

Natura Cosméticos Ratings Affirmed After Incorporating Its Parent; Outlook Stable; Parent Ratings Withdrawn

July 1, 2025

Rating Action Overview

- On July 1, 2025, Natura Cosméticos fully incorporated its parent company Natura & Co Holding S.A., aiming to simplify its corporate structure, reduce corporate expenses, and optimize tax efficiencies. All subsidiaries, including debt holders and Avon subsidiaries, will now be under Cosméticos, while Natura & Co will no longer exist.
- Natura Cosméticos' credit quality reflects the consolidated analysis of Natura & Co.
- Therefore, on July 1, 2025, S&P Global Ratings affirmed its 'BB' global scale and 'brAAA' national scale ratings on [Natura Cosméticos](#) and withdrew the ratings on [Natura & Co Holding](#). The issue level rating remains 'BB,' with the recovery rating maintained at 3 (65%).
- The stable outlook reflects our continued view that Natura will gradually improve profitability while sustaining leverage below 2x.

Rating Action Rationale

Incorporating the holding company doesn't change our rating analysis of Natura Cosméticos or its debt. Our current analysis considers the consolidated operations and financials of the holding company, which includes the full operation of Cosméticos and the other subsidiaries that will migrate to Cosméticos on July 1. The change also doesn't affect our ratings on the company's bonds, because they are already guaranteed by Cosméticos and don't have a clause triggering early redemption due to this restructuring.

The group decided to simplify its corporate structure to optimize corporate expenses and tax efficiencies. Because of the sales of Aesop and The Body Shop in recent years, Cosméticos already represented more than 80% of the group's revenue and almost 100% of its EBITDA generation expected for 2025.

We continue to expect margins to gradually recover. We think the company will conclude the second wave of its integration of Natura and Avon brands in Latin America in 2025, with the rollout in Mexico in the third quarter. This comes after a rollout in Argentina in the second

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quarter, and the consolidation of this process in Brazil and other countries such as Colombia and Chile.

As a result, we expect net revenue to grow by over 20% (with Avon International consolidated throughout 2025) and adjusted debt to EBITDA to remain below 2.0x in 2025 and to continue to fall as profitability improves.

We have updated our forecasts, with improvements in profitability and the top line. That reflects the improved profitability of the past quarters, and the first fruits of the brand integration in Latin America. Nevertheless, we expect free operating cash flow will remain slightly negative in 2025 and turn positive in 2026, at over Brazilian real (R\$) 800 million.

Outlook

The stable outlook reflects our expectation that Natura will continue to improve profitability while it integrates Natura and Avon's brands in Latin America in 2025. Additionally, the company will continue to seek solutions to Avon International assets. We expect no meaningful mergers or acquisitions in the coming years and controlled shareholder remuneration through dividends and share buybacks.

Downside scenario

We could downgrade Natura in the next 12 months if the improvement in profitability stalls, dragging down the company's cash generation and increasing leverage. Also, we could lower the ratings if the group becomes more aggressive in terms of mergers and acquisitions or shareholder returns, with net debt to EBITDA of about 4x.

Upside scenario

Although unlikely, we could upgrade Natura in the next 12 months if it successfully integrates Natura and Avon brands across its Latin American operations, improving profitability and cash generation. An upgrade would also require Natura to maintain a conservative financial policy regarding leverage and shareholder payments. We would expect net debt to EBITDA to remain below 2x, funds from operations to debt above 45%, and free operating cash flow to debt above 15%.

Company Description

Natura Cosméticos is among the largest global cosmetic groups, with revenue of R\$24.7 billion and EBITDA of R\$2.4 billion in the 12 months ended March 2025. The group controls Natura Cosméticos S.A. and Avon subsidiaries and owns the brands Natura and Avon. It operates in more than 100 countries, with a leading position in Brazil. Its diversified portfolio serves various customer tiers and channels. The group has strong brands and a leading position in the direct sales model for cosmetics, with over 3.2 million representatives and over 1,000 stores and franchises globally.

Our Base-Case Scenario

Assumptions

- Brazil GDP growth of about 2.2% in 2025 and 1.7% in 2026

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- Average Consumer Price Index in Brazil of 5.1% in 2025 and 4.5% in 2026
- Average foreign exchange (FX) rate of R\$5.70-R\$5.80 per US\$1 for 2025 and 2026
- Consolidated revenue growing over 20%, driven by growth in most countries in Latin America, while we expect Avon International to be consolidated over 2025
- Revenue growth in Natura's Latin American operations (including Brazil) of about 10% in 2025 and 12% in 2026, with the second wave of integration concluding this year
- Avon's international division revenue to drop 12% in 2025 and about 20% in 2026
- Consolidated capital expenditure of R\$800 million-R\$900 million in the coming years, as some is transferred to operational expenses
- Dividend payments of R\$450 million in 2025, and R\$510 million in 2026, following the company's restructuring
- Share buybacks of R\$200 million in 2025 and 2026

Key metrics

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

Period ending	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027	Dec-31-2028
(Mil. BRL)	2021a	2022a	2023a	2024a	2025e	2026f	2027f	2028f
Revenue	40,165	36,350	26,737	24,090	30,020	32,409	34,858	37,665
Gross profit	28,945	25,786	18,650	16,686	19,646	21,212	22,972	24,824
EBITDA (reported)	3,910	2,134	1,433	1,877	2,967	3,760	4,416	4,945
Plus: Operating lease adjustment (OLA) rent	--	--	--	--	--	--	--	--
Plus/(less): Other	274	296	683	512	140	140	140	140
EBITDA	4,183	2,430	2,116	2,389	3,107	3,900	4,556	5,084
Less: Cash interest paid	(1,004)	(1,009)	(1,192)	(607)	(780)	(729)	(603)	(551)
Less: Cash taxes paid	(977)	(580)	(381)	(718)	(441)	(651)	(853)	(992)
Plus/(less): Other	--	--	--	--	--	--	--	--
Funds from operations (FFO)	2,203	841	542	1,064	1,886	2,520	3,100	3,541
EBIT	1,467	301	1,378	1,665	2,280	2,935	3,484	3,894
Interest expense	858	964	1,014	629	811	764	640	589
Cash flow from operations (CFO)	(114)	672	(2,348)	(2,553)	741	1,380	1,740	2,121
Capital expenditure (capex)	1,479	1,103	947	548	826	810	871	942
Free operating cash flow (FOCF)	(1,593)	(431)	(3,295)	(3,101)	(85)	570	869	1,180

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

Dividends	--	181	--	1,023	450	460	542	615
Share repurchases (reported)	174	120	--	--	--	--	200	300
Discretionary cash flow (DCF)	(1,768)	(732)	(3,295)	(4,124)	(535)	111	127	265
Debt (reported)	12,717	13,592	6,112	6,843	6,843	6,843	6,843	6,843
Plus: Lease liabilities debt	3,548	3,271	1,150	977	1,139	1,230	1,323	1,429
Plus: Pension and other postretirement debt	--	--	--	--	--	--	--	--
Less: Accessible cash and liquid Investments	(5,986)	(5,996)	(7,775)	(4,458)	(3,782)	(3,724)	(3,624)	(3,623)
Plus/(less): Other	(132)	635	437	1,263	1,263	1,263	1,263	1,263
Debt	10,147	11,502	--	4,624	5,463	5,611	5,804	5,912
Equity	28,567	22,351	23,120	15,672	16,350	17,510	18,859	20,358
FOCF (adjusted for lease capex)	(2,440)	(1,508)	(3,967)	(3,310)	(389)	311	549	807
Interest expense (reported)	845	945	979	589	771	725	600	549
Capex (reported)	1,479	1,103	947	548	826	810	871	942
Cash and short-term investments (reported)	5,986	5,996	7,775	4,458	3,782	3,724	3,624	3,623
Adjusted ratios								
Debt/EBITDA (x)	2.4	4.7	--	1.9	1.8	1.4	1.3	1.2
FFO/debt (%)	21.7	7.3	NM	23.0	34.5	44.9	53.4	59.9
FFO cash interest coverage (x)	3.2	1.8	1.5	2.8	3.4	4.5	6.1	7.4
EBITDA interest coverage (x)	4.9	2.5	2.1	3.8	3.8	5.1	7.1	8.6
CFO/debt (%)	(1.1)	5.8	NM	(55.2)	13.6	24.6	30.0	35.9
FOCF/debt (%)	(15.7)	(3.7)	NM	(67.1)	(1.6)	10.2	15.0	20.0
DCF/debt (%)	(17.4)	(6.4)	NM	(89.2)	(9.8)	2.0	2.2	4.5
Lease capex-adjusted FOCF/debt (%)	(24.1)	(13.1)	--	(71.6)	(7.1)	5.5	9.5	13.7
Annual revenue growth (%)	8.8	(9.5)	(26.4)	(9.9)	24.6	8.0	7.6	8.1
Gross margin (%)	72.1	70.9	69.8	69.3	65.4	65.4	65.9	65.9
EBITDA margin (%)	10.4	6.7	7.9	9.9	10.3	12.0	13.1	13.5
Return on capital (%)	4.0	0.8	4.8	7.7	10.8	13.1	14.6	15.3

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

Return on total assets (%)	2.4	0.5	2.8	4.2	5.8	6.9	7.8	8.2
EBITDA/cash interest (x)	4.2	2.4	1.8	3.9	4.0	5.4	7.6	9.2
EBIT interest coverage (x)	1.7	0.3	1.4	2.6	2.8	3.8	5.4	6.6
Debt/debt and equity (%)	26.2	34.0	--	22.8	25.0	24.3	23.5	22.5
Debt fixed-charge coverage (x)	4.9	2.5	2.1	3.8	3.8	5.1	7.1	8.6
Debt/debt and undepreciated equity (%)	26.2	34.0	--	22.8	25.0	24.3	23.5	22.5

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

Issue Ratings--Recovery Analysis

Key analytical factors

Following a hypothetical bankruptcy, we believe Natura Cosméticos would be restructured and continue to operate, generating higher value for creditors than a liquidation. We value Natura Cosméticos using a 6.0x multiple applied to our projected emergence-level EBITDA of R\$1.06 billion, a drop of 43% from the latest three-year average, arriving at a stressed enterprise value of R\$6.4 billion.

Simulated default assumptions

- Year of default: 2030
- EBITDA at emergence: R\$1.06 billion

Simplified waterfall

- Net enterprise value: R\$6 billion
- Unsecured claims at Natura (debentures, commercial lines, and unsecured note): R\$6.8 billion
- Unsecured debt recovery expectation at Natura: 50%-70% (rounded estimate: 65%)

Rating Component Scores

Rating Component Scores

Component	
Foreign currency issuer credit rating	BB/STABLE/--
Local currency issuer credit rating	BB/STABLE/--
Business risk	4 - Fair
Country risk	4 - Moderately High Risk
Industry risk	2 - Low Risk
Competitive position	4 - Fair
Financial risk	4 - Significant
Cash flow/leverage	4 - Significant
Anchor	bb
Diversification/portfolio effect	3 - Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Adequate
Management and governance	Moderately Negative
Comparable rating analysis	Neutral
Stand-alone credit profile	bb

Related Criteria

- [Criteria | Corporates | General: Sector-Specific Corporate Methodology](#), April 4, 2024
- [Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities](#), Jan. 7, 2024
- [Criteria | Corporates | General: Corporate Methodology](#), Jan. 7, 2024
- [General Criteria: Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10, 2021
- [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
- [General Criteria: Methodology: Industry Risk](#), Nov. 19, 2013
- [General Criteria: Country Risk Assessment Methodology And Assumptions](#), Nov. 19, 2013
- [General Criteria: Principles Of Credit Ratings](#), Feb. 16, 2011

Related Research

- [Tear sheet: Natura & Co Holding S.A.](#), April 4, 2025

Ratings List

Ratings list

Ratings Withdrawn		
	To	From
<u>Natura & Co Holding S.A</u>		
Issuer Credit Rating	NR/--	BB/Stable/--
Foreign Currency	NR/--	BB/Stable/--
Brazil National Scale	NR/--	brAAA/Stable/--
Ratings Affirmed		
<u>Natura Cosméticos S.A.</u>		
Issuer Credit Rating	BB/Stable/--	
Foreign Currency	BB/Stable/--	
Brazil National Scale	brAAA/Stable/--	
Ratings Affirmed; Recovery Ratings Unchanged		
<u>Natura & Co. Luxembourg Holding</u>		
Senior Unsecured	BB	
Recovery Rating	3(65%)	
<u>Natura Cosméticos S.A.</u>		
Senior Unsecured	brAAA	
Recovery Rating	3(65%)	

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