

AVON PRODUCTS INC  
Form 10-Q  
May 01, 2014

UNITED STATES OF AMERICA  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended March 31, 2014

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 1-4881

AVON PRODUCTS, INC.  
(Exact name of registrant as specified in its charter)

New York  
(State or other jurisdiction of  
Incorporation or organization)  
777 Third Avenue, New York, N.Y. 10017-1307  
(Address of principal executive offices) (Zip code)

13-0544597  
(I.R.S. Employer  
Identification No.)

(212) 282-5000  
(Telephone Number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares of Common Stock (par value \$0.25) outstanding at March 31, 2014 was 434,446,597.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

AVON PRODUCTS, INC.  
CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

(In millions, except per share data)	Three Months Ended		
	March 31, 2014	March 31, 2013	
Net sales	\$2,141.7	\$2,407.1	
Other revenue	41.9	48.9	
Total revenue	2,183.6	2,456.0	
Costs, expenses and other:			
Cost of sales	955.4	925.4	
Selling, general and administrative expenses	1,279.1	1,356.6	
Operating (loss) profit	(50.9	) 174.0	
Interest expense	27.5	29.4	
Loss on extinguishment of debt	—	73.0	
Interest income	(3.8	) (2.0	)
Other expense, net	66.4	44.3	
Total other expenses	90.1	144.7	
(Loss) income from continuing operations, before taxes	(141.0	) 29.3	
Income taxes	(26.2	) (40.8	)
Loss from continuing operations, net of tax	(167.2	) (11.5	)
Loss from discontinued operations, net of tax	—	(1.1	)
Net loss	(167.2	) (12.6	)
Net income attributable to noncontrolling interests	(1.1	) (1.1	)
Net loss attributable to Avon	\$(168.3	) \$(13.7	)
Loss per share:			
Basic from continuing operations	\$(0.38	) \$(0.03	)
Basic from discontinued operations	\$—	\$—	
Basic attributable to Avon	\$(0.38	) \$(0.03	)
Diluted from continuing operations	\$(0.38	) \$(0.03	)
Diluted from discontinued operations	\$—	\$—	
Diluted attributable to Avon	\$(0.38	) \$(0.03	)
Cash dividends per common share	\$0.06	\$0.06	

The accompanying notes are an integral part of these statements.

AVON PRODUCTS, INC.  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(Unaudited)

(In millions)	Three Months Ended	
	March 31, 2014	March 31, 2013
Net loss	\$ (167.2	) \$ (12.6
Other comprehensive loss:		
Foreign currency translation adjustments	(8.9	) (23.4
Change in derivative losses on cash flow hedges, net of taxes of \$0.2 and \$0.4	0.3	0.8
Adjustments of and amortization of net actuarial loss and prior service cost, net of taxes of \$4.1 and \$5.0	8.0	10.1
Total other comprehensive loss, net of taxes	(0.6	) (12.5
Comprehensive loss	(167.8	) (25.1
Less: comprehensive (loss) income attributable to noncontrolling interests	(1.5	) 0.9
Comprehensive loss attributable to Avon	\$ (166.3	) \$ (26.0

The accompanying notes are an integral part of these statements.

AVON PRODUCTS, INC.  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

(In millions)	March 31, 2014	December 31, 2013
Assets		
Current Assets		
Cash and cash equivalents	\$795.1	\$1,107.9
Accounts receivable, net	632.3	676.3
Inventories	944.8	967.7
Prepaid expenses and other	689.1	689.3
Total current assets	3,061.3	3,441.2
Property, plant and equipment, at cost	2,480.2	2,484.5
Less accumulated depreciation	(1,111.7	) (1,091.2
Property, plant and equipment, net	1,368.5	1,393.3
Goodwill	280.9	282.5
Other intangible assets, net	33.0	33.5
Other assets	1,341.2	1,341.8
Total assets	\$6,084.9	\$6,492.3
Liabilities and Shareholders' Equity		
Current Liabilities		
Debt maturing within one year	\$180.8	\$188.0
Accounts payable	861.1	896.5
Accrued compensation	203.9	271.2
Other accrued liabilities	635.6	652.6
Sales and taxes other than income	191.4	186.8
Income taxes	22.8	45.4
Total current liabilities	2,095.6	2,240.5
Long-term debt	2,525.9	2,532.7
Employee benefit plans	371.7	398.0
Long-term income taxes	56.4	53.3
Other liabilities	103.8	140.3
Total liabilities	\$5,153.4	\$5,364.8
Contingencies (Note 6)		
Shareholders' Equity		
Common stock	\$187.5	\$189.4
Additional paid-in capital	2,184.5	2,175.6
Retained earnings	4,002.4	4,196.7
Accumulated other comprehensive loss	(871.1	) (870.4
Treasury stock, at cost	(4,587.7	) (4,581.2
Total Avon shareholders' equity	915.6	1,110.1
Noncontrolling interests	15.9	17.4
Total shareholders' equity	\$931.5	\$1,127.5
Total liabilities and shareholders' equity	\$6,084.9	\$6,492.3
The accompanying notes are an integral part of these statements.		

AVON PRODUCTS, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

(In millions)	Three Months Ended	
	March 31, 2014	March 31, 2013
Cash Flows from Operating Activities		
Net loss	\$(167.2)	) \$(12.6)
Loss from discontinued operations, net of tax	—	) 1.1
Loss from continuing operations	\$(167.2)	) \$(11.5)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	47.0	) 55.8
Provision for doubtful accounts	50.8	) 51.9
Provision for obsolescence	26.4	) 27.1
Share-based compensation	11.5	) 11.8
Deferred income taxes	(10.4)	) (2.7)
Charge for Venezuelan monetary assets and liabilities	53.7	) 34.1
Charge for Venezuelan non-monetary assets to their net realizable value	115.7	) —
Other	16.1	) 21.5
Changes in assets and liabilities:		
Accounts receivable	(41.7)	) (62.7)
Inventories	(97.8)	) (118.4)
Prepaid expenses and other	(41.3)	) (1.0)
Accounts payable and accrued liabilities	(29.1)	) (91.3)
Income and other taxes	(3.4)	) (13.7)
Noncurrent assets and liabilities	(42.9)	) (18.0)
Net cash used by operating activities of continuing operations	(112.6)	) (117.1)
Cash Flows from Investing Activities		
Capital expenditures	(29.6)	) (43.5)
Disposal of assets	2.6	) 9.3
Purchases of investments	(5.8)	) (4.2)
Proceeds from sale of investments	6.2	) 2.5
Net cash used by investing activities of continuing operations	(26.6)	) (35.9)
Cash Flows from Financing Activities*		
Cash dividends	(28.7)	) (26.2)
Debt, net (maturities of three months or less)	2.2	) 118.7
Proceeds from debt	6.0	) 1,485.3
Repayment of debt	(17.0)	) (1,173.3)
Interest rate swap termination	—	) 88.1
Net proceeds from exercise of stock options	0.2	) 9.4
Repurchase of common stock	(6.5)	) (6.8)
Net cash (used) provided by financing activities of continuing operations	(43.8)	) 495.2
Cash Flows from Discontinued Operations		
Net cash used by operating activities of discontinued operations	—	) (1.8)
Net cash used by discontinued operations	—	) (1.8)
Effect of exchange rate changes on cash and equivalents	(129.8)	) (61.6)
Net (decrease) increase in cash and equivalents	(312.8)	) 278.8
Cash and equivalents at beginning of year <sup>(1)</sup>	\$1,107.9	) \$1,209.6
Cash and equivalents at end of period <sup>(2)</sup>	\$795.1	) \$1,488.4

\*

Non-cash financing activities in the three months ended March 31, 2013 included the change in fair market value of interest-rate swap agreements of \$(.7).

- (1) Includes cash and cash equivalents of discontinued operations of \$2.7 at the beginning of the year in 2013.  
(2) Includes cash and cash equivalents of discontinued operations of \$4.2 at the end of the period in 2013.  
The accompanying notes are an integral part of these statements.



AVON PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(U.S. dollars in millions, except per share data)

1. ACCOUNTING POLICIES

Basis of Presentation

We prepare our unaudited interim consolidated financial statements in conformity with accounting principles generally accepted in the United States ("GAAP"). We consistently applied the accounting policies described in our 2013 Annual Report on Form 10-K ("2013 Form 10-K") in preparing these unaudited financial statements. In our opinion, the unaudited interim consolidated financial statements reflect all adjustments of a normal recurring nature that are necessary for a fair statement of the results for the interim periods presented. Results for interim periods are not necessarily indicative of results for a full year. You should read these unaudited interim consolidated financial statements in conjunction with our consolidated financial statements contained in our 2013 Form 10-K. When used in this report, the terms "Avon," "Company," "we" or "us" mean Avon Products, Inc.

For interim consolidated financial statement purposes, our tax provision is determined using an estimate of our annual effective tax rate, adjusted for discrete items, if any, that are taken into account in the relevant period. We also provide for accruals under our various employee benefit plans for each quarter based on one quarter of the estimated annual expense.

During the first quarter of 2014, we revised our consolidated financial statements to reflect tooling balances in other assets, while they had been previously reported in inventories, as we believe that this is a better presentation of our tooling assets. Tooling assets are the plates and molds used in the manufacturing process of our beauty products. This revision did not impact cash flows from operating activities, our Consolidated Statements of Income or our Consolidated Statements of Comprehensive Income. We determined that the effect of this revision was not material to any of our previously issued financial statements.

Venezuela Currency

We account for Venezuela as a highly inflationary economy. In February 2014, the Venezuelan government announced a new foreign exchange system ("SICAD II") which began operating on March 24, 2014. There are multiple legal mechanisms in Venezuela to exchange currency. As SICAD II represents the rate which better reflects the economics of Avon Venezuela's business activity, we concluded that we should utilize the SICAD II exchange rate to remeasure our Venezuelan operations as of March 31, 2014. As a result of the change to the SICAD II rate, which caused the recognition of a devaluation of approximately 88% compared to the official exchange rate we used previously, we recorded an after-tax loss of \$42 (\$54 in other expense, net and a benefit of \$12 in income taxes) in the first quarter of 2014, primarily reflecting the write-down of monetary assets and liabilities. In addition, as a result of using the U.S. historic dollar cost basis of non-monetary assets, such as inventories, these assets continue to be remeasured at the applicable rate at the time of acquisition. As a result, we determined that an adjustment of \$116 to cost of sales was needed to reflect certain non-monetary assets at their net realizable value, which was recorded in the first quarter of 2014. In addition, at March 31, 2014, we reviewed Avon Venezuela's long-lived assets to determine whether the carrying amount of the assets were recoverable, and determined that they were. As such, no impairment of Avon Venezuela's long-lived assets was required.

Effective February 13, 2013, the Venezuelan government devalued its currency by approximately 32% and as such we recorded an after-tax loss of \$51 (\$34 in other expense, net and \$17 in income taxes) in the first quarter of 2013, primarily reflecting the write-down of monetary assets and liabilities and deferred tax benefits. In addition, as a result of using the U.S. historic dollar cost basis of non-monetary assets, such as inventories, acquired prior to the devaluation, operating profit and net income during the three months ending March 31, 2013 were negatively impacted.

2. EARNINGS PER SHARE AND SHARE REPURCHASES

We compute loss per share ("EPS") using the two-class method, which is a loss allocation formula that determines loss per share for common stock and participating securities. Our participating securities are our grants of restricted stock and restricted stock units, which contain non-forfeitable rights to dividend equivalents. We compute basic EPS

by dividing net loss allocated to common shareholders by the weighted-average number of shares outstanding during the period. Diluted EPS is calculated to give effect to all potentially dilutive common shares that were outstanding during the period.

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AVON PRODUCTS, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (U.S. dollars in millions, except per share data)

(Shares in millions)	Three Months Ended	
	March 31, 2014	2013
Numerator from continuing operations:		
Loss from continuing operations, less amounts attributable to noncontrolling interests	\$(168.3 )	\$(12.6 )
Less: Loss allocated to participating securities	2.0	.1
Loss from continuing operations allocated to common shareholders	(166.3 )	(12.5 )
Numerator from discontinued operations:		
Loss from discontinued operations	\$—	\$(1.1 )
Less: Loss allocated to participating securities	—	—
Loss allocated to common shareholders	—	(1.1 )
Numerator attributable to Avon:		
Net loss attributable to Avon	\$(168.3 )	\$(13.7 )
Less: Loss allocated to participating securities	2.0	