Period ending	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023
Reporting period	2020a	2021a	2022a	2023a
Display currency (mil.)	R\$	R\$	R\$	R\$
Revenues	36,922	40,165	36,350	26,737
EBITDA	4,001	4,183	2,430	2,116
Funds from operations (FFO)	2,412	2,203	841	542
Interest expense	1,352	858	964	1,014
Cash interest paid	1,258	1,004	1,009	1,192
Operating cash flow (OCF)	1,286	(114)	672	(2,348)
Capital expenditure	674	1,479	1,103	947
Free operating cash flow (FOCF)	611	(1,593)	(431)	(3,295)
Discretionary cash flow (DCF)	529	(1,768)	(732)	(3,295)
Cash and short-term investments	8,342	5,986	5,996	7,775
Gross available cash	8,342	5,986	5,996	7,775
Debt	7,611	10,147	11,502	0
Common equity	27,387	28,567	22,351	23,120
Adjusted ratios				
EBITDA margin (%)	10.8	10.4	6.7	7.9
Return on capital (%)	5.4	4.0	0.8	4.8
EBITDA interest coverage (x)	3.0	4.9	2.5	2.1
FFO cash interest coverage (x)	2.9	3.2	1.8	1.5
Debt/EBITDA (x)	1.9	2.4	4.7	0.0
FFO/debt (%)	31.7	21.7	7.3	NM

Natura & Co Holding S.A.

OCF/debt (%)	16.9	(1.1)	5.8	NM
FOCF/debt (%)	8.0	(15.7)	(3.7)	NM
DCF/debt (%)	6.9	(17.4)	(6.4)	NM

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

Financial year	Dec-31-2023	Shareholder Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Company reported amounts		6,112	23,103	26,737	1,433	(155)	979	2,116	(2,348)	-	947
Cash taxes paid		-	-	-	-	-	-	(381)	-	-	-
Cash interest paid		-	-	-	-	-	-	(1,192)	-	-	-
Lease liabilities		1,150	-	-	-	-	-	-	-	-	-
Postretirement benefit obligations/deferred compensation		-	-	-	35	35	35	-	-	-	-
Accessible cash and liquid investments		(7,775)	-	-	-	-	-	-	-	-	-
Share-based compensation expense		-	-	-	127	-	-	-	-	-	-
Nonoperating income (expense)		-	-	-	-	977	-	-	-	-	-
Noncontrolling/minority interest		-	17	-	-	-	-	-	-	-	-
Debt: Foreign currency hedges		6	-	-	-	-	-	-	-	-	-
Debt: other		431	-	-	-	-	-	-	-	-	-
EBITDA: other		-	-	-	521	521	-	-	-	-	-
Total adjustments		(6,188)	17	-	683	1,533	35	(1,574)	-	-	-
S&P Global Ratings adjusted		Debt	Equity	Revenue	EBITDA	EBIT	Interest expense	Funds from Operations	Operating cash flow	Dividends	Capital expenditure
		-	23,120	26,737	2,116	1,378	1,014	542	(2,348)	-	947

Liquidity

Natura significantly bolstered its liquidity position following the divestment of its subsidiaries Aesop and TBS. The proceeds from these sales, amounting to \$2.5 billion and \$260 million, respectively, were allocated to prepaying a substantial portion of short-term debt and its bonds, reinforcing the liquidity cushion and removing covenants from the remaining debts.

However, there is uncertainty surrounding its further capital allocation toward capex, acquisitions, and dividends. Should the company demonstrate a commitment to maintaining an enhanced cushion relative to its previous policy, we could view Natura's liquidity as stronger.

Principal liquidity sources

- Cash position of R\$7.7 billion as of Dec. 31, 2023; and
- FFO of R\$1.8 billion in 2024.

Principal liquidity uses

- Working capital outflows of R\$430 million in 2024;
- Seasonal working capital needs of R\$700 million for 2024;
- Capex of R\$1.3 billion in 2024; and
- Dividend payment of R\$1.3 billion in 2024.

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 cross-guarantees between the holding company and Natura Cosméticos. We view Natura Cosméticos as a core entity to the group, reflecting its importance--it represents all of 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 it. Therefore, the group's credit profile drives the rating on Natura Cosméticos.

We view Avon as a highly strategic subsidiary to Natura&Co. We believe Avon is important to the group's long-term strategies, that at least the group is unlikely to sell the Latin American operations, and that it would receive extraordinary support from the group in most foreseeable circumstances. Natura&Co has shown its commitment to Avon in the past years by prepaying a large part of its debt and supporting the subsidiary while its performance is detrimental to the group's results.

As a result of each subsidiary's group status, we rate Natura Cosméticos at the same level as the holding company and rate Avon one notch below Natura&Co.

Issue Ratings--Recovery Analysis

Key analytical factors

The recovery ratings on the unsecured debts issued by Natura Cosméticos, Natura&Co, and Avon are '3' (65%). The group's capital structure, as of Dec. 31, 2023, included:

- \$250 million, 6.95% unsecured notes due 2043 (\$28 million outstanding) issued by Avon.
- R\$3.5 billion 4.125% and 6.125% sustainability-linked notes and unsecured notes due 2028 and 2029 issued by Natura Luxembourg and guaranteed by Natura&Co.
- Aggregated amount of R\$2 billion in local unsecured debentures issued by Natura Cosméticos maturing in 2027 and 2032.
- Commercial notes of R\$517 million.
- Senior secured debt of R\$3 million.

Simulated default assumptions

- Year of default: 2029
- EBITDA at emergence: R\$60 million for Avon and R\$1.1 billion for Natura Cosméticos

Simplified waterfall

Natura & Co Holding S.A.

- Net enterprise value: R\$6.9 billion (R\$343 million of Avon and R\$6.5 billion of Natura)
- Unsecured debt at Avon: R\$131.4 million
- Avon's residual value upstream to parent company: R\$206 million
- Unsecured debt recovery expectation at Avon: 50%-70% (rounded estimate: 65%)
- Secured debt at Natura: R\$3.5 million (FINEP)
- Unsecured claims at Natura Cosméticos (debentures, commercial notes lines, and unsecured note): R\$6 billion
- Unsecured debt recovery expectation at Natura: 50%-70% (rounded estimate: 65%)

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	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	bb
Natura Cosméticos	
Foreign currency issuer credit rating	BB/Stable/--
Group status	Core
Avon Products Inc.	
Foreign currency issuer credit rating	BB-/Stable/--
Group status	Highly strategic

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021

Natura & Co Holding S.A.

- 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
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, 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

Related Research

- Tear Sheet: Natura & Co. Holding S.A., Nov. 29, 2022
- Bulletin: Weak Mid-Year Results Diminish Natura & Co. Holdings S.A.'s Ratings Headroom, Aug 17, 2022

Ratings Detail (as of May 06, 2024)*

Natura & Co Holding S.A

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

Issuer Credit Ratings History

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 Cosméticos S.A.

Issuer Credit Rating	BB/Stable/--
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Ratings Detail (as of May 06, 2024)*

<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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