

**CREDIT OPINION**

11 June 2024

Update

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**RATINGS**

**Avon Products, Inc.**

Domicile	United Kingdom
Long Term Rating	Ba3
Type	LT Issuer Rating - Fgn Curr
Outlook	Negative

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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**Avon Products, Inc.**

Update to credit opinion

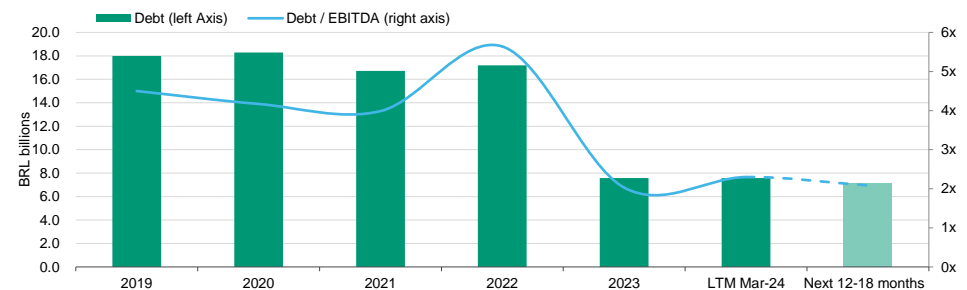
**Summary**

Avon Products, Inc.'s (Avon) Ba3 ratings stand at the same level as [Natura & Co Holding S.A.](#)'s (Natura, Ba3 negative), reflecting primarily the company's relevance as one of the largest pure cosmetics groups globally, operating through two well-established brands (Natura and Avon), and leading market position in several markets in which it operates. The rating also reflects Natura's moderate geographic diversification, with an increasing concentration in growing, but potentially volatile, developing markets. Natura has proven know-how in managing its direct selling network model, and strong digital capabilities and online presence. In addition, the rating incorporates Natura's track record of financial discipline and conservative approach to leverage and liquidity, reinforced by the company's liability management initiatives undertaken in 2023, which resulted in negative net leverage for the year (Exhibit 1).

Natura's ratings are constrained mainly by the execution risks stemming from the turnaround of the Avon International and the integration of Natura and Avon in Latin America, which poses significant operational difficulties to the company.

Exhibit 1

**Natura&Co's leverage reduction is supported by the sale of Aesop and TBS businesses**



Figures are calculated using Moody's estimates and standard adjustments. Moody's Projections (proj.) are Moody's opinion and do not represent the views of the issuer. Periods are Financial Year-End unless indicated  
Source: Moody's Financial Metrics™ and Moody's Estimates

## Credit strengths

- » Strong brand recognition and market position in Brazil and in key Latin American markets
- » Strong brand recognition and position in key markets
- » Track record of financial discipline and adequate liquidity

## Credit challenges

- » Concentration of operations in developing, volatile markets
- » Revenue concentration in the direct selling channel, with investments needed to migrate to omnichannel and e-commerce
- » Execution risk stemming from the ongoing turnaround of Avon International and the Natura-Avon integration in the Latin American markets

## Rating outlook

The negative outlook reflects our expectation that Natura will continue to operate in a difficult environment, with slow economic growth and persistent inflation straining performance and profitability. In addition, the negative outlook takes into consideration the increase in execution risk stemming from the need to implement structural changes in the business model of Avon and the integration of its Latin American operations into Natura LatAm under these difficult economic conditions.

## Factors that could lead to an upgrade

A rating upgrade is currently unlikely given the negative outlook. However, we could stabilize the rating outlook if there is an improvement in the group's performance resulting from the integration of Avon Latam and the strategic realignment of the Avon International business.

## Factors that could lead to a downgrade

The ratings could be downgraded in case Natura fails to restore Avon's and The Body Shop's operating performance, such that Natura's credit metrics or credit worthiness deteriorates further, along with:

- » its Moody's-adjusted gross debt/EBITDA remaining above 4.0x
- » its interest coverage (measured by EBITA/interest expense) remaining below 2.5x without prospects for improvement

A deterioration in [Natura Cosméticos](#)' (Ba2 negative) credit quality could also lead to negative rating actions for Natura &Co.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

## Key indicators

### Key Indicators

Natura &Co Holding S.A.

US Millions	Dec-20	Dec-21	Dec-22	Dec-23	LTM Mar-24	Moody's 12-18 Months Forward View
Revenue	7,236.2	7,458.2	5,669.9	5,357.0	5,345.2	\$5,400 - \$5,600
EBITA Margin %	7.2%	6.1%	4.9%	9.3%	7.8%	5.0% - 6.0%
Debt / EBITDA	4.2x	4.0x	5.6x	2.0x	2.3x	2.0x - 2.5x
RCF / Net Debt	28.2%	27.1%	6.7%	298.0%	-18.4%	-200% - -400%
EBITA / Interest Expense	1.9x	1.9x	1.2x	1.6x	1.5x	2.4x - 2.7x

All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody's Forecasts (f) or Projections (proj.) are Moody's opinion and do not represent the views of the issuer. Periods are Financial Year-End unless indicated.

Source: Moody's Financial Metrics™

## Profile

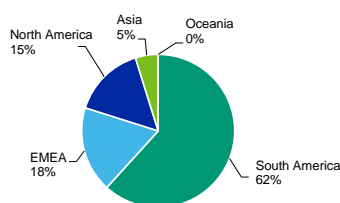
Natura is one of the 10 largest pure cosmetics groups globally, with a leading position in the Brazilian market and a focus on Latin American countries. The company operates with a multichannel strategy through its two brands Avon and Natura. For the 12 months that ended March 2024, Natura reported \$5.3 billion in revenue and a Moody's-adjusted EBITDA margin of 12.7%.

Natura is also recognized as one of the most ethical companies globally, highly committed to sustainability since its inception. The main feature that differentiates the company from its competitors is that Natura develops products based on the biodiversity of the Brazilian flora. Fully owned by Natura &Co, Natura Cosmetics is a leading beauty product company with a particularly strong position in Latin America, and is one of the region's largest direct sellers with around 2.1 million active representatives. Natura Cosmetics' product mix is composed mostly of fragrances, skin care, bath and body products, and makeup. In the 12 months that ended March 2024, Natura Cosmetics generated about BRL15.9 billion (\$3.2 billion) in revenue and BRL4.0 billion (\$817 million) in Moody's-adjusted EBITDA.

Avon is a global beauty products company and one of the largest direct sellers in the world with more than four million active representatives. Avon's products target lower-income consumers and are available in more than 70 countries. The company's main product lines are color cosmetics, skin care, fragrance, fashion and home. In the 12 months that ended March 2024, Avon International generated BRL6.0 billion in revenue and BRL324.2 million in EBITDA (as reported by the company).

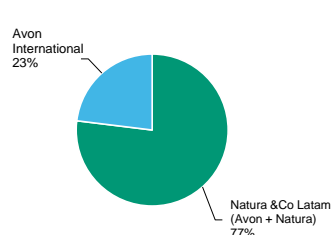
Natura &Co competes with global peers — such as [L'Oréal S.A.](#) (Aa1 stable) — that are larger and more conservatively capitalized, and have proven marketing and product development capacities. The group also competes with other well-known direct sellers, such as Mary Kay, Inc., and niche brands, such as [Shiseido Company, Limited's](#) (A3 stable) Bare Essentials and [Coty Inc.'s](#) (Ba2 positive).

Exhibit 3  
Revenue by geography



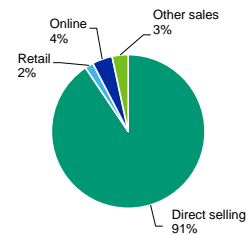
12 months that ended 31 March 2024  
Source: Company filings

Exhibit 4  
Revenue by segment



12 months that ended 31 March 2024  
Source: Company filings

Exhibit 5  
Revenue by distribution channel



12 months that ended 31 March 2024  
Source: Company filings

## Detailed credit considerations

### Integration of Avon improves competitive position but business turnaround remains the main risk for the group

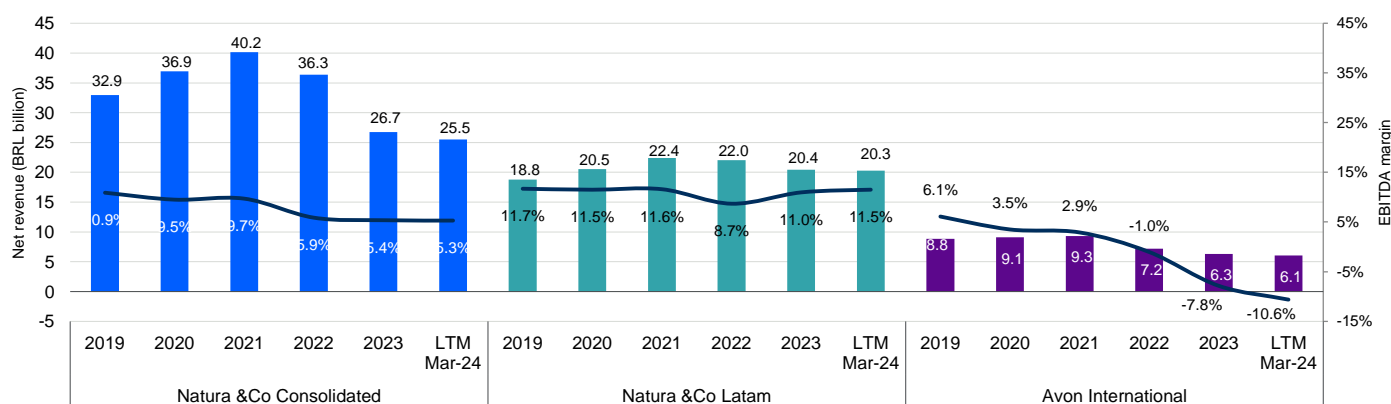
The acquisition of Avon has enhanced Natura's competitive edge, but the ongoing business turnaround remains a significant risk. Natura's operating performance and margins have been strained since the acquisition due to Avon's historically weak performance, attributed to structural and competitive challenges in its direct selling business model.

The 2020 integration aimed to expedite Avon's turnaround, leveraging Natura's expertise in the direct selling model. Their complementary and extensive product offerings position the group to navigate long-term industry changes and competition. The acquisition also expanded Natura's geographic footprint to markets such as the Philippines, South Africa, and several Latin American countries while also increasing its Asian presence.

The turnaround strategy for Avon involves leveraging Natura Cosméticos' direct selling knowledge and digital prowess to stimulate sustainable revenue growth, with supply chain integration expected to enhance productivity and savings through data and analytics. However, the implementation of this strategic plan has encountered headwinds due to external factors, including severe macroeconomic conditions from the uneven post-pandemic recovery and the Russia-Ukraine conflict's global economic impact. In addition, business specific factors, such as the implementation of an integrated business model, portfolio rebalancing, and supply chain and logistics integration, have also posed challenges.

Exhibit 6

#### Margins strained by the integration of Avon and the difficult economic environment



Natura & Co LatAm includes Natura, Avon and Hispanic LatAm.

Source: Company filings

We expect Natura to continue to growth in LATAM as integration synergies will further bolster margin improvement in 2024, despite macroeconomic challenges to revenue growth. Natura's Moody's-adjusted EBITDA margin is projected to remain stable in 2024 and 2025, relative to the 12.7% recorded in the year ending March 2024.

Avon International's 2023 performance was impacted by low consumer demand and deteriorating macroeconomic conditions in Latin America. Global growth is forecasted to stay low in 2024, primarily due to sustained high interest rates impacting economic activity and unemployment across key economies. However, easing inflation across most G-20 economies in the next year is likely to stabilize the cost environment for businesses.

Profitability and free cash flow will see gains from the sale of The Body Shop (TBS) and further integration of Avon into Natura LatAm, which will streamline supply chain costs. Avon International's ongoing review of the brand's footprint will bring efficiencies from system and personnel integration, thereby reducing the influence of SG&A on operations.

Structural projects at Avon International have simplified logistics, with the business now managed from two lead regions, down from four. The LatAm integration process for Avon and Natura has been implemented in two phases: Wave 1 aimed at improving revenue and margins, while Wave 2 focused on capitalizing on cross-selling opportunities and productivity increases for margin expansion. The integration continues to evolve, showing solid performance from the Natura brand in Brazil and a recovering trend at Avon, with initial

challenges observed in Q3 2023 improving. Service levels in Peru and Colombia have also improved, facilitating a smoother integration of Natura and Avon in Chile in early 2024.

Natura will keep focusing on enhancing cash generation and safeguarding profitability through initiatives such as reevaluating its global footprint, improving working capital dynamics, and leveraging Avon integration synergies.

**Moderate scale and geographic diversification after divestments, and increased exposure to developing markets**

In August 2023, Natura sold its Aesop luxury brand to L'Oréal S.A. for \$2.53 billion. The proceeds of the sale were used to repay about \$1.6 billion in debt plus accrued interests and improve liquidity. Total debt decreased to BRL7.6 billion as of March 2024 from BRL17.2 billion as of December 2022, with leverage decreasing to 2.3x from 5.6x. Net leverage turned negative to -0.5x from 3.6x over the same period. This improvement in capital structure resulted in a comfortable debt amortization profile for the Natura group, allowing it to focus on the integration of Avon LatAm and the performance improvement for Avon International, the main challenges the company currently faces.

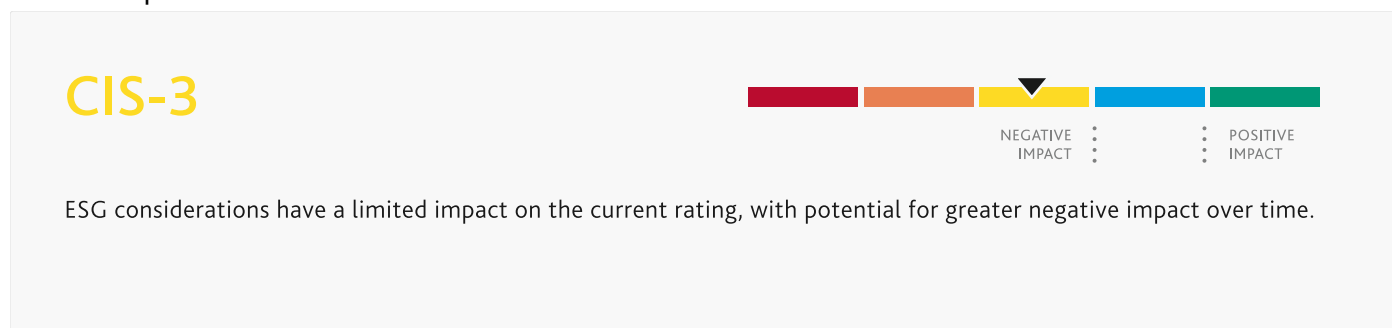
In December 2023, the company sold the operations of The Body Shop to private equity fund Aurelius for £207 million (BRL830 million), one-fifth of the £1 billion paid to acquire the business in 2017. The contract includes an earnout provision, to be paid within five years of transaction closing. Proceeds will also be used to support the integration of Avon LatAm and change the business model of Avon International.

Despite diversification into other regions through Avon International, the company still has a high exposure to developing markets as nearly 56% of its total revenue is derived from Latin American countries — Brazil alone accounts for around 27% of total. This, coupled with the discretionary nature of its products, exposes the group to the region's economic conditions, including rising inflation, slow growth and contraction in disposable income. These markets are also highly competitive, and demand continued investment in the introduction and marketing of new products, representative recruitment, and training and support to protect market share.

**ESG considerations**

**Avon Products, Inc.'s ESG credit impact score is CIS-3**

Exhibit 7  
ESG credit impact score

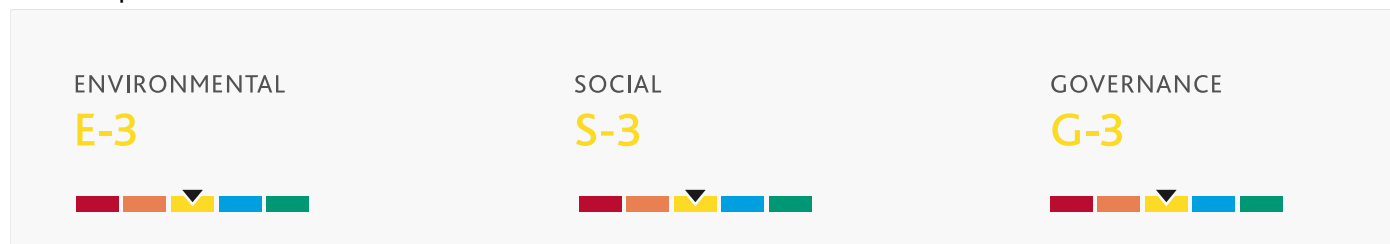


Source: Moody's Ratings

ESG scores and narratives are aligned with those of Natura &Co Holding S.A.. The **CIS-3** indicates that ESG considerations have a limited impact on the current credit rating with potential for greater impact over time. Natura's exposure to environmental and social risks is balanced by its sustainable production and focus on circular economy. Natura's strong sustainability program, responsible production and constant investments in sustainable products innovation positions the company to benefit from demographic and social trends. However, since the acquisition of Avon in 2020, the company's management track record has been challenged as the struggle to implement the company's global expansion strategy has required them to revert back to a Latam focused group.

Exhibit 8

## ESG issuer profile scores



Source: Moody's Ratings

### Environmental

ESG scores and narratives are aligned with those of Natura &Co Holding S.A.. Natura's exposure to environmental risks is mainly driven by a moderately negative exposure to waste and pollution, reflecting the waste created from packaging material that often cannot be recycled. This is balanced by Natura's full packaging circularity commitment, which aims to ensure packaging circularity by 2030 and guarantee that 100% of packaging materials are either reusable, recyclable or compostable. Natura is not significantly exposed to physical climate and carbon transition risks

### Social

ESG scores and narratives are aligned with those of Natura &Co Holding S.A.. Natura's exposure to social risks is mostly driven by human capital considerations related to its social selling business model, which is highly reliant upon the company's ability to recruit and retain sales representatives in several markets. This is balanced by Natura's long and successful track record of operating under this model. In addition, the company has moderately negative exposure to health and safety risks due to manufacturing facilities. However, Natura's strong sustainability program, focused on responsible production, circular economy and innovation, positions the company to benefit from demographic and social trends.

### Governance

ESG scores and narratives are aligned with those of Natura &Co Holding S.A.. Natura's ownership remains concentrated in the hands of its founder families, with the controlling group holding approximately a 39% stake and four out of thirteen seats on the board of directors. This is balanced by the company's conservative financial policies, solid management track record, and proven support from the shareholders. The company is listed on the B3 and the New York stock exchanges and adheres to high governance standards. In addition, the company has underperformed since the acquisition of Avon International, which has required management to review its global expansion strategy and revert back to a Latam focused group.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

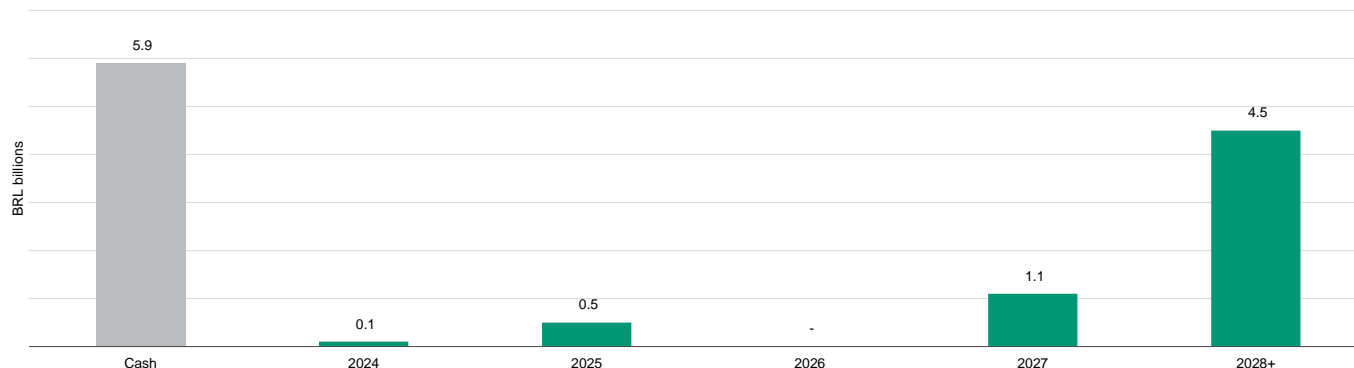
### Liquidity analysis

Natura's liquidity is currently strong, backed by BRL5.9 billion (\$1.2 billion) in available cash as of March 2024, enough to cover full debt amortizations and support the investments required to achieve full integration of Avon. Refinancing risks are low for Natura given the company's comfortable debt amortization schedule and long-standing relationships with Brazilian and international banks and access to both the international and local capital markets.

Exhibit 9

**Comfortable maturity profile after repayment of debt following the sale of Aesop**

As of March 2024



(a) Gross debt excludes purchase price allocation impact and excludes lease agreements.

(b) Excluding foreign currency hedging

Source: Company filings

**Structural considerations**

Avon's ratings are at the same level as Natura &Co's, reflecting the close ties between the two companies following several pieces of evidence since the acquisition of stronger support from the parent Natura &Co to Avon. For example, Natura &Co has provided intercompany loans to Avon including \$960 million to pay Avon's outstanding notes due 2022. The consent solicitation to include Natura &Co as a guarantor of Avon's outstanding notes due 2023 granted in January 2021, and more centralized debt and cash management within the group are also practical examples of Natura &Co's support to Avon. More recently, in April 2022, the group used proceeds from a \$600 million seven-year bond issuance at Natura &Co Luxembourg to refinance Avon's 2023 notes. The issuance was guaranteed by Natura &Co and Natura Cosméticos.

Natura Cosméticos' ratings are one notch above Natura &Co's and Avon's ratings, reflecting the priority of the claim of its creditors to the company's cash flow and its privileged position within the group's capital structure. Natura Cosméticos, the main cash generator of the group, holds around 41% of the group's total debt, with the remaining 59% being structurally subordinated at Avon and Natura &Co. Although Natura Cosméticos is fully owned by Natura &Co, there are some protection mechanisms in its debt governing documents that would limit cash upstream and leakage among the companies of the group, such as financial and incurrence covenants, and limitations on sale, transfer or combination of assets. Natura Cosméticos' notes' indenture also contains clauses that stipulate Natura Cosméticos would unconditionally and irrevocably guarantee the notes even under an event of issuer substitution, which preserves the privileged position of these bondholders.

## Rating methodology and scorecard factors

Natura &Co's Ba3 corporate family rating is two notches below the scorecard-indicated outcome, based on our Consumer Packaged Goods Methodology. The indicated outcome reflects Natura Cosméticos' strong business profile and significant improvement in leverage metrics following the sale of Aesop, while the assigned rating is constrained mainly by the execution risk stemming from Avon's ongoing turnaround process.

Exhibit 10

### Scorecard Factors

Natura &Co Holding S.A.

Consumer Packaged Goods Industry Scorecard [1][2]	Current LTM 31/03/2024		Moody's 12-18 Month Forward View [3]	
	Measure	Score	Measure	Score
<b>Factor 1 : Scale (20%)</b>				
a) Revenue (USD Billion)	\$5.3	Baa	\$5.4 - \$5.6	Baa
<b>Factor 2 : Business Profile (30%)</b>				
a) Geographic Diversification	A	A	Ba	Ba
b) Segmental Diversification	Baa	Baa	Ba	Ba
c) Market Position	A	A	Ba	Ba
d) Category Assessment	Baa	Baa	Baa	Baa
<b>Factor 3 : Profitability (10%)</b>				
a) EBITA Margin	7.8%	Caa	5.0% - 6.0%	Caa
<b>Factor 4 : Leverage and Coverage (25%)</b>				
a) Debt / EBITDA	2.3x	A	2.0x - 2.5x	A
b) RCF / Net Debt	-18.4%	Aaa	-200% - -400%	Aaa
c) EBITA / Interest Expense	1.5x	B	2.5x - 2.7x	B
<b>Factor 5 : Financial Policy (15%)</b>				
a) Financial Policy	Ba	Ba	Ba	Ba
<b>Rating:</b>				
a) Scorecard-Indicated Outcome		Ba1		Ba1
b) Actual Rating Assigned				Ba3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] As of 03/31/2024(L).

[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Source: Moody's Financial Metrics™ and Moody's Estimates

## Ratings

Exhibit 11

Category	Moody's Rating
<b>AVON PRODUCTS, INC.</b>	
Outlook	Negative
Issuer Rating	Ba3
Senior Unsecured	Ba3
<b>PARENT: NATURA &amp;CO HOLDING S.A.</b>	
Outlook	Negative
Corporate Family Rating	Ba3

Source: Moody's Ratings



## Appendix

Exhibit 12

## Peer comparison

(in US millions)	Natura &Co Holding S.A.			L'Oreal S.A.			Shiseido Company, Limited			Coty Inc.			Estee Lauder Companies Inc.		
	Ba3 Negative			Aa1 Stable			A3 Stable			Ba3 Stable			A1 Negative		
	FYE Dec-22	FYE Dec-23	LTM Mar-24	FYE Dec-21	FYE Dec-22	FYE Dec-23	FYE Dec-21	FYE Dec-22	FYE Dec-23	FYE Dec-21	FYE Dec-22	LTM Dec-23	FYE Jun-22	FYE Jun-23	LTM Mar-24
Revenue	\$5,670	\$5,357	\$5,345	\$38,201	\$40,324	\$44,534	\$9,205	\$8,177	\$6,942	\$5,304	\$5,554	\$6,106	\$17,737	\$15,910	\$15,346
EBITDA	\$596	\$749	\$679	\$9,323	\$9,682	\$10,762	\$658	\$974	\$820	\$835	\$942	\$1,109	\$4,743	\$3,193	\$2,792
Total Debt	\$3,257	\$1,562	\$1,513	\$7,930	\$6,849	\$10,531	\$3,022	\$2,444	\$2,100	\$5,040	\$4,798	\$4,447	\$7,863	\$10,724	\$10,395
Cash & Cash Equiv.	\$1,136	\$1,601	\$1,170	\$3,086	\$2,794	\$4,737	\$1,359	\$902	\$743	\$233	\$247	\$260	\$3,957	\$4,029	\$3,701
EBIT Margin	1.5%	5.5%	4.2%	19.9%	20.1%	20.6%	-0.4%	4.8%	4.1%	4.6%	8.1%	10.2%	20.5%	13.1%	10.5%
EBIT / Int. Exp.	0.4x	1.0x	0.8x	122.2x	87.2x	33.7x	-0.9x	12.9x	10.4x	0.9x	1.5x	2.1x	15.9x	6.5x	3.6x
Debt / EBITDA	5.6x	2.0x	2.3x	0.9x	0.7x	1.0x	4.8x	2.5x	2.6x	6.0x	5.1x	4.0x	1.7x	3.4x	3.7x
RCF / Net Debt	6.7%	298.0%	-18.4%	100.7%	121.0%	87.2%	5.4%	38.3%	27.6%	11.1%	15.2%	16.8%	80.7%	22.9%	13.6%
FCF / Debt	-3.2%	-41.7%	-38.0%	41.7%	28.0%	23.7%	-1.6%	-23.5%	-12.1%	9.7%	8.0%	6.1%	14.3%	-2.0%	1.7%

All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last 12 Months.

Source: Moody's Financial Metrics™

Exhibit 13

## Moody's-Adjusted Debt Breakdown

## Natura &amp;Co Holding S.A.

(in US Millions)	FYE Dec-20	FYE Dec-21	FYE Dec-22	FYE Dec-23	LTM (Mar-24)
As Reported Debt	3,404.1	2,920.1	3,193.9	1,495.0	1,448.7
Pensions	117.4	80.0	63.3	66.8	64.8
Moody's-Adjusted Debt	3,521.4	3,000.1	3,257.2	1,561.8	1,513.5

All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End.

Source: Moody's Financial Metrics™

Exhibit 14

## Moody's-Adjusted EBITDA Breakdown

## Natura &amp;Co Holding S.A.

(in US Millions)	FYE Dec-20	FYE Dec-21	FYE Dec-22	FYE Dec-23	LTM (Mar-24)
As Reported EBITDA	794.7	768.5	368.5	355.2	340.4
Pensions	-5.5	-4.6	-3.8	-4.4	-4.4
Unusual	70.5	14.5	227.0	398.5	342.6
Moody's-Adjusted EBITDA	859.7	778.4	591.7	749.3	678.6

All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End.

Source: Moody's Financial Metrics™

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