Research Update:

Natura Cosméticos S.A. Outlook Revised To Negative On Challenges Improving Cash Flow Generation; 'BB' Rating Affirmed

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Rating Action Overview

- After portfolio changes in the past decade, Brazil-based cosmetic company Natura Cosméticos has struggled with margins and cash flow generation, shrinking its business and growing less than competitors.
- Also, we see operational disruptions, a slowdown in consumption in its key markets, and fierce competition as risks to improving margins and cash conversion.
- On July 27, 2026, S&P Global Ratings revised its outlook on Natura to negative from stable and affirmed its 'BB' issuer credit and issue ratings.
- The negative outlook indicates a one-in-three chance of a downgrade in the next 12-18 months if Natura is unable to improve EBITDA and cash flows and its cash generation remains under pressure, preventing the company from keeping leverage in line with our expectations for the rating.

Rating Action Rationale

The negative outlook reflects challenges Natura faces in improving EBITDA and cash generation amid a tough year for discretionary consumption. We now forecast revenue of Brazilian real (R$) 21.6 billion and EBITDA of R$2.6 billion (margin of 11.9%) in 2026, compared with our previous forecast of R$23.7 billion and R$3.1 billion (margin of 13.2%), after consecutive years of revenue declines and pressured margins.

The first-quarter and preliminary second-quarter results indicate a meaningful deterioration in revenue, down 9%-10% year over year. Implementation issues with new systems (SAP and Integrated Planning) and the reallocation of volumes following the closure of the Interlagos plant (as part of the integration strategy) led to product shortage, which, coupled with weak demand in Brazil, resulted in a significant drop in volume for the direct sales channel. This channel represents close to 85%-90% of the company's revenue.

Natura is undertaking initiatives such as improved consultant incentives to address weak productivity, product focus, and regional tailoring. We expect efficiency gains from the new operating model and growth in Hispanic markets will support performance in the second half of this year, but execution risks and broader volatility remain, potentially hindering further revenue and EBITDA recovery.

Natura has reduced complexity and increased its focus on key markets but continues to struggle with achieving consistent profitability and cash flow while operating on a smaller scale. Since Avon’s acquisition, Natura has faced difficulties in integrating its assets amid a complex corporate structure, external challenges, and struggling performance at its subsidiaries, leading to EBITDA and cash generation below our expectations in recent years.

Management's focus gradually shifted toward its known key markets--Brazil, Argentina, and Mexico. With the sale of Aesop in 2023, Natura strengthened its balance sheet, which provided it financial flexibility to deal with the delayed improvement of Avon. The corporate reorganization and the divestment of Avon International and CARD in 2025 reduced the group's operational complexity.

However, the company’s scale and scope of operations also declined relative to global peers, while restructuring costs and slow synergies continued to weigh on profitability and cash generation.

Those factors, coupled with a likely lower appeal for the direct sales model, a difficult turnaround of the Avon brand, and a lack of visibility over potential improvement in margins and cash conversion, lead us to assess Natura’s business risk profile as weak, from fair previously.

Natura’s prudent capital allocation and solid liquidity provide some flexibility to navigate the tough operating conditions. Our base case assumes operational cash flow turns positive in 2026, reaching above R$820 million--driven by stronger performance in the second half of this year and prudent working capital management--following a deficit of R$100 million in 2025.

As the company’s primary integration and simplification projects conclude, we expect capital expenditure to normalize at approximately 1.5% of net revenue over the next two years, or around R$330 million per year. This stabilization in capex alongside improved operations should lead to free operating cash flow (FOCF) after leasing of roughly R$357 million in 2026 and close to R$732 million in 2027, recovering from negative R$649 million in 2025.

We expect Natura will prioritize its cash position until operations normalize, in line with its conservative approach to financial policies, which led us to also revise our forecast for shareholders’ remuneration. We now assume about R$150 million will be distributed within its current share buyback program but no other dividend payments in 2026, and about 30% of previous year’s net income will be distributed in 2027, in line with its bylaws.

We expect gross leverage will be about 3.1x in 2026 and 2.7x in 2027, up from 2.9x in 2025 but still commensurate with our assessment of the company's significant financial risk. Given the change in our view of Natura's business risk, we now assess its leverage on a gross metrics base, aligned with our methodology. Nevertheless, the financial flexibility from Natura’s solid cash balance--which could lead to net metrics around 1.5x-2.0x in the next two years--and solid liquidity cushion underpin our ‘BB’ rating on the company.

We expect Advent International, which recently became a significant minority shareholder, to support Natura's current strategy. This strategy focuses on strengthening operational execution, restoring growth in Brazil, and supporting the company's renewed focus on Latin America. The private equity firm concluded in early July the direct acquisition of a 6.6% stake in

Natura plus another 1.4% held through derivatives. Advent gained the right to appoint two board members, but without obtaining control or veto rights. Advent has experience in retail, beauty, direct selling, and operational transformation, and has stakes in other companies within similar segments.

Outlook

The negative outlook reflects a one-in-three chance of a downgrade in the next 12-18 months if Natura is unable to improve EBITDA and cash flows and its cash generation remains under pressure, preventing the company from maintaining gross leverage below 3.0x.

Downside scenario

We could downgrade Natura in the next 12-18 months if:

- Recurrent operational challenges and weak consumer spending continue to hurt performance, preventing Natura from executing its strategy in key markets and leading to strained revenue, volatile EBITDA, and still negative cash flows; or
- The group becomes more aggressive in terms of mergers and acquisitions, or shareholder returns, with gross debt to EBITDA consistently above 3.0x.

Upside scenario

We could revise the outlook to stable in the next 12-18 months if Natura’s simplified portfolio, the ramp-up of structural integration projects, and ongoing operational remediations translate into more consistent growth and improvements in EBITDA and cash flow. We would also expect the company to continue to reduce gross leverage, with gross debt to EBITDA close to 2.5x in 2027 and consistently positive FOCF.

Company Description

Natura Cosméticos is among Latin America's largest cosmetic groups. The group owns Natura and Avon, with a leading position in the direct sales model. Its diversified portfolio serves various customer tiers and channels, with more than 2.6 million representatives and over 1,000 stores and franchises globally as of March 2026. The company operates in two main markets: Brazil (which we expect to represent 60% of revenue in 2026) and Hispanic markets, mainly Mexico and Argentina (close to 40% of revenue in 2026).

In July 2025, Natura Cosméticos fully incorporated its former parent company, Natura & Co. Holding S.A., to help simplify its corporate structure. Now all subsidiaries, including debtholders, are under Natura Cosméticos.

Our Base-Case Scenario

Assumptions

- Brazil's GDP growth of 1.8% in 2026, 1.7% in 2027, and 2.2% in 2028
- Average inflation in Brazil of 4.7% in 2026, 4.1% in 2027, and 3.7% in 2028
- Average foreign exchange (FX) rate in Brazil of R$5.15-R$5.35 per $1 in the next three years

- Argentina's GDP growth of 2.7% in 2026, 3.0% in 2027, and 3.1% in 2028
- Average inflation in Argentina of 31.8% in 2026, 22.3% in 2027, and 12.5% in 2028
- Average FX rate in Argentina of Argentine peso (ARS) 1,600-ARS1,900 per $1 in the next three years
- Mexico's GDP growth of 1.0% in 2026, 2.0% in 2027, and 2.1% in 2028
- Average inflation in Mexico of 4.2% in 2026, 3.9% in 2027, and 3.3% in 2028
- Average FX rate in Mexico of Mexican peso (MXN) 17.75-MXN18.75 per $1 in the next three years
- Consolidated revenue decline of 1%-2% (about 3% on a pro forma basis considering first-half results reported under Natura & Co. in 2025) in 2026, affected by the weaker performance in the first half of the year
- Consolidated revenue growth of 4%-6% in the following two years, driven by the ramp-up of digital innovations and integrated planning between Natura and Avon, as well as the relaunch of the Avon brand in Brazil and Mexico
- EBITDA margin to stay at about 11%-12% in 2026 and 12%-13% in 2027 considering the ramp-up of structural projects started in the last few years and the company’s ongoing efficiency measures
- Consolidated capex of 1.5% of net revenues per year in the next three years, or around R$330 million per year
- No dividend payments in 2026 and corresponding to 30% of previous year’s net income in the next two years, together with recurrent share buyback programs, but conditional to the maintenance of controlled leverage
- Gradual reduction in gross debt, by R$400 million per year, but conditional to the maintenance of a comfortable cash position

Key metrics

Natura Cosmeticos S.A.--Forecast summary

Period ending	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027	Dec-31-2028	Dec-31-2029
(Mil. BRL)	2022a	2023a	2024a	2025a	2026e	2027f	2028f	2029f
Revenue	36,350	26,737	24,090	21,823	21,569	22,507	23,725	24,949
Gross profit	25,786	18,650	16,686	14,640	14,429	15,101	15,917	16,738
EBITDA (reported)	2,134	1,433	1,877	2,664	2,473	2,695	2,955	3,206
Plus: Operating lease adjustment (OLA) rent	--	--	--	--	--	--	--	--
Plus/(less): Other	296	683	512	41	100	100	100	100
EBITDA	2,430	2,116	2,389	2,705	2,573	2,795	3,055	3,306
Less: Cash interest paid	(1,009)	(1,192)	(607)	(518)	(568)	(528)	(456)	(417)
Less: Cash taxes paid	(580)	(381)	(718)	(189)	(236)	(280)	(332)	(384)
Plus/(less): Other	--	--	--	--	--	--	--	--

Natura Cosmeticos S.A.--Forecast summary

Funds from operations (FFO)	841	542	1,064	1,998	1,769	1,987	2,267	2,506
EBIT	301	1,378	1,665	1,517	1,879	2,083	2,298	2,547
Interest expense	964	1,014	629	578	568	527	456	416
Cash flow from operations (CFO)	672	(2,348)	(2,619)	(100)	819	1,252	1,457	1,898
Capital expenditure (capex)	1,103	947	548	379	324	338	356	374
Free operating cash flow (FOCF)	(431)	(3,295)	(3,167)	(480)	496	914	1,101	1,523
Dividends	181	--	1,023	145	--	275	327	387
Share repurchases (reported)	120	--	--	6	150	100	100	100
Discretionary cash flow (DCF)	(732)	(3,295)	(4,190)	(631)	346	539	675	1,037
Debt (reported)	13,592	6,112	6,843	6,175	6,375	5,975	5,575	5,575
Plus: Lease liabilities debt	3,271	1,150	977	594	594	618	642	668
Plus: Pension and other postretirement debt	--	--	--	--	--	--	--	--
Less: Accessible cash and liquid Investments	--	--	--	--	--	--	--	--
Plus/(less): Other	635	71	1,263	1,083	1,000	1,000	1,000	1,000
Debt	17,499	7,333	9,082	7,852	7,969	7,593	7,218	7,243
Equity	22,351	23,120	15,672	12,977	13,845	14,659	15,622	16,726
FOCF (adjusted for lease capex)	(1,508)	(3,967)	(3,376)	(649)	357	740	904	1,313
Interest expense (reported)	945	979	589	578	568	527	456	416
Capex (reported)	1,103	947	548	379	324	338	356	374
Cash and short-term investments (reported)	5,996	7,775	4,458	2,671	3,079	3,067	3,169	4,020
Adjusted ratios								
Debt/EBITDA (x)	7.2	3.5	3.8	2.9	3.1	2.7	2.4	2.2
FFO/debt (%)	4.8	7.4	11.7	25.4	22.2	26.2	31.4	34.6
FFO cash interest coverage (x)	1.8	1.5	2.8	4.9	4.1	4.8	6.0	7.0
EBITDA interest coverage (x)	2.5	2.1	3.8	4.7	4.5	5.3	6.7	8.0
CFO/debt (%)	3.8	(32.0)	(28.8)	(1.3)	10.3	16.5	20.2	26.2
FOCF/debt (%)	(2.5)	(44.9)	(34.9)	(6.1)	6.2	12.0	15.3	21.0
DCF/debt (%)	(4.2)	(44.9)	(46.1)	(8.0)	4.3	7.1	9.3	14.3

Natura Cosmeticos S.A.--Forecast summary

Lease capex-adjusted FOCF/debt (%)	(8.6)	(54.1)	(37.2)	(8.3)	4.5	9.7	12.5	18.1
Annual revenue growth (%)	(9.5)	(26.4)	(9.9)	(9.4)	(1.2)	4.3	5.4	5.2
Gross margin (%)	70.9	69.8	69.3	67.1	66.9	67.1	67.1	67.1
EBITDA margin (%)	6.7	7.9	9.9	12.4	11.9	12.4	12.9	13.3
Return on capital (%)	0.8	3.9	6.0	6.7	8.8	9.5	10.2	10.9
Return on total assets (%)	0.5	2.8	4.2	4.6	6.4	7.0	7.5	8.0
EBITDA/cash interest (x)	2.4	1.8	3.9	5.2	4.5	5.3	6.7	7.9
EBIT interest coverage (x)	0.3	1.4	2.6	2.6	3.3	4.0	5.0	6.1
Debt/debt and equity (%)	43.9	24.1	36.7	37.7	36.5	34.1	31.6	30.2
Debt fixed-charge coverage (x)	2.5	2.1	3.8	4.7	4.5	3.0	3.6	8.0
Debt/debt and undepreciated equity (%)	43.9	24.1	36.7	37.7	36.5	34.1	31.6	30.2

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

Liquidity

We continue to assess Natura's liquidity as adequate. We expect liquidity sources to exceed uses by more than 2.0x in the next 12 months. We think this ratio will remain positive even if EBITDA declines by 30% in the next 12 months.

Natura significantly bolstered its liquidity position following the divestment of its subsidiaries Aesop, in 2023, and The Body Shop, in 2024. The proceeds from these sales, amounting to $2.5 billion and $260 million (or close to R$ 14 billion on total), respectively, were allocated to prepaying a substantial portion of short-term debt and bonds, resulting in an extended debt maturity schedule with no significant maturity due until 2028.

Nevertheless, the company continues to struggle to raise cash flow and profitability to more normal levels. Although we expect lower restructuring expenses years after the Avon acquisition, execution risks around cash flow improvement still weigh on our assessment. If the company demonstrates a commitment to maintain an enhanced cushion relative to its previous policy, we could view Natura's liquidity as stronger.

Principal liquidity sources	Principal liquidity uses
As of March, 31, 2026: • Cash of R$2.4 billion • FFO of around R$1.8 billion in the next 12 months	As of March, 31, 2026: • Short-term debt of R$484 million • Working capital outflows of R$1 billion in the next 12 months

- Capital expenditures of R$327 million in the next 12 months
- Dividend payment and share buybacks amounting to around R$150 million in the next 12 months

Covenants

Natura currently has no financial covenant on its debts.

Environmental, Social, And Governance

Social factors are a negative influence on our credit analysis of Natura. The company, through its former subsidiary Avon Products Inc., was subject to lawsuits related to asbestos in its discontinued products of talcum powders in the U.S. and has already been subject to fines. The subsidiary filed for Chapter 11 in 2024 and entered an agreement with creditors.

In February 2026, Natura opted to reach an agreement related to the Chapman case, which represented the company's final obligation under the API litigation. Under the agreement, Natura disbursed $67 million, a cash impact that was offset by the proceeds of $22 million related to the sale of Avon Card and €26.9 million related to the sale of Avon Russia. As disclosed by the company, the Chapman case was the only remaining legal proceeding for which it still had any type of financial or other related liability.

Governance factors remain a moderately negative consideration in our analysis, reflecting past deficiencies in mapping and addressing business risks related to mergers and acquisitions and lawsuits. Although, this is mitigated by the company’s efforts to address the situation and avoid contagion risks to its other operations, focus on strengthening its governance through corporate simplification and greater board oversight of inherited legal risks, and transparent communication with the market.

Issue Ratings--Recovery Analysis

Key analytical factors

Following a hypothetical bankruptcy, we think Natura would be restructured and continue to operate, generating higher value for creditors than in a liquidation scenario. We value Natura using a 6.0x multiple applied to our projected emergence-level EBITDA of R$1.0 billion, a drop of 67% from our assumption for 2026, arriving at a stressed enterprise value of R$6.0 billion.

Simulated default assumptions

- Year of default: 2031
- EBITDA at emergence: R$1.0 billion

Simplified waterfall

- Net enterprise value: R$5.7 billion
- Secured debt: R$2.8 million (FINEP)

- Unsecured claims at Natura Holding (debentures, commercial notes lines, and unsecured note): R$6.5 billion
- Unsecured debt recovery expectation at Natura: 50%-70% (rounded estimate: 65%)

Rating Component Scores

Component	
Foreign currency issuer credit rating	BB/Negative/--
Local currency issuer credit rating	BB/Negative/--
Business risk	Weak
Country risk	Moderately high risk
Industry risk	Low risk
Competitive position	Weak
Financial risk	Significant
Cash flow/leverage	Significant
Anchor	bb-
Modifiers	
Diversification/portfolio effect	Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Adequate
Management and governance	Moderately negative
Comparable rating analysis	Positive
Stand-alone credit profile	bb

Related Criteria

- Criteria | Corporates | General: Recovery Rating Criteria For Corporate Issuers, March 31, 2026
- Criteria | Corporates | General: Sector-Specific Corporate Methodology, July 7, 2025
- 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 | 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

Ratings List

Ratings List		
Ratings Affirmed; Outlook Action		
	To	**From**
Natura Cosmeticos S.A.		
Issuer Credit Rating	BB/Negative/--	BB/Stable/--
Foreign Currency	BB/Negative/--	BB/Stable/--
Ratings Affirmed; Recovery Ratings Unchanged		
Natura & Co. Luxembourg Holding		
Senior Unsecured	BB	
Recovery Rating	3(65%)	