

CREDIT OPINION

7 June 2022

New Issue



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RATINGS

Avon Products, Inc.

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

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.

Annual update

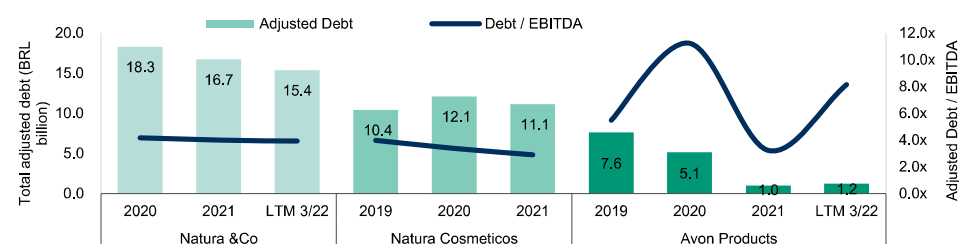
Summary

[Avon Products, Inc.](#)'s (Avon) Ba3 ratings stand at the same level as [Natura &Co Holding S.A.](#)'s (Natura &Co, Ba3 stable), reflecting the close ties between the two companies following several pieces of evidence of stronger support from the parent Natura &Co to Avon. Natura &Co's Ba3 rating reflects primarily the company's size and scale as the fourth-largest pure cosmetics group globally, operating through four well-established brands (Natura, Avon, The Body Shop [TBS] and Aesop) and with significant cross-selling and synergy opportunities. The company's leading position in several of its markets and good geographic diversification, although with a high concentration of operations in growing but potentially volatile developing markets, also support the rating. Natura &Co has proven knowledge in managing the direct selling network model, and strong digital capabilities and online presence through its Natura, Aesop and TBS brands, as well as a track record of financial discipline. Natura &Co has shown a conservative approach to leverage and liquidity over time, with Moody's-adjusted total debt/EBITDA of 3.9x and BRL4.5 billion in cash as of the end of March 2022.

Natura &Co's ratings are constrained mainly by the execution risk stemming from Avon ongoing turnaround process, and its potential impact on Natura &Co's consolidated credit metrics and liquidity, balanced against the strength of Natura Cosméticos' businesses. Avon, Natura Cosméticos and the parent Natura &Co remain independent legal entities, and Natura Cosméticos and Natura &Co do not provide upstream, downstream or cross-debt guarantees to Avon. However, Natura &Co has provided financial support to Avon and would likely be willing to continue to do so given Avon's strategic relevance for the group.

Exhibit 1

Natura &Co's deleveraging supported by Natura Cosméticos' performance



Avon's leverage does not include intercompany loans from Natura &Co.

Source: Natura and Moody's Investors Service

Credit strengths

- » Size and scale as the fourth-largest pure cosmetic group globally, with significant cross-selling and synergy potential
- » Proven knowledge in innovation and successful execution of its direct selling network model
- » 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
- » Operations in Europe expose the company to spillover effects from the Russia-Ukraine conflict
- » Revenue concentration in the direct selling channel, with investments needed to migrate to omnichannel and e-commerce
- » Execution risk stemming from Avon's ongoing turnaround

Rating outlook

The stable outlook reflects our view that despite the high execution risks stemming from Avon's turnaround process, Natura &Co will benefit from Natura Cosméticos' performance and maintain adequate leverage and liquidity to preserve its credit quality in the next 12-18 months.

Factors that could lead to an upgrade

Natura &Co's ratings could be upgraded in case there is a successful execution of Avon's turnaround initiatives, leading to a material improvement in Natura &Co's operating performance, along with:

- » its EBITA margin approaching 10% on a sustained basis
- » its Moody's-adjusted gross debt/EBITDA remaining below 4.0x on a sustained basis
- » positive free cash flow (FCF) generation on a sustained basis

A sustained improvement in Natura Cosméticos' metrics or credit profile could also translate into positive rating actions for Natura &Co.

Factors that could lead to a downgrade

The ratings could be downgraded in case Natura &Co fails to restore Avon's operating performance, such that Natura &Co's credit metrics or creditworthiness deteriorates, along with:

- » its Moody's-adjusted gross debt/EBITDA remaining above 4.5x
- » its interest coverage (measured by EBITA/interest expense) remaining below 2.5x

A deterioration in Natura Cosméticos' 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.com> for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

Natura &Co Holding S.A.

US Millions	Dec-20	Dec-21	LTM (Mar-22)	Moody's 12-18 Month Forward View
Revenue	7,236.2	7,458.2	7,314.8	8,000-8,450
EBITA Margin %	7.2%	6.1%	5.7%	5.7%-7.2%
Debt / EBITDA	4.2x	4.0x	3.9x	3.2x-3.9x
RCF / Net Debt	28.2%	19.7%	14.3%	25.6%-26.6%
EBITA / Interest Expense	1.9x	1.9x	1.8x	2.0x-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. LTM = Last Twelve Months.

Source: Moody's Financial Metrics™.

Profile

Natura &Co is the fourth-largest pure cosmetics group globally, with presence across 100 countries in the skin care, haircare, body care, men care, fragrances, color, fashion and home segments. The company has a leading position in several markets, with a particular focus on emerging markets such as Brazil and other Latin American countries. The company operates with a multi-channel strategy through its four brands Avon, Natura, TBS and Aesop. For the last twelve months ended March 2022, Natura &Co reported \$7.3 billion in revenue and a Moody's-adjusted EBITDA margin of 10.1%.

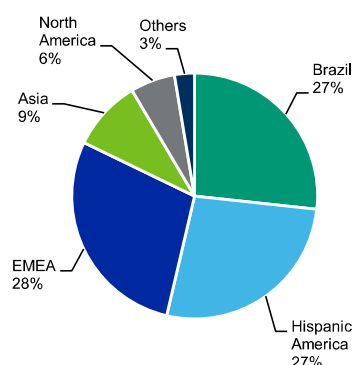
Natura is also recognized as one of the most ethical companies globally, highly committed to sustainability since its inception. The company's main competitive differential is the development of products based on the biodiversity of the Brazilian flora. Fully owned by Natura &Co, Natura Cosméticos is a leading beauty product company with a particularly strong position in Latin America, and one of the region's largest direct sellers with around 2.1 million active representatives. Natura Cosméticos' product mix is composed mostly of fragrances, skin care, bath and body products, and makeup. In 2021, Natura Cosméticos generated about BRL20.7 billion (\$3.9 billion) in revenue and BRL3.8 billion (\$724 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 2021, Avon generated about \$3.4 billion in revenue and \$54 million in Moody's-adjusted EBITDA.

Aesop offers premium products to younger, higher-income customers who prefer chemical-free products made out of plant-based ingredients, mostly in Australia and Asia. TBS was founded in 1976 in England and is focused on middle to high-income customers. The brand image is strongly linked to sustainability as well, standing against animal testing, supporting the community, defending human rights and protecting the planet. Product categories mainly encompass skin care, fragrances and color cosmetics, as well as home and fashion products.

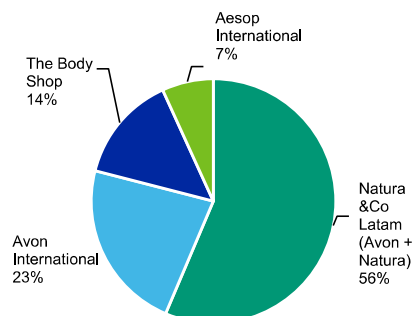
Natura &Co competes with global peers — such as [L'Oreal S.A.](#) (Aa1 stable) — that are larger and more conservatively capitalized, and have proven marketing and product development capacities. The group also competes with other well-known direct sellers, such as Mary Kay, Inc., and niche brands, such as [Shiseido Company, Limited's](#) (A3 stable) Bare Essentials and [Coty Inc.'s](#) (B1 stable).

Exhibit 3

Revenue by geography
 Last twelve months ended March 2022


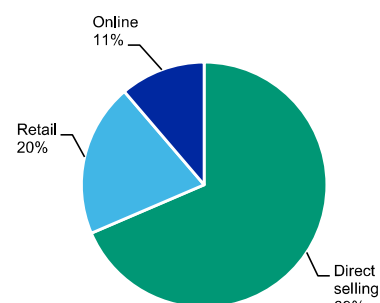
Source: Company's financials

Exhibit 4

Revenue by segment
 Last twelve months ended March 2022


Source: Company's financials

Exhibit 5

Revenue by distribution channel
 Last twelve months ended March 2022


Source: Company's financials

Detailed credit considerations

Improved scale and geographic diversification after strategic acquisitions, but still high exposure to developing markets

The group's geographic diversification, business profile and scale materially improved after the acquisition of Aesop in 2016, TBS in 2017 and Avon in 2020. These acquisitions were strategic since the businesses were complementary and allowed the consolidated group's annual revenue to more than triple in hard currency over this period. With Avon's acquisition, Natura &Co expanded into cosmetics products and strengthened its position in Latin America. The company is currently the fourth-largest pure cosmetic company in the world with good geographic diversification and a broad portfolio of value-oriented beauty products. This creates a platform with a significant global scale which helps mitigate the impact of economic problems in any one region. In addition, the group is the largest direct selling beauty products company in the world, with multiple product categories that are well aligned with customer preferences in many developing markets - which typically have a younger consumer base with greater demand for less-expensive but functional products. The company's strategy, however, is to expand the customers' omnichannel experience, combining physical and digital stores, franchisees, social selling and retail.

Despite the diversification into other regions, 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 represents around 27% of total. This, coupled with the discretionary nature of its products, exposes the group to the region's economic conditions, currently coping with rising inflation, slow growth and contraction in disposable income. These markets are also highly competitive, demanding continued investment in the introduction and marketing of new products, representative recruitment, and training and support to protect market share.

Natura &Co has limited exposure to Russia and Ukraine but the challenging global macro-economic environment weighs on operating performance

Although Central and Eastern Europe, specially Russia, are important markets for Avon International, Natura &Co as a group has limited exposure to Russia and Ukraine. Together, these two countries contributed with less than 5% of the company's consolidated revenues and approximately 3% of consolidated adjusted EBITDA in 2021. To date, the company has reported no material impact in its financial position due to the reduction of operations in these countries. Since the Ukraine-Russia military conflict started, Natura &Co has suspended delivery of TBS and Aesop products to Russian franchisees, suspended exports from Russia and moved production that supplies European markets to Poland. Avon's Russian manufacturing site continues to operate with limited product diversification, supplying only local representatives.

Although Natura &Co's operating performance has not been directly impacted by the conflict in a significant way, the company faces a challenging operating environment given by slow economic growth, inflationary pressures and eroding consumer purchasing power in its main markets. TBS's first quarter 2022 results, per example, were significantly affected by the weak consumer demand

in Europe. Moody's expects growth for the global economy to slow down in 2022 given that the economic spillovers of the Russia-Ukraine military conflict and of the slowdown in [China](#) (A1 stable) amid strict enforcement of its zero-COVID policy are still unfolding. Moody's also expects headline inflation rates to ease through next year, but price levels should remain high and will weigh on consumer demand. Moody's projects advanced economies to expand 2.6% in 2022 and emerging market countries to grow 3.8%.

Avon integration improves competitive position but remains the main risk for the group

Avon's operating performance has been weak due to structural and competitive factors associated with its direct selling business model, which has impaired the company's ability to adapt and maintain market share. Natura &Co, on the other hand, has a proven ability to manage the direct selling model and has been able to deliver consistent product and marketing innovations over the past years. In addition, the company's product offering are complimentary and comprehensive, positioning the group to withstand the secular changes in consumer habits and intense industry competition in the long term.

The integration has also enabled Natura &Co to expand its geographic footprint, increasing its presence in important markets such as Mexico, and to tap previously unexplored markets, such as Philippines, South Africa and other Latam markets such as Ecuador, Costa Rica, Uruguay and Panama. Additionally, Natura &Co has been able to leverage this acquisition to increase its presence in the Chinese and Asian markets, together the second-largest beauty and personal care market globally, and where Natura &Co had already been growing its presence through the Aesop brand.

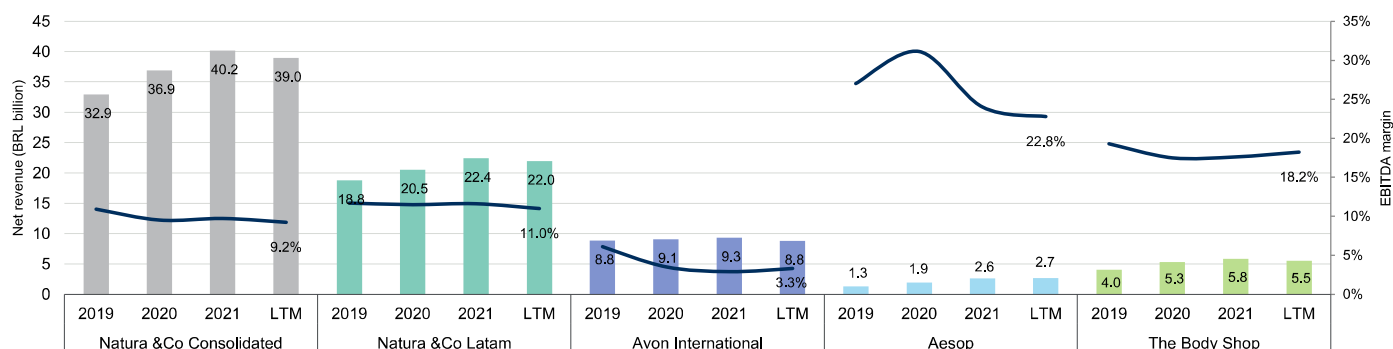
However, Avon's integration and turnaround process brings execution risks that can significantly impact Natura &Co's consolidated credit metrics and liquidity. The company's strategy to turn around Avon's business consists of leveraging Natura Comesticos' knowledge in the direct selling model and its strong digital capabilities to resume sustainable revenue growth. In addition, the company has pledged to contribute to profitability by delivering synergies and efficiencies over a period of five years from the acquisition by integrating the supply chain to enhance productivity, increase savings and gather data and analytics.

In 2021, synergies were around \$197 million, which together with the \$73 million achieved in 2020 add up to about 50% of the total expected, exceeding the company's initial guidance of 40% by end of 2021. The synergy gains, however, have so far served to offset the significant inflationary pressure on commodities and logistics cost, instead of contributing to profitability improvement. Important production inputs such as palm oil and pulp and paper, per example, have increased 60% and 33% respectively in January 2021 year-over-year, while freight costs increased by 136%.

Natura &Co's margins have been pressured since Avon's acquisition and efforts to improve profitability have encountered severe macroeconomic headwinds in almost all of Natura &Co's markets, resulting from the uneven COVID-19 economic recovery and impact of the Russia-Ukraine conflict on the global economy, mainly on Avon International's performance. In this context, we expect that synergies will continue to help support margins in 2022 and 2023, but the operating environment will continue to pose challenges to top line growth. We expect Moody's adjusted EBITDA margin to remain stable in 2022 at around 10%, compared to 10.1% for the last twelve months ended March 2022, and improve to around 11.5% in 2023.

Exhibit 6

Natura &Co has been able to maintain margins above 9% despite the challenging economic environment



LTM: Last twelve months ended March 2022. Natura &Co Latam includes includes Natura, Avon, TBS Brazil and Hispanic Latam and Aesop Brazil.

Sources: Natura's financials and Moody's Investors Service

ESG considerations

NATURA & CO HOLDING S.A.'s ESG Credit Impact Score is Moderately Negative CIS-3

Exhibit 7

ESG Credit Impact Score

CIS-3

Moderately Negative

For an issuer scored CIS-3 (Moderately Negative), its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-2.



Source: Moody's Investors Service

The **CIS-3** reflects Natura's moderately negative exposure to environmental and social risks, 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.

Exhibit 8

ESG Issuer Profile Scores

ENVIRONMENTAL

E-3

Moderately Negative



SOCIAL

S-3

Moderately Negative



GOVERNANCE

G-3

Moderately Negative



Source: Moody's Investors Service

Environmental

Natura's **E-3** reflects its moderately negative exposure to environmental risks, 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's exposure to physical climate risks and carbon transition risk is neutral to low.

Social

Natura's **S-3** score reflects its moderately negative exposure to social risks, 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

Natura's exposure to governance considerations is moderately negative, mainly due to the company's concentrated ownership, 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.

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.

Structural considerations

Natura Cosméticos' ratings stand one notch above Natura &Co's and Avon's ratings, reflecting the priority of the claim of its creditors to the company's cash flows and its privileged position within the group's capital structure. Natura Cosméticos, the main cash generator of the group, holds roughly 62% of the group's total debt, with the remaining 38% being structurally subordinated at Avon and Natura &Co. Although Natura Cosméticos is fully owned by Natura &Co, there are some protection mechanisms 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 in Natura Cosméticos' outstanding debt instruments. Natura Cosméticos notes' indenture also contain 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.

Avon's ratings stand 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 a 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 7-year bond issuance at Natura &Co Luxembourg to refinance Avon's 2023 notes. The issuance was guaranteed by Natura &CO and Natura Cosmetics.

Liquidity analysis

Natura &Co's liquidity is currently strong, backed by BRL4.5 billion (\$852 million) in available cash as of March-end 2022, as well as a stand-by credit facility of \$625 million. We believe refinancing risks are low for Natura &Co given the company's long-standing relationship with Brazilian and international banks and access to both the international and local capital markets.

In April 2022, Natura &Co Luxembourg announced the issuance of \$600 million bond due in 2029, 6.0% coupon and guaranteed by Natura &Co Holding S.A. and Natura Cosméticos S.A. The issuance is part of Natura &Co's liability management strategy to improve its capital structure. Proceeds were used to refinance Avon's 2023 bond and other Natura Cosmetics' debt.

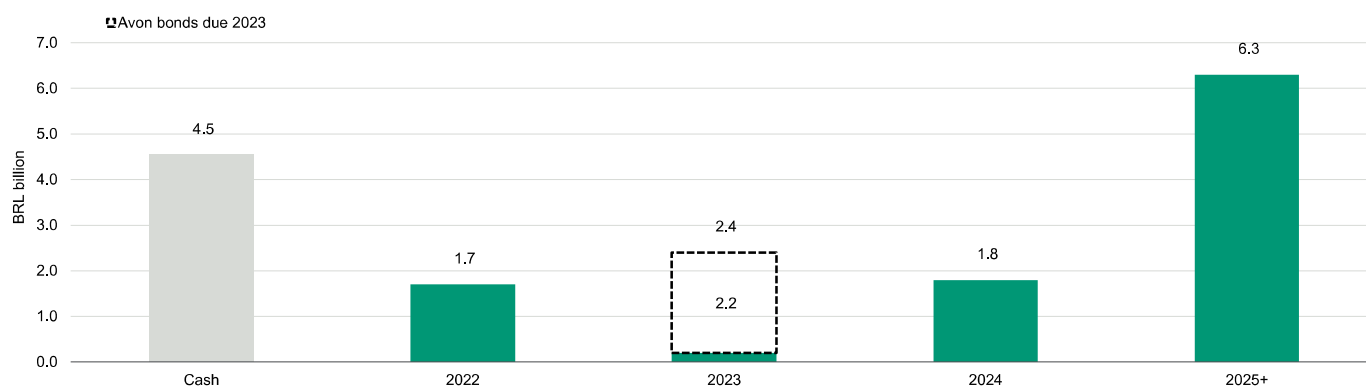
We expect Natura &Co to continue to proactively pursue liability management initiatives to lengthen its debt amortization schedule and equalize the group's capital structure, and to reduce cash needs during the execution of the turnaround process of Avon, even as the company provides financial support to the latter.

For the last twelve months ended March 2022, the company reported negative Free Cash Flow (FCF) of BRL2.6 billion. We expect Natura &Co to continue to report negative FCF considering still low cash generation from operations and the investments necessary to execute Avon's integration and turnaround plan.

Exhibit 9

Comfortable maturity profile considering the refinancing of Avon's 2023 bond and other debt

As of March, 31, 2022



Source: Company's financials

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](#), published in February 2020. The scorecard-indicated outcome reflects Natura Cosméticos' strong business profile and good credit metrics, while the assigned rating is constrained by Avon's turnaround execution risks. Prospectively, the scorecard-indicated outcome maps to Ba1, reflecting our expectation of a continued reduction in leverage and stronger EBITDA generation, stemming mainly from Avon's turnaround.

Exhibit 10

Rating factors

Natura &Co Holding S.A.

Consumer Packaged Goods Industry Scorecard [1][2]			Current LTM 3/31/2022		Moody's 12-18 Month Forward View As of 5/30/2022 [3]	
Factor 1: Scale (20%)	Measure	Score			Measure	Score
a) Revenue (USD Billion)	\$7.3	Baa			\$8.0-\$8.45	Baa
Factor 2: Business Profile (30%)						
a) Geographic Diversification	A	A			A	A
b) Segmental Diversification	Baa	Baa			Baa	Baa
c) Market Position	A	A			A	A
d) Category Assessment	Baa	Baa			Baa	Baa
Factor 3: Profitability (10%)						
a) EBITA Margin	5.7%	Caa			5.7%-7.2%	Caa
Factor 4: Leverage and Coverage (25%)						
a) Debt / EBITDA	3.9x	Ba			3.2x-3.9x	Ba
b) RCF / Net Debt	14.3%	B			25.6%-26.6%	Baa
c) EBITA / Interest Expense	1.8x	B			2.0x-2.7x	B
Factor 5: Financial Policy (15%)						
a) Financial Policy	Ba	Ba			Ba	Ba
Rating:						
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 3/31/2022(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™

Ratings

Exhibit 11

Category	Moody's Rating
AVON PRODUCTS, INC.	
Outlook	Stable
Issuer Rating	Ba3
Senior Unsecured	Ba3
PARENT: NATURA &CO HOLDING S.A.	
Outlook	Stable
Corporate Family Rating	Ba3

Source: Moody's Investors Service

Appendix

Exhibit 12

Peer comparison

Natura &Co Holding S.A.

	Natura &Co Holding S.A. Ba3 Stable			L'Oreal S.A. Aa1 Stable			Shiseido Company, Limited A3 Negative			Coty Inc. B1 Stable			Estee Lauder Companies Inc. A1 Stable		
(in US millions)	FYE Dec-20	FYE Dec-21	LTM Mar-22	FYE Dec-19	FYE Dec-20	FYE Dec-21	FYE Dec-19	FYE Dec-20	FYE Dec-21	FYE Jun-20	FYE Jun-21	LTM Mar-22	FYE Jun-20	FYE Jun-21	LTM Mar-22
Revenue	\$7,236	\$7,458	\$7,315	\$33,444	\$31,949	\$38,201	\$10,382	\$8,628	\$9,435	\$4,718	\$4,630	\$5,199	\$14,294	\$16,215	\$18,112
EBITDA	\$860	\$778	\$738	\$8,268	\$7,468	\$9,307	\$1,643	\$828	\$1,119	\$408	\$872	\$885	\$3,402	\$5,792	\$6,634
Total Debt	\$3,521	\$3,000	\$3,235	\$4,555	\$4,755	\$7,930	\$3,412	\$3,916	\$2,252	\$8,937	\$6,146	\$5,585	\$9,408	\$8,639	\$8,333
Cash & Cash Equiv.	\$1,606	\$1,075	\$955	\$5,934	\$7,838	\$3,086	\$1,015	\$1,259	\$1,494	\$308	\$254	\$669	\$5,022	\$4,958	\$3,836
EBIT Margin	4.5%	3.5%	3.0%	19.1%	17.3%	19.8%	10.2%	1.7%	4.5%	-8.3%	4.6%	5.1%	15.6%	29.3%	30.5%
EBIT / Int. Exp.	1.2x	1.1x	1.0x	62.5x	48.2x	122.0x	15.4x	2.6x	11.4x	-1.4x	0.8x	1.0x	9.5x	20.0x	24.3x
Debt / EBITDA	4.2x	4.0x	3.9x	0.5x	0.6x	0.9x	2.1x	4.6x	2.1x	21.9x	7.1x	6.3x	2.8x	1.5x	1.3x
RCF / Net Debt	28.2%	19.7%	14.3%	-291.7%	-140.3%	100.7%	40.9%	10.5%	31.5%	-2.9%	8.8%	9.8%	53.3%	74.1%	73.0%
FCF / Debt	-2.0%	-16.0%	-16.9%	58.8%	73.0%	41.7%	-18.7%	-9.8%	0.1%	-6.0%	1.9%	9.7%	12.0%	25.7%	13.0%

All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last 12 Months. RUR* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade.

Source: Moody's Financial Metrics™

Exhibit 13

Moody's-Adjusted Debt Breakdown

Natura &Co Holding S.A.

(in US Millions)	FYE Dec-20	FYE Dec-21	LTM Ending Mar-22
As Reported Debt	3,404.1	2,920.1	3,141.6
Pensions	117.4	80.0	93.8
Moody's-Adjusted Debt	3,521.4	3,000.1	3,235.4

All figures are calculated using Moody's estimates and standard adjustments.

Source: Moody's Financial Metrics™

Exhibit 14

Moody's-Adjusted EBITDA Breakdown

Natura &Co Holding S.A.

(in US Millions)	FYE Dec-20	FYE Dec-21	LTM Ending Mar-22
As Reported EBITDA	794.7	768.5	679.1
Pensions	-5.5	-4.6	-4.6
Unusual	70.5	14.5	63.1
Moody's-Adjusted EBITDA	859.7	778.4	737.6

All figures are calculated using Moody's estimates and standard adjustments.

Source: Moody's Financial Metrics™

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