

RATING ACTION COMMENTARY

Fitch Affirms Natura's 'BB+' IDRs; Outlook Stable

Wed 16 Jul, 2025 - 5:29 PM ET

Fitch Ratings - São Paulo - 16 Jul 2025: Fitch Ratings has affirmed Natura Cosméticos S.A.'s (Natura) Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BB+' and Long-Term National Scale Rating at 'AAA(bra)'. The Rating Outlook for the IDRs and National Scale Rating is Stable. Fitch has also affirmed Natura &Co Luxembourg Holdings S.a.r.l.'s unsecured notes at 'BB+' and withdrew Natura &Co Holdings S.A.'s 'BB+' IDRs and 'AAA(bra)' National Scale Rating, following its organizational restructuring.

Natura's ratings reflect its strong business positioning and brand reputation in the Cosmetics, Fragrances and Toiletries (CF&T) market and diversified asset base, balanced against challenges to turn around Avon's operations amid weak brand awareness, fierce competition and changing consumer behavior. The ratings also factor in expectations that Natura will maintain EBITDAR net leverage below 2.0x and robust financial flexibility while executing the second wave of integration between Natura and Avon brands in Latin America.

Natura &Co Holdings S.A.'s ratings have been withdrawn due to corporate reorganization.

KEY RATING DRIVERS

Turnaround in Process: Natura is poised to complete the second phase of integration in Argentina and Mexico, its largest markets after Brazil. Early results in other countries suggest increasing sales and productivity; however, Fitch expects short-term challenges that will limit Natura's ability to improve revenues, profitability and cash flow. The company is also preparing to relaunch the Avon brand to address shifting consumer preferences and competition from emerging brands. Greater autonomy over Avon's product strategy allows Natura to leverage its innovation, in-house manufacturing and R&D capabilities to strengthen Avon's positioning in the entry-level market.

Latin America Focus: Following the sale of Aesop and The Body Shop in 2023, Natura is exploring options to divest Avon's operations outside Latam, which account for 20% of revenues, is cash flow negative and complex to manage due to its presence across multiple non-core regions. Once Natura completes the Latin American integration, Fitch expects the company to focus on innovation, brand development, commercial strategies, and digital initiatives, such as the Emana Pay (company's fintech). Investments will also focus on Avon's rebranding and growing market share in Mexico through the Natura brand, where it has low household penetration compared with Brazil and Argentina.

Profitability to Improve: Fitch expects Natura's EBITDAR to gradually improve to BRL4.0 billion (12.9% margin) in 2025 and to BRL4.8 billion (14.5% margin) in 2026, reflecting continued strong performance in Brazil, gradual cost dilution across Latin America – particularly in Mexico – driven by cross-selling initiatives, and reduced cash burn at Avon International. The CFO margin is projected at 2.7% of revenues in 2025 and 3.9% in 2026. FCF should remain negative during the next three years due to higher dividends, although pre-dividend FCF should turn positive by 2026. Fitch projections include average annual capital expenditures of approximately BRL700 million.

Robust Capital Structure: Fitch expects Natura to maintain a strong capital structure in the rating horizon, with EBITDAR leverage and EBITDAR net leverage below 3.0x and 2.0x, respectively. Good brand-level results in Brazil and gradually lower cash burn after the second wave integration concludes should allow Natura to maintain adequate debt levels while increasing its EBITDAR. Total debt in March 2025 was BRL7.8 billion and consisted of BRL6.6 billion in 2028 and 2029 local and cross-border bonds, BRL860 million in leases and BRL220 million in derivative obligations, according to Fitch's criteria.

Weaker Strategy Execution: The voluntary Chapter 11 filing by Avon Products International (API) in August 2024, alongside unsuccessful strategic decisions related to the acquisitions of Avon and The Body Shop, has negatively impacted Natura's governance, according to Fitch. The company's current strategy to focus on its core business and key regions and to divest from Avon's operations outside Latin America is seen as positive, though it has yet to materialize. Natura also needs to improve its cash flows and profitability on a sustainable basis. Fitch believes potential cash inflows from the Avon international divestiture will be immaterial.

PEER ANALYSIS

Natura's ratings reflect its good business position in the Latin America CF&T industry, with leading market share in Brazil, Argentina and Peru and increasing participation in Chile,

Colombia and Mexico, as well as its conservative financial profile. Rated peers in the consumer and beauty products space include Coty Inc. (BB+/Stable Outlook).

Coty's ratings reflect its leading market position as one of the world's largest beauty companies with a recently improved mix toward higher growth and higher margin prestige fragrance and skin care, and signs of stabilization in its consumer beauty business. Coty has a more positive track record of stable and growing CFOs compared with Natura, but its forecast EBITDA leverage of mid-3.0x in 2025F compares negatively with Natura's 2.2x.

Natura also faces strong competition from local player, O Boticário (not rated), which has a solid business profile, supported mainly by its bricks-and-mortar franchise and adequate leverage. Within the retail/consumer universe, Fitch rates MercadoLibre, Inc.'s (MELI) 'BBB-/Stable. MELI's rating reflects its leadership position in the competitive and underpenetrated e-commerce and digital payments sectors in Latin America, solid credit metrics and robust financial flexibility. It is more diversified than Natura, operating in different product categories through its marketplace, and offers financial services like credit cards and loans.

KEY ASSUMPTIONS

- Latin America 's revenues growing between 9%-11% during 2025-2027;
- Avon's international operations dropping 14% annually in 2025 and 2026;
- Consolidated EBITDAR margins gradually converging to 15% by 2027;
- Capex of around BRL700 million per year;
- Share buybacks of BRL500 million in 2025;
- Dividend payment equivalent to 30% to 50% of net income.

RATING SENSITIVITIES

Factors That Could, Individually Or Collectively, Lead To Negative Rating Action/Downgrade

- Reputational damages to the brand, relevant contingency materialization or perception of weaker access to the debt markets;

- Consolidated EBITDAR leverage above 3.5x and EBITDAR net leverage above 3.0x;
- EBITDAR fixed-charge coverage below 4.0x;
- Competitive pressures leading to severe loss in market-share for either Natura and Avon;
- A downgrade of Brazil's sovereign rating could negatively affect Natura's IDRs.

Factors That Could, Individually Or Collectively, Lead To Positive Rating Action/Upgrade

- Positive FCFs in the rating horizon, because of stabilization in the company's operating performance;
- Consistent EBITDAR margins improvements commensurate with peers (15%-20%);
- Consolidated EBITDAR leverage below 2.0x and EBITDAR net leverage below 1.5x on a consistent basis;
- EBITDAR fixed-charge coverage above 5.5x;
- Maintenance of strong liquidity and no refinancing risks within 18-24 months.

LIQUIDITY AND DEBT STRUCTURE

Natura has historically maintained robust financial flexibility with high cash reserves and lengthened debt profile. The company has good access to the banking and the local and cross-border capital markets, having accessed different funding sources. As of March 2025, cash and equivalents totaled BRL3.7 billion, compared with BRL140 million in short-term debt, BRL365 million maturing in 2026 and BRL245 million in 2027. Most of Natura's debt (bonds) are due in 2028 and 2029. Natura's ability to lower dividend payouts and generate positive FCF also strengthens its financial flexibility.

ISSUER PROFILE

Natura is one of Latin America's largest companies in the Cosmetics, Fragrance & Toiletries sector, managing renowned brands Natura and Avon. The company operates through direct sales (90% of revenues), retail (5%), and online (5%).

SUMMARY OF FINANCIAL ADJUSTMENTS

- Fitch used balance sheet lease liabilities to calculate adjusted debt;

--Extraordinary items were removed from EBITDAR.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

[Click here](#) to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG CONSIDERATIONS

Natura has an ESG Relevance Score of '4' for Management Strategy due to its corporate governance practices regarding API's chapter 11 and execution strategy, which has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

RATING ACTIONS

| ENTITY / DEBT ⚡ | RATING ⚡ | | | PRIOR ⚡ |
|------------------------|----------|-----|----------|---------|
| | | | | |
| Natura Cosméticos S.A. | LT IDR | BB+ | Affirmed | BB+ |

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|---|-----------|----------|-----------|----------|
| | LC LT IDR | BB+ | Affirmed | BB+ |
| | Natl LT | AAA(bra) | Affirmed | AAA(bra) |
| senior unsecured | Natl LT | AAA(bra) | Affirmed | AAA(bra) |
| Natura &Co Holding S.A. | LT IDR | WD | Withdrawn | BB+ |
| | LC LT IDR | WD | Withdrawn | BB+ |
| | Natl LT | WD(bra) | Withdrawn | AAA(bra) |
| Natura &Co Luxembourg Holdings S.a r.l. | | | | |
| senior unsecured | LT | BB+ | Affirmed | BB+ |

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VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

[National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)

[Metodologia de Ratings em Escala Nacional \(pub. 22 Dec 2020\)](#)

[Corporate Rating Criteria \(pub. 27 Jun 2025\) \(including rating assumption sensitivity\)](#)

[Sector Navigators – Addendum to the Corporate Rating Criteria \(pub. 27 Jun 2025\)](#)

[Metodologia de Ratings Corporativos \(pub. 27 Jun 2025\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.2.0 ([1](#))

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

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ENDORSEMENT STATUS

Natura &Co Holding S.A.

EU Endorsed, UK Endorsed

Natura &Co Luxembourg Holdings S.a r.l.

EU Endorsed, UK Endorsed

Natura Cosméticos S.A.

EU Endorsed, UK Endorsed

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