

AVON PRODUCTS INC
Form 10-Q
November 02, 2018

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 September 30, 2018

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 13-0544597
(State or other jurisdiction of (I.R.S. Employer
Incorporation or organization) Identification No.)
Building 6, Chiswick Park, London W4 5HR
United Kingdom
(Address of principal executive offices)
+44-1604-232425
(Registrant's 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 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 such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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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 September 30, 2018 was 442,360,153.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

(In millions, except per share data)	Three Months Ended	
	September 30, 2018	September 30, 2017
Net sales	\$1,346.3	\$ 1,378.2
Other revenue	77.9	39.6
Total revenue	1,424.2	1,417.8
Costs, expenses and other:		
Cost of sales	538.4	550.0
Selling, general and administrative expenses	698.9	780.5
Operating profit	186.9	87.3
Interest expense	31.3	34.8
Interest income	(4.3)	(3.4)
Other (income) expense, net	(22.2)	7.9)
Total other expenses	4.8	39.3
Income before income taxes	182.1	48.0
Income taxes	(68.3)	(36.1)
Net income	113.8	11.9
Net loss attributable to noncontrolling interests	0.7	0.6
Net income attributable to Avon	\$114.5	\$ 12.5
Earnings per share:		
Basic attributable to Avon	\$0.21	\$ 0.01
Diluted attributable to Avon	0.21	0.01

The accompanying notes are an integral part of these statements.

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

(In millions, except per share data)	Nine Months Ended	
	September 30, 2018	September 30, 2017
Net sales	\$3,924.7	\$4,029.8
Other revenue	244.9	117.0
Total revenue	4,169.6	4,146.8
Costs, expenses and other:		
Cost of sales	1,657.8	1,592.1
Selling, general and administrative expenses	2,227.0	2,404.9
Operating profit	284.8	149.8
Interest expense	102.0	106.0
Loss on extinguishment of debt	2.9	—
Interest income	(12.0)	(11.2)
Other (income) expense, net	(0.3)	25.9
Total other expenses	92.6	120.7
Income before income taxes	192.2	29.1
Income taxes	(136.5)	(99.5)
Net income (loss)	55.7	(70.4)
Net loss attributable to noncontrolling interests	2.4	0.9
Net income (loss) attributable to Avon	58.1	\$(69.5)
Earnings (loss) per share:		
Basic attributable to Avon	0.09	(0.20)
Diluted attributable to Avon	0.09	(0.20)

The accompanying notes are an integral part of these statements.

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

(In millions)	Three Months Ended	
	September 30, 2018	September 30, 2017
Net income	\$113.8	\$ 11.9
Other comprehensive income:		
Foreign currency translation adjustments	(3.8)	13.6
Adjustments of and amortization of net actuarial loss and prior service cost, net of taxes of \$0.1 and \$0.0	2.1	6.5
Total other comprehensive (loss) income, net of income taxes	(1.7)	20.1
Comprehensive income	112.1	32.0
Less: comprehensive loss attributable to noncontrolling interests	(0.9)	(0.6)
Comprehensive income attributable to Avon	\$113.0	\$ 32.6

The accompanying notes are an integral part of these statements.

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

(In millions)	Nine Months Ended	
	September 30, 2018	September 30, 2017
Net income (loss)	\$55.7	\$ (70.4)
Other comprehensive (loss) income:		
Foreign currency translation adjustments	(97.8)	85.1
Adjustments of and amortization of net actuarial loss and prior service cost, net of taxes of \$0.4 and \$0.0	7.8	12.7
Other comprehensive income related to New Avon investment, net of taxes of \$0.0	—	1.2
Total other comprehensive (loss) income, net of income taxes	(90.0)	99.0
Comprehensive (loss) income	(34.3)	28.6
Less: comprehensive loss attributable to noncontrolling interests	(2.8)	(0.7)
Comprehensive (loss) income attributable to Avon	\$(31.5)	\$ 29.3

The accompanying notes are an integral part of these statements.

AVON PRODUCTS, INC.
CONSOLIDATED BALANCE SHEETS

December 31, 2017 (Audited) and September 30, 2018 (Unaudited)

(In millions)	September 30, 2018	December 31, 2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 452.6	\$ 881.5
Accounts receivable, net	374.3	457.2
Inventories	682.2	598.2
Prepaid expenses and other	264.2	296.4
Total current assets	1,773.3	2,233.3
Property, plant and equipment, at cost	1,395.3	1,481.9
Less accumulated depreciation	(771.3) (779.2
Property, plant and equipment, net	624.0	702.7
Goodwill	92.8	95.7
Other assets	584.5	666.2
Total assets	\$ 3,074.6	\$ 3,697.9
Liabilities, Series C Convertible Preferred Stock and Shareholders' Deficit		
Current Liabilities		
Debt maturing within one year	\$ 16.3	\$ 25.7
Accounts payable	764.8	832.2
Accrued compensation	105.2	130.3
Other accrued liabilities	391.5	405.6
Sales taxes and taxes other than income	114.9	153.0
Income taxes	25.5	12.8
Total current liabilities	1,418.2	1,559.6
Long-term debt	1,630.8	1,872.2
Employee benefit plans	132.3	150.6
Long-term income taxes	132.7	84.9
Long-term sales taxes and taxes other than income	—	193.1
Other liabilities	77.6	84.4
Total liabilities	3,391.6	3,944.8
Commitments and contingencies (Note 7)		
Series C convertible preferred stock	485.9	467.8
Shareholders' Deficit		
Common stock	190.3	189.7
Additional paid-in capital	2,299.1	2,291.2
Retained earnings	2,318.4	2,320.3
Accumulated other comprehensive loss	(1,015.9) (926.2
Treasury stock, at cost	(4,602.3) (4,600.0
Total Avon shareholders' deficit	(810.4) (725.0
Noncontrolling interests	7.5	10.3
Total shareholders' deficit	(802.9) (714.7
Total liabilities, series C convertible preferred stock and shareholders' deficit	\$ 3,074.6	\$ 3,697.9

The accompanying notes are an integral part of these statements.

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

(In millions)	Nine Months Ended	
	September 30,	September 30,
	2018	2017
Cash Flows from Operating Activities		
Net income (loss)	\$55.7	\$ (70.4)
Adjustments to reconcile net income (loss) to net cash (used) provided by operating activities:		
Depreciation	61.1	63.4
Amortization	20.3	22.2
Provision for doubtful accounts	126.9	168.5
Provision for obsolescence	22.5	27.7
Share-based compensation	9.5	22.0
Foreign exchange losses	12.5	12.0
Deferred income taxes	(28.5)	15.4
Revaluation of Argentinian monetary assets and liabilities	(8.5)	—
Brazil IPI tax release	(194.7)	—
Other ⁽¹⁾	14.2	37.0
Changes in assets and liabilities:		
Accounts receivable	(93.4)	(170.1)
Inventories	(131.8)	(71.6)
Prepaid expenses and other	(38.2)	18.0
Accounts payable and accrued liabilities	(30.7)	(51.1)
Income and other taxes	74.1	(15.3)
Noncurrent assets and liabilities	60.7	27.3
Net cash (used) provided by operating activities of continuing operations	(68.3)	35.0
Cash Flows from Investing Activities		
Capital expenditures	(71.0)	(66.7)
Disposal of assets	2.3	3.3
Dividend received from New Avon	—	22.0
Other investing activities	(3.3)	(0.1)
Net cash used by investing activities of continuing operations	(72.0)	(41.5)
Cash Flows from Financing Activities		
Debt, net (maturities of three months or less)	(6.8)	(0.7)
Repayment of debt	(238.9)	(2.3)
Repurchase of common stock	(3.1)	(6.6)
Other financing activities ⁽¹⁾	(6.3)	(0.2)
Net cash used by financing activities of continuing operations	(255.1)	(9.8)
Cash Flows from Discontinued Operations		
Net cash used by operating activities of discontinued operations	—	(7.5)
Net cash used by discontinued operations	—	(7.5)
Effect of exchange rate changes on cash and cash equivalents	(33.5)	33.2
Net (decrease) increase in cash and cash equivalents	(428.9)	9.4
Cash and cash equivalents at beginning of year	881.5	654.4
Cash and cash equivalents at end of period	\$452.6	\$ 663.8

⁽¹⁾ In our second quarter 2018 Form 10-Q, our Consolidated Statements of Cash Flows presented the payment of a make-whole premium of \$6.2, relating to the prepayment of our 6.50% Notes, within cash flows from operating activities; however, this amount should have been presented within cash flows from financing activities. This has been reclassified to cash flows from financing activities for the nine months ended September 30, 2018. The accompanying notes are an integral part of these statements.

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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 2017 Annual Report on Form 10-K ("2017 Form 10-K") in preparing these unaudited interim Consolidated Financial Statements, other than those impacted by new accounting standards as described below. 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 2017 Form 10-K. When used in this report, the terms "Avon," "Company," "we" or "us" mean Avon Products, Inc.

For interim Consolidated Financial Statements purposes, we generally provide for accruals under our various employee benefit plans for each quarter based on one quarter of the estimated annual expense, and adjust these accruals as estimates are refined. In addition, our income tax provision is determined using an estimate of our consolidated annual effective tax rate, adjusted in the current period for discrete income tax items including:

- the effects of significant, unusual or extraordinary pretax and income tax items, if any;

- withholding taxes recognized associated with cash repatriations; and

- the impact of loss-making subsidiaries for which we cannot recognize an income tax benefit and subsidiaries for which an effective tax rate cannot be reliably estimated.

Argentina Currency

During the quarter ended June 30, 2018, based on published official exchange rates which indicate that Argentina's three-year cumulative inflation rate has exceeded 100%, we concluded that Argentina had become a highly inflationary economy. From July 1, 2018, we have applied highly inflationary accounting for our Argentinian subsidiary. As such, the functional currency for Argentina has changed to the U.S. dollar, which is the consolidated group's reporting currency. When an entity operates in a highly inflationary economy, exchange gains and losses associated with monetary assets and liabilities re