MOODY'S
INVESTORS SERVICE

CREDIT OPINION
6 April 2020

Update

Rate this Research

RATINGS

Avon Products, Inc.

Domicile	New York, New York, United States
Long Term Rating	B1 , Possible Downgrade
Type	LT Corporate Family Ratings
Outlook	Rating(s) Under Review

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.

Contacts

Ivan Palacios +34.91.768.8229
Associate Managing Director
ivan.palacios@moodys.com

Lorenzo Re +39.02.9148.1123
VP-Senior Analyst
lorenzo.re@moodys.com

Valentino Balletta +39.02.9148.1147
Associate Analyst
valentino.balletta@moodys.com

Avon Products, Inc.

Update following placement of ratings under review for downgrade

Summary

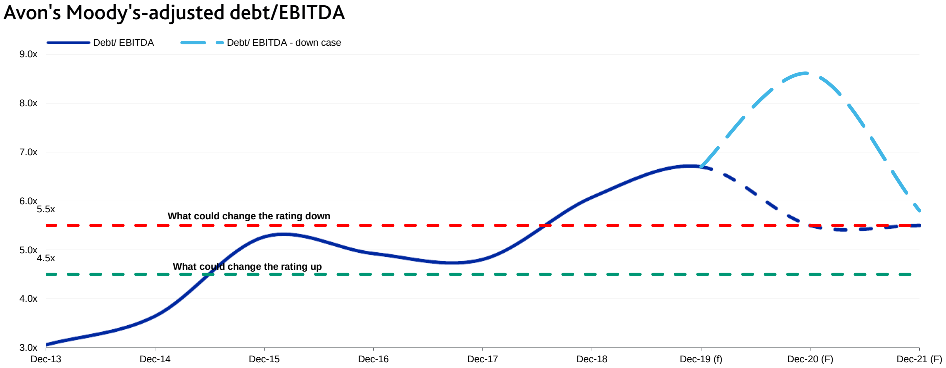
Avon Products, Inc.'s (Avon) ratings were placed under review for downgrade on 31 March 2020 because of the uncertainties related to the coronavirus outbreak and the impact that it could have on the company's business. Social restrictions in many countries could hurt the company's direct selling business model, resulting in lower sales and earnings in 2020. Any recovery prospects once the outbreak ends will be hampered by reduced macroeconomic growth, reduced consumer confidence and lower consumer disposable income.

Avon's ratings incorporate some degree of implicit support from Avon's parent company, Natura & Co (Natura). The coronavirus outbreak could hit both Natura's direct selling division and its retail business because of the temporary closure of stores in a number of countries, reducing its ability to support Avon in case of need.

Exhibit 1

The coronavirus outbreak could impair Avon's ability to reduce leverage

Avon's Moody's-adjusted debt/EBITDA



Moody's Forecasts (f) are Moody's opinion and do not represent the views of the issuer.
Source: Moody's Financial Metrics™

Credit strengths

» Well-recognised brands

» Good scale and diversified geographic footprint

» Improved liquidity following the early refinancing of the 2020 maturity

» Possible support from Natura, which has a stronger credit profile

Credit challenges

» Negative impact of the coronavirus outbreak on the company's business

» Continued sales decline and difficulties in stabilising its number of representatives

» High execution risks associated with its integration with Natura

» High financial leverage

» Difficult operating environment for the direct selling model in some markets and exposure to potentially volatile developing markets

» Uncertainty over the future capital structure and financial policy under the new Natura ownership

Rating outlook

Avon's ratings are currently under review for downgrade, reflecting the uncertainty surrounding the effect of the coronavirus outbreak on the company's credit profile. The spread of the coronavirus outbreak is likely to result in significant operational disruptions, leading to a deterioration in the company's financial profile.

Factors that could lead to an upgrade

The ratings are currently under review for downgrade. Before the rating review process, we stated that positive rating pressure could develop if:

» there is evidence of stronger support from Natura, such as the provision of an explicit guarantee on Avon’s debt or if Avon’s debt is refinanced at the parent company level

» Avon successfully executes its turnaround initiatives, leading to a material improvement in its operating performance, with EBIT margin approaching 10%

» Moody's-adjusted gross debt/EBITDA falls below 4.5x on a sustained basis

» the company maintains significantly positive free cash flow on a sustained basis

Factors that could lead to a downgrade

The ratings are currently under review for downgrade. Before the rating review process, we stated that negative rating pressure could develop if:

» Avon fails to restore its operating performance, with stabilisation of sales and recovery in operating margin

» the company's Moody's-adjusted gross debt/EBITDA remains above 5.5x on a sustained basis

» Natura adopts financial policies that are detrimental to Avon’s creditors, such as large cash upstreaming

Key indicators

Exhibit 2
Avon Products, Inc.

	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Moody's base case 20 (F) - 21 (F)	Moody's down case 20 (F) - 21 (F)
Revenue (US$ Million)	7,648.0	6,160.5	5,717.7	5,715.6	5,403.3	4,695.0	4446-4244	3671-4051
EBITA Margin %	9.4%	5.7%	5.5%	5.8%	3.4%	3.4%	7.8%-8.2%	6.1%-8.1%
Debt / EBITDA	3.6x	5.3x	4.9x	4.8x	6.1x	6.7x	5.5x	8.6x-5.8x
RCF / Net Debt	22.4%	14.3%	28.0%	36.8%	14.5%	18.0%	9.8%-14.6%	-0.1%-11.9%
EBITA / Interest Expense	4.9x	2.2x	1.9x	2.1x	1.2x	1.1x	1.6x	0.7x-1.4x

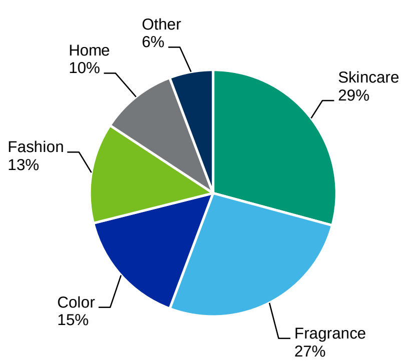
All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody's Forecasts (f) are Moody's opinion and do not represent the views of the issuer. Periods are fiscal year-end unless indicated otherwise. LTM = Last 12 months.
Source: Moody's Financial Metrics™

Profile

Avon Products, Inc. (Avon) is a global beauty product company and one of the largest direct sellers with around five million active representatives. Avon's products are available in over 70 countries and are categorised as colour cosmetics, skin care, fragrance, fashion and home. Its brands include Avon Color, ANEW, Skin-So-Soft, Advance Techniques and Smooth Minerals.

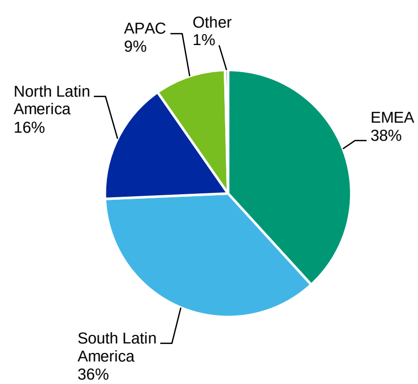
Following the completion of the acquisition in January 2020, Avon is now a fully owned subsidiary of Natura. Avon generated about $4.7 billion as revenue and $281 million as Moody's-adjusted EBITDA in the 12 months ended September 2019.

Exhibit 3
Avon's portfolio is diversified across multiple beauty, fashion and home product categories
Sales breakdown by product (2019)



Source: Company's accounts

Exhibit 4
Avon is highly exposed to developing markets
Sales breakdown by region (2019)



Source: Company's accounts

Detailed credit considerations

The coronavirus outbreak will impair performance in 2020 and reduce growth prospects afterwards

The rapid and widening spread of the coronavirus outbreak, deteriorating global economic outlook, falling oil prices, and asset price declines are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. The consumer products sector is one of the sectors affected by the shock, given its sensitivity to consumer demand and sentiment. More specifically, the weaknesses in Avon's credit profile, including its exposure to multiple countries affected by social distancing measures have left it vulnerable to shifts in market sentiment in these unprecedented operating conditions and the company remains vulnerable to the coronavirus outbreak continuing to spread.

Because of the social distancing measures, the company's ability to recruit and sales force, as well as the ability of representatives to meet customers and collect orders will be impaired. Moreover, disruption in the production and distribution facilities could affect its ability to properly fulfill orders.

The extent of the impact of the coronavirus outbreak on the operating performance of both Avon is still uncertain. Any recovery prospects once the outbreak ends will be hampered by reduced macroeconomic growth, reduced consumer confidence and lower consumer disposable income.

We will focus on the degree and extension to which the spread of the coronavirus outbreak will impair the company's business, the flexibility of the company to adapt its cost structure and preserve cash, the recovery prospects after the normalisation of operations in the context of a weakened macroeconomic environment, and the potential support to be provided by Natura in terms of liquidity and with regards to the refinancing of the 2022 debt maturities.

Support from Natura remains an important credit consideration

We continue to assess Avon's credit profile on a standalone basis because Avon and its parent company, Natura, remain independent legal entities and there is no upstream, downstream or cross-debt guarantee among Avon, its parent company and the rest of Natura group. However, the ratings reflect some degree of implicit support from Natura, reflecting the stronger credit profile of the combined entity because of its solid business profile as one of the largest beauty companies in the world, its product and geographical diversification and multichannel distribution capabilities, and its stronger financial profile because of better profitability and lower leverage.

However, the coronavirus outbreak could hit both Natura's direct selling division and its retail business because of the temporary closure of stores in a number of countries, reducing its ability to support Avon in case of need. In particular, we are assuming that Avon's $900 million of debt maturing in 2022 will be refinanced within the Natura group. However, a prolonged period of business disruption for both Avon and Natura with weak recovery prospects might impair the group's ability to refinance these maturities because Natura will face significant debt maturities in the next two years.

Operating environment likely to remain difficult

We expect the operating environment to remain difficult. Avon competes with global peers such as L'Oreal S.A. (P-1 stable), which are larger, more conservatively capitalised and have greater marketing and product development capacities. Avon also competes with other well-known direct sellers such as Mary Kay, Inc., as well as niche brands such as Shiseido Company, Limited's (A2 stable) Bare Essentials and Coty Inc.'s (B2 negative) Philosophy. Avon is moderately exposed to economic cycles because its products are somewhat discretionary. In addition, the company must continually invest in the introduction and marketing of new products, as well as representative recruitment, training and support to sustain its competitive position.

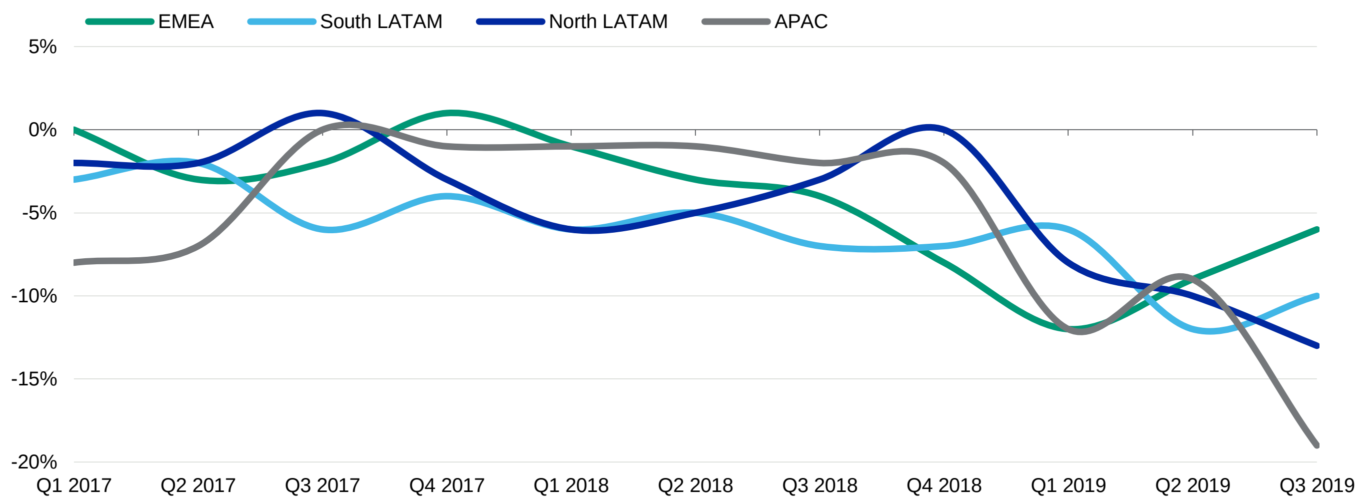
Avon's operating environment will remain difficult because of the structural and competitive factors associated with its direct selling business model. that diminishes its flexibility to adapt and maintain its market share. In addition, the direct selling model relies on the continuos recruitment of new sales representatives to offset high turnover and drive growth, and Avon has — at times — struggled to keep the number of its representatives stable.

In developing countries, Avon will benefit from an expanding consumer population and its ability to attract representatives with its offer of an income opportunity and flexible work hours. Avon's market share tends to be stronger in regions with lower brick-and-mortar retail penetration because the representative distribution model does not generally rely on physical stores. However, many retail-oriented beauty companies will target consumers in developing markets through free-standing stores and a gradual increase in the number of brick-and-mortar stores. Some of its competitors also have greater flexibility in capitalising on alternative distribution methods such as e-commerce. Sales in these alternative channels cannibalise revenue opportunities for the representatives.

Exhibit 5

Avon is struggling to stabilise the falling number of its active representatives

Change in the average number of active representatives



Source: Company's accounts

Good scale and diversified geographic footprint, with a high exposure to developing markets

Avon's geographic diversification and broad portfolio of value-oriented beauty products have created a platform with a significant global scale, which will help mitigate the impact of economic problems in any one region. However, following the disposal of around 80% of its US business in 2016, the company has been increasingly relying on developing markets and countries such as Brazil, Russia and Mexico. Specifically, in 2018, 51% of Avon's revenue came from Latin America, 39% from Europe, the Middle East and Africa, and 9% from the Asia-Pacific region.

Volatile economic conditions, rising consumer debt, tough competition and political uncertainties are the risks associated with many of these developing markets, which increase Avon's earnings volatility. In addition, the company is exposed to foreign-currency fluctuations that can hurt its earnings and cash flow because of the mismatch between its revenue, nearly 100% of which is generated outside the US, and its debt, which is predominantly denominated in US dollars.

Well-recognised brands

Avon's strong brands and its position as the largest direct selling beauty product company in the world will remain its key competitive advantages. The company's portfolio across multiple beauty product categories is well aligned with the preferences in many developing markets, which typically have a younger consumer base with greater demand for less expensive but functional products.

Environmental, social and governance (ESG) considerations

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. Today's action reflects the impact on Avon of the breadth and severity of the shock, and the broad deterioration in credit quality it has triggered.

Environmental considerations are not considered material to Avon's credit profile. Social risks are a significant consideration, given the company's direct sales business model, as changing demographics, economic and employment conditions can affect the company's ability to recruit and retain its sales force and can also influence how consumers shop. In particular, the direct selling model relies on the ability to attract representatives with its offer of an additional income, which could become less attractive as social and economic conditions improve in some markets. The business model can also come under scrutiny by regulators.

In terms of governance, Avon is now a fully owned subsidiary of Natura, which adheres to high governance standards and has a history of prudent financial policy, commitment to specific leverage targets and a stated dividend policy. However, it is still unclear how the capital structure and liquidity of Avon will be managed within the Natura group; if Natura implements aggressive financial policies at Avon's level, it may hamper Avon's credit profile.

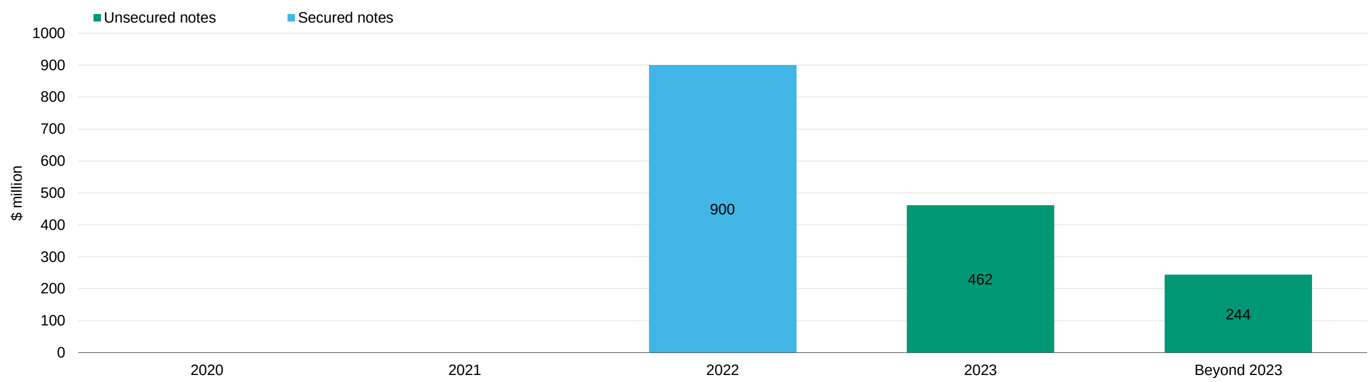
Liquidity analysis

Avon's liquidity is adequate, supported by $651 million available cash as of December 2019. However, following the acquisition by Natura, Avon does not have any revolving credit facility in place and relies on Natura providing sufficient external liquidity in case of need. We estimate that the company's liquidity buffer will be sufficient to cope with a short-period of business disruption. Avon has $900 million of debt maturing in 2022 and we expect these to be refinanced within the Natura group. However, a prolonged period of business disruption for both Avon and Natura with weak recovery prospects might impair the group's ability to refinance these maturities, because Natura will face significant debt maturities in the next two years

Exhibit 6

Avon's next maturity is in 2022

Avon's debt-maturity profile



Source: Company's accounts

Structural considerations

The Ba1 rating assigned to the senior secured notes issued at Avon International Operations, Inc (Ba1 negative) and Avon Internation Capital PLC (Ba1 negative) reflects the instruments' priority position in the capital structure. The secured notes benefit from the loss absorption provided by the significant amount of unsecured debt sitting below in the structure. The security and guarantee structure of the senior secured notes includes an unconditional guarantee from Avon, Avon International Capital PLC, Avon International Operations, Inc. and their restricted subsidiaries. The notes are secured by first-priority liens on and security interests in substantially all of the assets of Avon International Operations, Inc., Avon International Capital PLC and the subsidiary guarantors subject to certain exceptions.

The B3 rating assigned to the senior unsecured notes issued at the parent, Avon, reflects the contractual subordination of these instruments to the senior secured notes.

Methodology and scorecard

Avon's current B1 corporate family rating is in line with the scorecard-indicated outcome, based on the Consumer Packaged Goods rating methodology, published in February 2020. The current B1 rating reflects the high execution risks associated with Avon's integration with Natura and its ability to rapidly revert Avon's declining sales trend. In addition, the rating reflects some concerns about the long-term resilience of the direct marketing distribution model against the backdrop of a highly competitive industry, the earnings volatility related to foreign exchange and the company's exposure to developing markets.

Exhibit 7

Rating factors

Avon Products, Inc.

Consumer Packaged Goods Industry Scorecard [1][2]	Current FY 12/31/2019		Moody's 12-18 Month Forward View As of 3/30/2020 [3]	
Factor 1 : Scale (20%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$4.7	Baa	$3.7 - $4.2	Ba
Factor 2 : Business Profile (30%)				
a) Geographic Diversification	Ba	Ba	Ba	Ba
b) Segmental Diversification	Baa	Baa	Baa	Baa
c) Market Position	B	B	B	B
d) Category Assessment	Ba	Ba	Ba	Ba
Factor 3 : Profitability (10%)				
a) EBITA Margin	3.4%	Ca	2.5% - 5%	Ca
Factor 4 : Leverage and Coverage (25%)				
a) Debt / EBITDA	6.7x	Caa	5.5x - 8.5x	Caa
b) RCF / Net Debt	18.0%	Ba	0% - 10%	Caa
c) EBITA / Interest Expense	1.1x	B	0.7x - 1.6x	B
Factor 5 : Financial Policy (15%)				
a) Financial Policy	Ba	Ba	Ba	Ba
Rating:				
a) Scorecard-Indicated Outcome		Ba3		B1
b) Actual Rating Assigned				B1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 09/30/2019. [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™

Appendix

Exhibit 8

Peer comparison

Avon Products, Inc.

(in US millions)	Avon Products, Inc. B1 RUR Down			Tupperware Brands Corporatio B3 Negative			Estee Lauder Companies Inc. A1 Stable			Revlon Consumer Products Caa3 Negative			Edgewell Personal Care Co. Ba3 Stable		
	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Jun-18	FYE Jun-18	FYE Jun-19	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Sep-17	FYE Sep-18	FYE Sep-19
Revenue	$5,716	$5,403	$4,695	$2,256	$2,070	$1,798	$13,683	$13,683	$14,863	$2,694	$2,565	$2,420	$2,298	$2,234	$2,141
EBITDA	$468	$311	$281	$458	$414	$296	$3,424	$3,424	$3,833	$315	$258	$310	$468	$429	$420
Total Debt	$2,246	$1,889	$1,890	$972	$1,103	$1,081	$6,867	$6,867	$6,912	$3,261	$3,453	$3,532	$1,780	$1,612	$1,597
Cash & Cash Equiv.	$882	$533	$651	$144	$149	$123	$2,181	$2,181	$2,987	$87	$87	$104	$503	$266	$342
EBIT Margin	5.2%	2.9%	2.9%	16.3%	15.9%	11.0%	18.0%	18.0%	18.7%	4.8%	1.9%	5.0%	15.7%	14.2%	14.7%
EBIT / Int. Exp.	1.9x	1.0x	0.9x	6.6x	5.7x	3.9x	10.0x	10.0x	12.0x	0.7x	0.2x	0.5x	4.5x	3.9x	4.2x
Debt / EBITDA	4.8x	6.1x	6.7x	2.1x	2.7x	3.7x	2.0x	2.0x	1.8x	10.3x	13.4x	11.4x	3.8x	3.8x	3.8x
RCF / Net Debt	36.8%	15.1%	18.0%	12.4%	20.0%	13.6%	47.9%	47.9%	61.1%	1.0%	0.3%	0.3%	25.9%	21.4%	20.7%
FCF / Debt	8.7%	0.8%	2.0%	0.6%	-7.0%	-3.5%	20.4%	20.4%	16.8%	-7.5%	-6.4%	-2.5%	9.2%	13.5%	9.3%

Source: Moody's Financial Metrics™

Exhibit 9

Moody's-adjusted debt breakdown

Avon Products, Inc.

(in US$ Million)	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
As Reported Debt	**2,720.7**	**2,550.4**	**2,205.7**	**1,893.9**	**1,897.9**	**1,593.6**	**1,592.2**
Pensions	288.6	371.1	298.0	130.2	116.6	101.3	99.4
Operating Leases	427.8	380.3	283.2	233.0	228.2	185.1	190.0
Non-Standard Adjustments	0.0	0.0	-145.7	0.0	3.6	8.5	8.5
Moody's-Adjusted Debt	**3,437.1**	**3,301.8**	**2,641.2**	**2,257.1**	**2,246.3**	**1,888.5**	**1,890.1**

The figures for 2013 include the North American business, which is excluded from the 2014 figures.
Source: Moody's Financial Metrics™

Exhibit 10

Moody's-adjusted EBITDA breakdown

Avon Products, Inc.

(in US$ Million)	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
As Reported EBITDA	**507.8**	**479.0**	**269.3**	**281.7**	**375.5**	**350.4**	**358.9**
Pensions	42.1	78.5	59.5	4.5	5.2	-5.9	-6.7
Operating Leases	125.1	90.7	74.4	75.0	66.2	61.7	66.7
Unusual	448.8	258.5	98.4	97.2	20.7	-95.3	-138.4
Non-Standard Adjustments	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Moody's-Adjusted EBITDA	**1,124.5**	**906.7**	**501.6**	**458.4**	**467.6**	**310.9**	**280.5**

The figures for 2013 include the North American business, which is excluded from the 2014 figures.
Source: Moody's Financial Metrics™

Ratings

Exhibit 11

Category	Moody's Rating
AVON PRODUCTS, INC.	
Outlook	Rating(s) Under Review
Corporate Family Rating	B1[1]
Senior Unsecured	B3/LGD5[1]
AVON INTERNATIONAL OPERATIONS, INC.	
Outlook	Rating(s) Under Review
Bkd Senior Secured	Ba1/LGD2[1]
AVON INTERNATIONAL CAPITAL PLC	
Outlook	Rating(s) Under Review
Bkd Senior Secured	Ba1/LGD2[1]

[1] Placed under review for possible downgrade on March 31 2020
Source: Moody's Investors Service

REPORT NUMBER 1221107

MOODY'S
INVESTORS SERVICE