

Can Beauty be Sustainable?

Inside Natura &Co's Decade of Turbulence

How the Brazilian beauty empire rose, expanded and was forced to reconsider its global ambitions.



Natura &Co is one of Latin America's most recognisable multinational corporations. The Brazilian cosmetics conglomerate has been built upon the sustainable foundations of Amazonian biodiversity and community-driven production. Over five decades, a small São Paulo start-up has grown into the continent's foremost beauty group, reaching a peak market capitalisation of \$13.9 billion in 2020. The firm's model, praised by investors as 'purpose-led capitalism', fuelled global expansion beyond its flagship Natura, owning some of the world's most recognisable beauty brands: Avon, The Body Shop and Aesop.

However, Natura &Co's rapid rise has been followed by an equally dramatic strategic reversal. After several prominent acquisitions, the firm offloaded Aesop and The Body Shop, the latter at a steep loss to the £880 million paid in 2017. With plans to also sell Avon in the

next 12 months, the firm has cited the divestments as a means “to simplify and refocus its operations” around its core markets. Rising leverage, insufficient global demand and operational inefficiencies may have turned Natura &Co’s expansion into a cautionary tale about the limits of sustainability-driven growth in volatile macroeconomic conditions.

This is the story of how one of South America’s most admired companies experienced the promise and peril of globalisation.

Founded in 1969, Natura built its identity around the Amazon Rainforest. Bio-ingredients were sourced ethically, over 9000 local families were supported and carbon neutrality has been maintained since 2007. As the first publicly traded company in the world to receive B-Corp certification, Natura championed ESG long before it became mainstream, devoting \$60 million annually to socio-environmental projects and pioneering refillable packaging.

Such sustainability-driven differentiation paid dividends by the mid-2010s, when shifting social expectations saw over 80% of consumers in major markets willing to pay a 9.7% premium for environmentally responsible products. Natura could suddenly maintain significant profit margins whilst remaining competitive. The company’s vision began to stretch beyond the continent.

Between 2017 and 2020, Natura undertook the most ambitious beauty-sector M&A strategies in corporate history, deploying more than \$3 billion across the acquisitions of The Body Shop (for \$1.1 billion from L’Oréal) and Avon Products (for \$2 billion in an all-stock deal). Additionally incorporating Australia’s Aesop, Natura &Co built the world’s fourth-largest cosmetics group, with thorough multinational diversification and enhanced bargaining power across suppliers.

Initially, Natura &Co saw great success, as group revenue soared +32% between 2016 and 2020. Avon’s integration promised up to \$400 million in synergies, with potential cost savings achievable primarily through the integration of international operations. Across the globe, Aesop delivered a 51% growth in sales in 2021 - its strongest year to date. At the time, the story was a symbol that emerging-market multinationals could, in fact, compete (and dominate) globally.

However, challenges quickly surfaced. The rapid horizontal integration left Natura &Co with a portfolio of brands with little in common. Aesop’s minimalist boutiques, Avon’s direct selling network and The Body Shop’s mall-based retail proved difficult to manage under a unified umbrella, producing operational and managerial diseconomies of scale. Furthermore, with the deals heavily leveraged (financed by debt), Natura’s net debt tripled, as debt-to-EBITDA ratios peaked at 3.5×. A 30% depreciation in the Brazilian Real (2019-2021) intensified the burden by raising the servicing cost of dollar-/euro-denominated debt.

By 2022, Natura &Co reported a \$572 million net loss. Goodwill impairments reached \$240 million, reflecting write-downs in the value of Avon and The Body Shop following consecutive quarters of negative sales growth. With e-commerce slowing post-pandemic, projected revenues and integration synergies failed to materialise Natura &Co management had once expected, and began to hold the conglomerate back.

In response, Natura&Co commenced a strategic retreat through an immense restructuring programme. In April 2023, Aesop was sold to L'Oréal for \$2.54 billion, generating proceeds to reduce net debt by 75% and briefly restore a net positive cash position. Months later, the firm sold The Body Shop to private equity firm Aurelius for £207 million - at just a fraction of its purchase price - exiting a chronic underperformer for which it significantly overpaid. These divestments removed major structural drags on earnings and cut exposure to weaker-performing markets. With Avon International also “held for sale”, Natura &Co intends to continue this fortification of long-term financial health, shedding the global footprint that once defined its lofty ambitions.

Natura & Co's identity remains inseparable from its sustainability mission. Yet, its ESG commitments, from sustainable packaging to ethical sourcing, carry additional production costs relative to traditional cosmetics rivals. Although the premium was previously justified during high-growth years and aligned consumer trends, persistent inflationary pressures and currency volatility have made sustainability harder to finance. This leaves Natura with a crucial dilemma: cut sustainability costs to recover profitability, or preserve its foundational principles at the expense of short-term margins. The firm may have publicly opted for the latter at present, but investors may well remain sceptical until ESG can be proven competitive, and not merely a marketing strategy.

Now on a new trajectory, Natura &Co emerges leaner and more regionally-focused. Management can be expected to prioritise its flagship eponymous brand, deepening its presence across Brazil and Andean markets. Although macroeconomic risks remain in the region, there are causes for cautious optimism with substantial brand equity and extensive distribution networks in this high-growth emerging market. While Natura &Co may no longer resemble the sprawling global empire its stakeholders once envisioned, it may become something far more resilient and true to its Amazonian roots.