ISSUER COMMENT
24 February 2026

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RATINGS

Natura Cosmeticos S.A.

LT Corporate Family Ratings	Ba2
Outlook	Stable

Source: Moody's Ratings

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Natura Cosmeticos S.A.

Settlement concludes Avon International divestment, improves cash-flow visibility and allows focus on Latam

On 23 February, Natura Cosmeticos S.A. (Ba2, stable) announced a definitive settlement of the Chapman litigation involving Avon Products, Inc. (API), its former non-operating US subsidiary. API filed for voluntary reorganization under Chapter 11 in August 2024 following mounting legal liabilities, primarily related to talc-exposure litigation. The settlement requires a one-off cash payment of $67 million, scheduled for 6 March, which Natura will fund using cash proceeds of approximately $54 million from the sale of Avon International operations in Central America and Russia, and existing cash balances.

The settlement is credit positive for Natura because it removes litigation-related uncertainty tied to discontinued operations and concludes the divestment of Avon International, reducing the risk of unexpected cash outflows, improving visibility over future cash flows and lowering event risk. Although the settlement absorbs all cash proceeds generated by recent Avon International divestments, it does not create incremental balance-sheet pressure. Natura has fully provisioned the settlement amount in its financial statement as of 31 December 2025 under discontinued operations, and the effect is therefore confined to liquidity through a one-time outflow.

The settlement closes Natura's final financial obligation associated with API. Together with the divestment of Avon Central America and the Dominican Republic (Avon CARD) and Avon Russia, the settlement completes Natura's exit from the Avon International business, which pressured the group's operating performance, cash-flow visibility, and risk profile over the past several years. Litigation liabilities were a key driver of API's financial distress and Chapter 11 filing following a sharp escalation in adverse talc-related court rulings, rising legal costs, and the risk of material damages awards in the US. These exposures created uncertainty around the magnitude and timing of potential cash outflows for Natura. By settling the Chapman case and eliminating exposure to further adverse rulings linked to discontinued operations, Natura materially reduces litigation-related cash-flow uncertainty and associated event risk.

Following the settlement, Natura remains exposed to Avon International through a secured credit facility of up to $25 million provided as part of the divestment transaction. This facility is capped, subject to conditions, and limited in duration to the end of 2026. However, Natura no longer retains material legal, financial, or contingent obligations specifically related to API's bankruptcy or legacy talc litigation, significantly reducing its financial responsibility for the former US subsidiary.

The transaction entails a clear liquidity trade-off. Cash proceeds from the sale of Avon CARD and Avon Russia, totaling approximately $54 million, will be fully consumed by the $67 million litigation settlement, with the remaining shortfall of approximately $13 million funded through existing cash balances. Despite this cash usage, Natura maintains adequate liquidity. As of September 2025, the company reported approximately BRL2.3 billion ($423 million) in cash and cash equivalents, and we expect this balance to have increased to around BRL2.6 billion by year-end 2025. While the settlement reduces cash on hand and absorbs all divestment-related inflows, the outflow is finite and non-recurring, rather than a structural cash drain, and it does not impair Natura's ability to meet near-term obligations or fund ongoing operations.

The conclusion of the Avon International divestment and the resolution of API's litigation liabilities allow Natura to fully concentrate on executing its strategic plan in Latin America, where the group benefits from strong brand equity, scale advantages, and proven operating expertise across its direct selling and omnichannel platforms. We expect Natura's simplified corporate structure and strategic refocus to support further improvements in profitability and cash generation over the near to medium term because the group is now less exposed to the operational challenges and turnaround risks associated with Avon International and The Body Shop, which had previously weighed on the rating and outlook.

Still, the turnaround of Avon in Latin America remains a key credit consideration, reflecting ongoing structural and competitive challenges in the direct-selling model. Over the near to medium term, we expect Natura to remain focused on capturing integration synergies, optimizing working capital, and strengthening its innovation pipeline to support gradual margin improvement and sustained cash generation, while continuing to adhere to disciplined capital allocation.

Natura is a leading beauty and personal care company in Brazil with a strong focus on Latin American markets. Operating primarily through its Natura and Avon brands, the company employs a multichannel strategy that combines a large scale direct-selling network with expanding omnichannel and digital capabilities. With approximately 3.2 million active representatives, Natura is one of the largest direct sellers in the region. Its product portfolio includes fragrances, skincare, bath and body products, and makeup. Natura is also recognized for its long-standing commitment to ethical practices and sustainability, including the development of products based on the biodiversity of Brazilian flora. For the 12 months that ended September 2025, the company reported approximately $3.9 billion in revenue and a Moody's adjusted EBITDA margin of 14.4%.

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