S&P Global
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Tear Sheet:

Natura Cosmeticos S.A.

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This report does not constitute a rating action.

We have revised our 2025 top line forecast for Natura Cosmeticos S.A. A slowdown in consumption, mainly in Brazil and Argentina and more materially for the Avon brand, affected the results. S&P Global Ratings thinks these issues will carry into the fourth quarter, thus weighing on full-year results. Consolidated revenue could decline close to 7% year over year, on a reported basis, compared with our previous forecast of 24% growth.

The change also considers the incorporation of Natura & Co., the former parent company of the group, by Natura Cosmeticos in July 2025 and the reclassification of the operations under Avon CARD (which incorporates the assets in Guatemala, Nicaragua, Panama, Honduras, El Salvador and Dominican Republic) and Avon International (which includes the global operations of Avon excluding Latin America and Russia) as assets for sale in the second quarter of 2025. In the first quarter of 2025, those assets corresponded to R$1.5 billion in revenue.

We forecast consolidated revenue growth of about 9% in 2026. Recent investments in digital innovations and integrated planning between Natura and Avon brands will support top line growth, as will the relaunch of the Avon brand with a renewed portfolio in Brazil and Mexico.

We assume that profitability will recover in 2026. We anticipate margins will remain pressured till year-end 2025, at close to 10%, considering the weaker top line performance in this year's second half and higher nonrecurrent expenses related to ongoing structural and strategic projects.

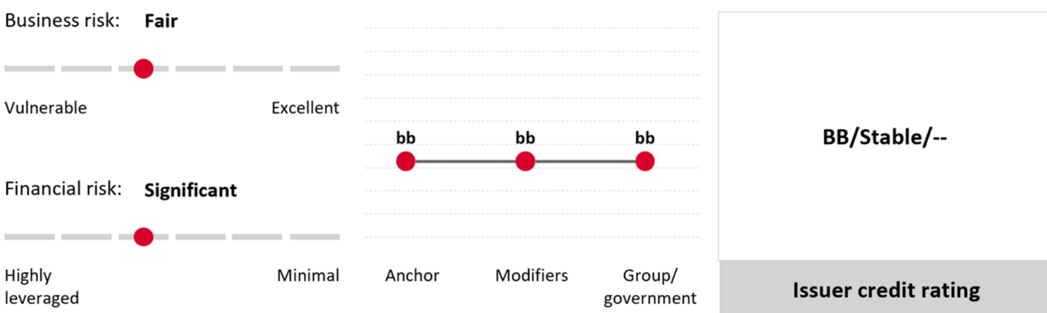
Nevertheless, those investments should ramp up materially in 2026, allowing for more substantial profitability improvements in the company's main markets, with consolidated EBITDA margin at 13%-14% in 2026 and 14%-15% in 2027, compared with 9.9% in the 12 months ended Sept. 30, 2025.

The sale of Avon's assets will unlock the potential for higher cash generation. Natura announced the sale of both Avon CARD and Avon International in September 2025, with the first transaction concluded already in October, in line with its focus on optimizing its portfolio and focusing on Latin America. Although the cash received for the sales would be virtually zero, we think that the deconsolidation of such assets will boost cash generation on a recurrent basis--Avon International reported negative or close to zero EBITDA in the last five years. Nevertheless, Natura has committed to a new $25 million credit line with a five-year term for the new owners, and may receive up to £60 million, depending on Avon International's performance in the coming years.

We expect the above higher cash generation--coupled with increasing EBITDA and prudent working capital management--will drive free operating cash flow (FOCF) to R$915 million in 2026, compared with R$153 million expected for 2025. This gain in FOCF would be despite higher capital expenditure (capex) of R$733 million in 2026, compared with R$562 million in 2025.

We expect the company to continue paying dividends, R$450 million in 2025 and R$500 million in 2026, along with additional share buybacks programs. Still, we forecast Natura to lower its leverage, with adjusted debt to EBITDA declining to 1.3x in 2026 compared with our expectation of close to 2.0x this year. In the 12 months ended Sept. 30, 2025, adjusted leverage was at 2.6x.

Ratings Score Snapshot



Recent Research

- Natura Cosméticos Ratings Affirmed After Incorporating Its Parent; Outlook Stable; Parent Ratings Withdrawn, July 1, 2025

Company Description

Natura Cosmeticos is among the largest global cosmetic groups. The group owns the brands Natura and Avon, with a leading position in the direct sales model for cosmetics. Its diversified portfolio serves various customer tiers and channels, with over 3.2 million representatives and over 1,000 stores and franchises globally. The company's main markets are currently Brazil (corresponding to close to 62% of revenue in the nine months ended Sept. 30, 2025), Mexico (11%), and Argentina (12%).

In July 2025, Natura Cosmeticos fully incorporated its former parent company Natura & Co Holding S.A., aiming to simplify its corporate structure, with the latter ceasing to exist. Now all subsidiaries, including debt holders, are under Cosméticos. In the nine months ended Sept. 30, 2025, the group earned net revenue of R$16 billion and an adjusted EBITDA of R$1.6 billion, which considers numbers from the first half of the year published still by Natura & Co. under the former structure and the reclassification of Avon CARD and Avon International as assets for sale in the second quarter.

Outlook

The stable outlook reflects our expectation that Natura will improve profitability in the next two years by leveraging the integration of Natura and Avon's brands in Latin America. We expect no meaningful mergers or acquisitions in the coming years and controlled shareholder remuneration through dividends and share buybacks. We expect adjusted debt to EBITDA to improve to 1.0x-1.5x in 2026 and 2027, with FOCF to debt staying above 45%, in line with our view of leverage close to 2.0x and funds from operations (FFO) to debt of 32% by year-end 2025.

Downside scenario

We could downgrade Natura in the next 12 months if:

- Improvement in profitability stalls, dragging down the company's cash generation and increasing leverage; or
- The group becomes more aggressive in terms of mergers and acquisitions, or shareholder returns, with net debt to EBITDA of about 4.0x.

Upside scenario

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, while making them less volatile. An upgrade would also require Natura to maintain a track record of a conservative financial policy regarding leverage and shareholder payments. We would expect net debt to EBITDA to remain below 2.0x, FFO to debt above 45%, and FOCF to debt above 15%, all on a consistent basis.

Key Metrics

Natura Cosmeticos 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	22,462	24,458	27,169	30,020
Gross profit	28,945	25,786	18,650	16,686	15,489	16,866	18,870	20,849
EBITDA (reported)	3,910	2,134	1,433	1,877	2,152	3,196	3,831	4,333
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	2,292	3,336	3,971	4,473
Less: Cash interest paid	(1,004)	(1,009)	(1,192)	(607)	(739)	(687)	(579)	(535)
Less: Cash taxes paid	(977)	(580)	(381)	(718)	(166)	(348)	(462)	(538)
Plus/(less): Other	--	--	--	--	--	--	--	--
Funds from operations (FFO)	2,203	841	542	1,064	1,386	2,301	2,930	3,401
EBIT	1,467	301	1,378	1,665	1,716	2,658	3,181	3,559
Interest expense	858	964	1,014	629	793	727	616	572
Cash flow from operations (CFO)	(114)	672	(2,348)	(2,619)	714	1,648	2,068	2,367

Natura Cosmeticos S.A.--Forecast summary

Capital expenditure (capex)	1,479	1,103	947	548	562	734	815	901
Free operating cash flow (FOCF)	(1,593)	(431)	(3,295)	(3,167)	153	914	1,253	1,467
Dividends	--	181	--	1,023	450	498	906	1,023
Share repurchases (reported)	174	120	--	--	100	300	300	400
Discretionary cash flow (DCF)	(1,768)	(732)	(3,295)	(4,190)	(397)	116	47	43
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	733	733	814	899
Plus: Pension and other postretirement debt	--	--	--	--	--	--	--	--
Less: Accessible cash and liquid Investments	(5,986)	(5,996)	(7,775)	(4,458)	(3,993)	(4,015)	(3,926)	(3,806)
Plus/(less): Other	(132)	635	71	1,263	750	750	750	750
Debt	10,147	11,502	--	4,624	4,332	4,310	4,480	4,686
Equity	28,567	22,351	23,120	15,672	15,868	16,522	17,212	17,979
FOCF (adjusted for lease capex)	(2,440)	(1,508)	(3,967)	(3,376)	329	820	1,035	1,218
Interest expense (reported)	845	945	979	589	753	687	576	533
Capex (reported)	1,479	1,103	947	548	562	734	815	901
Cash and short-term investments (reported)	5,986	5,996	7,775	4,458	3,993	4,015	3,926	3,806
Adjusted ratios								
Debt/EBITDA (x)	2.4	4.7	--	1.9	1.9	1.3	1.1	1.0
FFO/debt (%)	21.7	7.3	NM	23.0	32.0	53.4	65.4	72.6
FFO cash interest coverage (x)	3.2	1.8	1.5	2.8	2.9	4.3	6.1	7.4
EBITDA interest coverage (x)	4.9	2.5	2.1	3.8	2.9	4.6	6.4	7.8
CFO/debt (%)	(1.1)	5.8	NM	(56.6)	16.5	38.2	46.2	50.5
FOCF/debt (%)	(15.7)	(3.7)	NM	(68.5)	3.5	21.2	28.0	31.3
DCF/debt (%)	(17.4)	(6.4)	NM	(90.6)	(9.2)	2.7	1.1	0.9
Lease capex-adjusted FOCF/debt (%)	(24.1)	(13.1)	--	(73.0)	7.6	19.0	23.1	26.0
Annual revenue growth (%)	8.8	(9.5)	(26.4)	(9.9)	(6.8)	8.9	11.1	10.5
Gross margin (%)	72.1	70.9	69.8	69.3	69.0	69.0	69.5	69.5
EBITDA margin (%)	10.4	6.7	7.9	9.9	10.2	13.6	14.6	14.9

Natura Cosmeticos S.A.--Forecast summary

Return on capital (%)	4.0	0.8	4.8	7.7	8.5	13.0	15.0	16.0
Return on total assets (%)	2.4	0.5	2.8	4.2	4.6	7.1	8.1	8.6
EBITDA/cash interest (x)	4.2	2.4	1.8	3.9	3.1	4.9	6.9	8.4
EBIT interest coverage (x)	1.7	0.3	1.4	2.6	2.2	3.7	5.2	6.2
Debt/debt and equity (%)	26.2	34.0	--	22.8	21.4	20.7	20.7	20.7
Debt fixed-charge coverage (x)	4.9	2.5	2.1	3.8	2.9	4.6	6.4	7.8
Debt/debt and undepreciated equity (%)	26.2	34.0	--	22.8	21.4	20.7	20.7	20.7

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

Financial Summary

Natura Cosmeticos S.A.--Financial Summary

Period ending	#VALUE!	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024
Reporting period	--	2020a	2021a	2022a	2023a	2024a
Display currency (mil.)	R$	R$	R$	R$	R$	R$
Revenues	--	36,922	40,165	36,350	26,737	24,090
EBITDA	--	4,001	4,183	2,430	2,116	2,389
Funds from operations (FFO)	--	2,412	2,203	841	542	1,064
Interest expense	--	1,352	858	964	1,014	629
Cash interest paid	--	1,258	1,004	1,009	1,192	607
Operating cash flow (OCF)	--	1,286	(114)	672	(2,348)	(2,619)
Capital expenditure	--	674	1,479	1,103	947	548
Free operating cash flow (FOCF)	--	611	(1,593)	(431)	(3,295)	(3,167)
Discretionary cash flow (DCF)	--	529	(1,768)	(732)	(3,295)	(4,190)
Cash and short-term investments	--	8,342	5,986	5,996	7,775	4,458
Gross available cash	--	8,342	5,986	5,996	7,775	4,458
Debt	--	7,611	10,147	11,502	0	4,624
Common equity	--	27,387	28,567	22,351	23,120	15,672
Adjusted ratios						
EBITDA margin (%)	--	10.8	10.4	6.7	7.9	9.9
Return on capital (%)	--	5.4	4.0	0.8	4.8	7.7
EBITDA interest coverage (x)	--	3.0	4.9	2.5	2.1	3.8
FFO cash interest coverage (x)	--	2.9	3.2	1.8	1.5	2.8
Debt/EBITDA (x)	--	1.9	2.4	4.7	0.0	1.9
FFO/debt (%)	--	31.7	21.7	7.3	NM	23.0
OCF/debt (%)	--	16.9	(1.1)	5.8	NM	(56.6)
FOCF/debt (%)	--	8.0	(15.7)	(3.7)	NM	(68.5)
DCF/debt (%)	--	6.9	(17.4)	(6.4)	NM	(90.6)

Liquidity

We continue to assess Natura's liquidity as adequate. We expect liquidity sources to exceed uses by close to 1.8x 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, 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 face struggle to normalize cash flow and profitability. Although we expect the divestment of Avon CARD and Avon International to benefit cash generation, we still see uncertainties surrounding its further capital allocation toward capex, acquisitions, and dividends. Should the company demonstrate 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
• Cash position of R$2.3 billion as of Sept. 30, 2025. • FFO of R$2.4 billion for the next 12 months.	• Short-term debt of R$ 177 million as of Sept. 30, 2025. • Working capital outflow of R$1 billion for the next 12 months. • Capex of R$690 million for the next 12 months. • Shareholders' remuneration, including dividends and shares buybacks, of R$750 million for the next 12 months.

Environmental, Social, And Governance

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

Governance factors are a moderately negative consideration, given the deficiencies in internal controls to map and address the risks its businesses face, as seen with the lawsuits targeting API.

Rating Component Scores	
Foreign currency issuer credit rating	**BB/Stable/--**
Local currency issuer credit rating	**BB/Stable/--**
Business risk	**Fair**
Country risk	Moderately High
Industry risk	Low
Competitive position	Fair
Financial risk	**Significant**
Cash flow/leverage	Significant
Anchor	**bb**
Modifiers	
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Moderately Negative (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**bb**

Related Criteria

- 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 | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 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