

Rating Action: Moody's upgrades Avon's senior unsecured ratings to B1 following full redemption of secured notes; negative outlook

18 Nov 2020

New York, November 18, 2020 -- Moody's Investors Service, (Moody's) has today upgraded the ratings of the senior unsecured notes issued by Avon Products, Inc. (Avon) to B1 from B3 and withdrew the instruments' loss given default (LGD) assessment. Avon's B1 corporate family rating (CFR) remains unchanged. The outlook for all ratings is negative.

The following rating actions were taken:

Ratings Upgraded:

..Issuer: Avon Products, Inc.

....5.000% Senior Unsecured Notes due 2023, Upgraded to B1 from B3, LGD-5 withdrawn

....6.950% Senior Unsecured Notes due 2043, Upgraded to B1 from B3, LGD-5 withdrawn

Ratings unchanged:

..Issuer: Avon Products, Inc.

....Corporate Family Rating, B1

Outlook:

....Outlook, negative

Rating withdrawn:

..Issuer: Avon Products, Inc.

....Probability of Default Rating, previously rated B1-PD

The outlook for all ratings is negative.

RATINGS RATIONALE

The upgrade of Avon's senior unsecured ratings to B1 from B3 follows the full redemption of the \$900 million senior secured notes due 2022 issued by Avon's wholly owned subsidiaries Avon International Operations, Inc. (AIO) and Avon International Capital PLC (AIC) concluded on November 2. As a result of the prepayment of the secured notes, Avon's capital structure currently has only one class of debt, being entirely composed of senior unsecured debt instruments -- namely intercompany loans and the senior unsecured notes due 2023 and 2043, which eliminates the previous effective subordination of the unsecured instruments relative to the senior secured notes and to Avon's corporate family rating.

The prepayment of the secured notes was funded with proceeds from a \$1 billion equity issuance made by Avon's parent, Natura & Co Holding S.A. (Natura). Natura transferred proceeds to Avon through a \$960 million promissory note due November 2021, and therefore Avon's adjusted leverage after the prepayment of the secured notes remained unchanged at around 15.6x in the twelve months ended September 2020 (7.4x excluding intercompany loans). Nevertheless, the redemption of Avon's notes reduced Natura's total reported debt/EBITDA to 3.9x from 5.4x and its reported net leverage to 1.4x from 3.0x in the twelve months that ended September 2020, while improving its debt amortization schedule by eliminating a significant debt maturity in 2022.

A healthier financial profile for Natura reduces execution and liquidity risks for Avon. We incorporate some degree of financial support from Natura to Avon's credit profile given the company's relevance to the group and

Natura's proven track record of financial discipline. Natura is committed to support Avon with liquidity in case of need, and has done so already by providing a \$100 million revolving credit facility to Avon available until 2022 - of which \$59 million remains undrawn - which reduces risks associated with cash burn at Avon. Although the notes prepayment did not improve Avon's credit metrics and debt amortization schedule, it showed Natura's commitment to Avon and marked another step in Natura's strategy to deleverage its capital structure after Avon's acquisition, while accelerating growth and integration with Avon.

Avon's B1 ratings with a negative outlook reflect the execution risk stemming from its ongoing turnaround process. Its 2020 sales and earnings will be hurt by the coronavirus outbreak because social distancing measures have impaired the company's ability to recruit its sales force, as well as the ability of its representatives to meet customers and collect orders. We forecast that Avon's operating performance will recover in 2021, supported by the benefits from its integration with Natura. We expect its leverage to return to below 5.5x in 2021, after peaking in 2020. However, the visibility into a recovery remains low.

Avon's ratings incorporate some degree of support from its parent company, Natura, which has a stronger credit profile on a standalone basis. The ratings also reflect Avon's leading market position and good geographic diversification, although with a high concentration of operations in growing, but potentially volatile, developing markets.

Moody's has decided to withdraw the probability of default rating for its own business reasons. Please refer to the Moody's Investors Service's Policy for Withdrawal of Credit Ratings, available on its website, www.moodys.com.

RATING OUTLOOK

The negative outlook reflects the high execution risks on Avon's turnaround process and the uncertainty on the future financial policy and capital structure of Avon. Failure to rapidly revert the decline in the number of representative and to stabilize sales could hamper the company's ability to reduce the current high leverage, leading to downward pressure on the rating.

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

Positive pressure on the ratings could develop in case of 1) evidence of stronger support from Natura, such as the provision of an explicit guarantee on Avon's debt or if Avon's debt is refinanced at the parent company level; 2) successful execution of Avon's turnaround initiatives leading to material operating performance improvement, with EBIT margin approaching 10%; 3) Moody's-adjusted gross Debt/EBITDA improving to below 4.5x on a sustained basis; 4) materially positive free cash flow on a sustained basis.

The ratings could be lowered in case of 1) failure to restore operating performance, with stabilization of sales and recovery in operating margin; 2) Moody's-adjusted gross Debt/EBITDA remaining above 5.5x on a sustained basis; 3) Natura adopting financial policies that are detrimental to Avon's creditors, such as large cash upstreaming.

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. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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 over 70 countries and are categorized as color cosmetics, skin care, fragrance, fashion and home. Following the completion of the acquisition in January 2020, Avon is now a fully owned subsidiary of Natura. Avon generated about \$3.8 billion in revenue and \$124 million in EBITDA (Moody's-adjusted) in the twelve months ended September 2020.

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 the twelve months ended September 2020, Natura & Co reported \$7.2 billion in revenues and EBITDA margin of 9.5%.

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.

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