

Natura Cosméticos S.A.'s Proposed Senior Unsecured Debentures Of R\$1.8 Billion Rated 'brAAA' (Recovery Rating: '3')

June 22, 2022

SAO PAULO (S&P Global Ratings) June 22, 2022--S&P Global Ratings assigned its national scale 'brAAA' issue-level rating to Natura Cosméticos S.A.'s proposed senior unsecured debentures of R\$1.8 billion with maturity of five years. We assigned a '3' recovery rating to the proposed issuance, reflecting our expectations of an average recovery (50%-70%) in the event of default. The new notes have the full and unconditional guarantee from the issuer's parent company, Natura & Co Holding S.A. (BB/Stable/--; brAAA/Stable/--). The latter will use the proceeds for debt refinancing including the potential prepayment of the 9th debentures due in September 2022 and the 10th debentures due in August 2024.

The company reported a weaker operating performance because of the ongoing turnaround of Avon's business model, the Ukraine-Russia conflict, inflationary pressures denting overall consumer demand, and the pandemic's lingering effects. These factors resulted in lower sales and profitability in the first quarter of 2022 than in the same period of 2021, with margins of 7.2% versus 10.2%. However, we still expect the company to report debt to EBITDA of about 3x in 2022 through cost-containment initiatives and financial discipline to control leverage. For a more detailed analysis please see Natura & Co Holding S.A., published April 14, 2022.

Issue Ratings - Recovery Analysis

Key analytical factors

- Our simulated default scenario assumes a default in the first half of 2027.
- The default scenario considers a sharp downturn in global demand, weakening the company's margins, raising its working capital consumption, and limiting access to credit lines, eroding cash flows.
- We have valued the company using a 6x multiple applied to emergence EBITDA. The multiple is in line with that we use for other branded nondurables issuers.
- Given the purpose of the issue, we assume some debt amortization in 2022 for the company's outstanding debentures and for one of its foreign currency credit lines.

Simulated Default Assumptions

- Simulated year of default: 2027
- Emergence EBITDA: R\$1.3 billion

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- Multiple: 6x
- Estimated gross enterprise value at emergence: R\$7.84 billion

Simplified Waterfall

- Net value available for creditors after 5% administrative costs: R\$7.4 billion
- Senior secured debt: R\$36.9 million
- Senior unsecured debt, including the new notes: R\$8.0 billion
- Recovery expectations for unsecured debt: 50%-70%

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

New Rating

Natura Cosmeticos S.A.

Senior Unsecured	brAAA
Recovery Rating	3(65%)

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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