

AVON PRODUCTS INC
Form DEF 14A
March 30, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

SCHEDULE 14A

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934
(Amendment No.)

Filed by the Registrant
Check the appropriate box:

Filed by a Party other than the Registrant

Preliminary Proxy Statement.

Confidential, for use of the Commission Only (as permitted by Rule 14a-6(e)(2)).

Definitive Proxy Statement.

Definitive Additional Materials.

Soliciting Material Pursuant to §240.14a-12.

Avon Products, Inc.

(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

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No fee required.

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(1) Title of each class of securities to which transaction applies:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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March 30, 2017

Dear Fellow Shareholders:

It is my pleasure to invite you to join me, the Board of Directors, senior leaders, and current and former employees at the 2017 Annual Meeting of Shareholders in White Plains, New York. Details regarding admission to the meeting and the business to be conducted are more fully described in the accompanying Notice of Annual Meeting of Shareholders and Proxy Statement.

We hope that you will join us in person, but whether or not you plan to attend the Annual Meeting, your vote is important. I encourage you to vote by telephone, by internet or by signing, dating, and returning your proxy card by mail. Voting instructions are found on page 6 of the Proxy Statement.

On behalf of the Board of Directors and Avon management, thank you for your investment and interest in Avon.

Sincerely yours,

Sheri McCoy
Chief Executive Officer

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AVON PRODUCTS, INC.

Building 6, Chiswick Park

London W4 5HR

United Kingdom

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

DATE & TIME:

Meeting Agenda

Tuesday, May 9, 2017

1 Elect as directors the eight nominees named in the Proxy Statement;

9:00 a.m.

2 Hold a non-binding, advisory vote to approve compensation of our named executive officers;

PLACE:

The Ritz-Carlton

New York, Westchester

3 Hold a non-binding, advisory vote on the frequency of the executive compensation advisory vote;

3 Renaissance Square,

White Plains, NY 10601

Salon III

4 Ratify the appointment of PricewaterhouseCoopers LLP, United Kingdom, as our independent registered public accounting firm for 2017; and

RECORD DATE:

5 Transact such other business as may properly come before the meeting.

March 20, 2017

YOUR VOTE IS IMPORTANT YOU CAN VOTE IN ONE OF FOUR WAYS:

VIA THE INTERNET

Visit the website listed on your proxy card

BY MAIL

Sign, date and return your proxy card in the enclosed envelope

BY TELEPHONE

Call the telephone number on your proxy card

IN PERSON

Attend the Annual Meeting

If your shares are held in a stock brokerage account or by a bank or other record holder, follow the voting instructions on the form that you receive from them. The availability of telephone and internet voting will depend on their voting process.

By order of the Board of Directors,

Ginny Edwards
Vice President & Corporate Secretary
March 30, 2017

Important notice regarding the availability of proxy materials for the shareholder meeting to be held on May 9, 2017:

Our Proxy Statement and Annual Report to Shareholders are available at www.edocumentview.com/avp

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This summary highlights information contained elsewhere in the Proxy Statement and in Avon Products, Inc.'s (Avon, the Company, we, us, or our) Annual Report on Form 10-K for the year ended December 31, 2016. This summary is not a complete description and you should read the entire Proxy Statement carefully before voting. Proxy materials were first sent to shareholders on or about March 30, 2017.

Meeting Agenda

Matter		Board Vote Recommendation	Page Reference (for more detail)
PROPOSAL 1	Election of the eight Director Nominees named in this Proxy Statement	FOR EACH NOMINEE	9
PROPOSAL 2	Annual Non-Binding, Advisory Vote to Approve Compensation of our Named Executive Officers	FOR	67
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PROPOSAL 4	Ratification of PricewaterhouseCoopers LLP, United Kingdom, as Independent Registered Public Accounting Firm for 2017	FOR	72

Board and Governance Highlights

The Company has adopted many leading governance practices that establish strong independent leadership in our boardroom and provide our shareholders with meaningful rights. Highlights include:

Annual election of directors	Non-executive Chairman of the Board and Lead Independent Director	Proxy Access
Majority vote standard with resignation policy for election of directors in uncontested elections	All directors are independent other than CEO	Directors may serve on limited number of other public boards
No supermajority voting with respect to common stock, except as provided under New York Business Corporation law	Since 2012, 90% Board member refreshment including 5 new directors in 2016	Several compensation best practices, including double-trigger change-in-control benefits, no excise tax reimbursements for change-in-control payments, stock ownership guidelines and certain holding period requirements

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Board Nominees and Designees

The following table provides summary information about each director nominated for election to our Board of Directors (the Board) at the 2017 Annual Meeting (the Director Nominees) and each director elected to the Board by holders of our Series C Preferred Stock (the Series C Designees). Director Nominees are elected annually by a majority of the votes cast by our shareholders, voting together as a single class. The Series C Designees have been elected by the holders of our Series C Preferred Stock, voting separately as a class.

Names	Nominees and Designees			Committee Membership			
	Director Since	Independent ¹	Other Public Boards	Audit Committee	Compensation and Management Development Committee	Finance Committee	Nominating and Corporate Governance Committee
Jose Armario	2016	I	1				
W. Don Cornwell ²	2002	I	2				
Chan W. Galbato ^{3,4}	2016	I	1				
Nancy Killefer	2013	I	3				
Susan J. Kropf	2015	I	3				
Steven F. Mayer ⁴	2016	I	2				
Helen McCluskey	2014 2012	I	2 0				

Sheri McCoy⁵

Charles H. Noski	2012	I	2
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Cathy D. Ross	2016	I	1
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Michael F. Sanford ⁴	2016	I	0
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¹ **Independent in accordance with NYSE listing standards and our Corporate Governance Guidelines**

² **Lead Independent Director**

³ **Non-executive Chairman of the Board**

⁴ **Series C Designee**

⁵ **CEO**

- **Committee Chair**

- **Member**

- **Financial Expert**

- **Non-Voting Observer**

Attendance

Each Director Nominee and each Series C Designee is a current director and each Director Nominee and Series C Designee that served on the Board in 2016 attended at least 75% of the aggregate number of 2016 meetings of the Board and each Board Committee on which he or she served. Each of the Series C Designees was initially elected to the Board on March 1, 2016. Cathy D. Ross and Jose Armario were initially elected to the Board on March 24, 2016 and September 6, 2016, respectively.

Table of Contents**Business and Strategy Highlights**

2016 was an important year for Avon as it marked the 130th anniversary of our iconic beauty company. It was also a year of significant change as Avon embarked on its first year of a thorough and comprehensive three-year transformation plan (the Transformation Plan) that our CEO and Management Team shared with our investment community on January 21, 2016. The Transformation Plan contains three strategic pillars *Investing in Growth, Driving out Cost* and *Improving Financial Resilience* as well as long-term financial goals of *mid-single digit constant dollar revenue growth, 1 to 2% Active Representative growth* and *low double-digit operating margin*.

Following a strategic review of the business in 2015 undertaken to identify alternatives for improving shareholder value, we finalized a strategic partnership with Cerberus Capital Management, L.P. (collectively with its affiliates, Cerberus) in March 2016 and successfully separated Avon's North America business on March 1, 2016 into a privately held company, operating as New Avon LLC, under the management of Cerberus. Avon Products, Inc. remains listed on the New York Stock Exchange and retains an approximate 20% interest in New Avon LLC. As part of the transaction, Cerberus made a \$435 million investment in exchange for an approximate 16.6% interest in Avon Products, Inc. at the time of the investment.

The Transformation Plan was a key enabler of our 2016 financial performance. For the full year, total revenue for reportable segments was \$5.7 billion, which declined 7% as a result of the impact of foreign currency, but grew 3% in constant dollars despite significant macroeconomic and sociopolitical and geopolitical challenges. For reportable segments, Active Representatives declined 1%, primarily due to Asia Pacific, while Ending Representatives were relatively unchanged compared to 2015. We were pleased with our full year operating margin that improved 5.6%, up 290 basis points, and our full year adjusted operating margin that improved 80 basis points to 6.5%, despite the negative impact from foreign exchange of approximately 310 basis points. We delivered solid overall year on year improvement in 2016, notwithstanding a deceleration in performance in the fourth quarter. In 2016 we focused on our Top 10 markets, representing approximately 70% of our revenue, and produced better overall performance in these top markets.

As part of our Transformation Plan, we delivered approximately \$120 million in cost savings, exceeding our targets and improving our profit margin. We also significantly strengthened our balance sheet and improved our financial resilience by achieving an approximate \$260 million reduction in debt. Our transformation is on track and the steps we have taken in 2016 have laid the foundation for further progress in improving and growing the business. We have a strong set of building blocks including an iconic brand, leadership positions in many markets, a strong innovation pipeline and an incredible Representative base of approximately six million women who are Avon brand ambassadors.

We are pleased with the progress made during the first year of our Transformation Plan as well as our improvement in profitability and expanded operating margin. We achieved these results despite challenging and ever-changing macroeconomic and geopolitical trends. Our progress in 2016 was enabled by the key strategic decision made by our Board and CEO to enter into the partnership with Cerberus.

As we move into 2017, we are in a position to place more emphasis on *Investing in Growth*. In January 2016, we outlined an investment of \$350 million over three years which includes an estimated \$150 million in media and social selling and \$200 million in service model evolution and information technology to improve the Representative experience. We will also work to drive sustainable and more consistent revenue growth across our Top 15 markets, which represent approximately 80% of Avon's revenue. We will continue to invest in Avon's brand and strong innovation with a focus on driving our Value, Mass and Upper Mass brands to appeal to a broader spectrum of women, and we remain committed to our longer term goal of 1 to 2% Active Representative growth. Finally, we will continue to focus on increased cost savings as we strive to deliver the \$350 million in cost reduction over three years.

We are confident in our Transformation Plan, and we expect to deliver the long-term financial objectives of *mid-single digit constant revenue growth, 1% to 2% Active Representative growth and low double-digit operating margin*.

Shareholder Engagement & 2016 Compensation Highlights

During 2016, we engaged with shareholders representing nearly 60% of our shares outstanding as of December 31, 2016. As in previous years, the Compensation and Management Development Committee Chair conducted significant shareholder outreach to ensure shareholder perspectives and concerns were heard and well understood. We had discussions with our shareholders about our compensation program and the changes made for 2016. In these conversations, we reviewed program changes, and discussed the Company's transformation status and financial and strategic priorities.

The feedback received from our shareholders continues to be tremendously valuable and was incorporated into the Compensation and Management Development Committee's (the Committee's) determination of compensation program changes for 2016 and beyond.

Our Say on Pay Proposal is found on page 67 and our Board recommends that our shareholders vote **For** this proposal. The following factors support this recommendation:

- Our programs are designed to support and *drive short and long-term business transformation objectives*. Further, an analysis of our programs demonstrates a *strong and direct link between realizable pay and performance* (see page 39).

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- Our *program design incorporates shareholder feedback* received during recent outreach campaigns.
- Our long-term incentive plan design is *aligned with shareholder value, requiring significant stock price appreciation* before target awards are realized. As a result, we have delivered long-term incentive compensation targets for our NEOs well below those delivered in the prior year.
- We have also maintained a focus on *limiting shareholder dilution*.
- We benchmark our executives' pay against a *peer group that better reflects Avon's business* following the separation of our North America business.

Key features of our 2016 compensation programs include the following:

- *Annual incentive plan:* We directly link pay with performance by choosing metrics aligned with financial goals and our Transformation Plan. All metrics, including our strategic objectives, have threshold, target and maximum attainment levels and are quantitatively derived. For 2016, bonus payouts for all named executive officers are tied only to these quantitative results.
- *Long-term incentive plan:* Changes to our long-term incentive plan for 2016 were thoughtfully made in order to better align compensation with shareholders' interests, minimize dilution and reflect the investment made by Cerberus. As a result, significant stock price improvement is required in order for senior officers to realize target long-term compensation. For 2016, the following are the key features of our long-term incentive plan:
 - Use of stock price divisor of \$5.00, a price consistent with the Cerberus investment, rather than the actual, lower stock price on the grant date (\$4.22), to determine the number of shares granted to senior officers. This methodology resulted in a reduction in the delivered grant date fair value and also reduced shareholder dilution.
 - Incorporated premium-priced stock options with a significantly higher exercise price than the actual stock price at grant, to be exercisable and vest ratably over three years. Shares were converted to premium-priced stock options using a 2.5 to 1 ratio rather than the accounting fair value ratio in order to further reduce shareholder dilution.
 - Included performance-based restricted stock units (Performance RSUs) tied to relative Total Shareholder Return (TSR), with above median performance required before target payouts are achieved.
 - Restored the performance period for Performance RSUs to three years based on relative TSR goals.

Pay for Performance: We believe that our programs deliver compensation to our executives reflecting performance over time. The 2016 annual incentive plan paid out at approximately 53% of target, and the realized value of the 2014-2016 Performance RSUs was approximately 31% of the targeted award value. The actions above resulted in a 31% reduction in our CEO's delivered long-term incentive compensation for 2016 compared to the prior year.

2017 Compensation Highlights

For 2017, the Committee has maintained its commitment to the strong alignment of our executive pay programs with our shareholders' interests, while ensuring we can attract and retain key talent in the organization. As such, the Committee believes the 2016 design remains appropriate as it has strong performance elements that support our three-year Transformation Plan and requires significant stock price appreciation for executives to realize target compensation. As a result, the details of our compensation programs for 2017 are not significantly different from 2016, as shown on page 36.

Key 2016-2017 Governance Highlights

On March 1, 2016, the Board amended and restated the Company's by-laws (the By-Laws) to, among other things, adopt a proxy access provision, as discussed on page 19 of this Proxy Statement. The Company believes the proxy access By-Law amendments adopted by the Board reflect shareholder feedback and are responsive to shareholders' approval, during the 2015 annual meeting of shareholders, of a non-binding proposal requesting the Board provide for proxy access.

In 2016, as part of the strategic partnership with Cerberus, the Company reduced the size of its Board from twelve to eleven directors. The Board is now comprised of six of the Company's incumbent directors, three directors designated by Cerberus, and two additional directors jointly selected by the Company and Cerberus, one of whom was approved by Barington, as further described below. In addition, so long as Cerberus maintains a certain ownership level in the Company (as described in more detail on page 29 of this Proxy Statement), Cerberus will continue to have the right to select the Chairman. A new Lead Independent Director role was also created on the Board in 2016. The Company believes this newly-reconstituted Board and the addition of a Lead Independent Director provides an effective governance framework in support of the Company's go-forward strategy and transformation.

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We have continued to engage our shareholders on these governance and related Company matters. For example, our non-executive Chairman of the Board and Lead Independent Director have participated in meetings to address the strategic partnership with Cerberus and the Company’s Transformation Plan which we believe sets the Company on a solid path to profitability and growth by providing a solution for the North America business as well as capital, focus and resources to support the Company in the execution of its transformation. We will continue to engage investors on a regular basis to better understand and consider their views.

In addition, on March 27, 2016, the Company entered into an agreement (the Barington Agreement) with an investor group led by Barington Capital Group, L.P. (collectively, Barington) that, as of March 27, 2016, collectively owned over 3% of the outstanding shares of common stock of the Company. Under the terms of the Barington Agreement, the Company granted Barington the right to approve the appointment of a director to be jointly selected by the Company and Cerberus, which Barington exercised with its approval of Mr. Armario’s appointment.

Governance and Related Materials

The Company has established strong policies, practices and procedures which provide a framework for effective governance. Our Corporate Governance Guidelines describe our Board of Directors’ governance policies and practices, including standards for director independence, qualifications for Board and Board Committee membership, Board and Board Committee responsibilities, and Board and CEO evaluations. Highlighted below are some of our key governance and related materials.

Corporate Governance Guidelines	Code of Conduct
Charters of Each Board Committee	Corporate Responsibility Report

The Corporate Governance Guidelines, charters of each Board Committee, and Corporate Responsibility Report are available on our investor website (www.avoninvestor.com) and may be accessed by clicking on Corporate Governance or, in the case of our Corporate Responsibility Report, by clicking on Corporate Responsibility. The Code of Conduct is available at www.avoncompany.com and may be accessed by clicking on Ethics & Compliance under the About Avon heading.

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VOTING AND MEETING INFORMATION

Purpose of Materials

We are providing these proxy materials in connection with the solicitation by the Board of Directors of Avon Products, Inc. (Avon, the Company, we, us, our) of proxies to be voted at our Annual Meeting of Shareholders, which will take place on Tuesday, May 9, 2017.

This Proxy Statement describes the matters to be voted on at the Annual Meeting and contains other required information.

Distribution of Proxy Materials

We are providing access to our proxy materials over the Internet. Accordingly, on or about March 30, 2017, we mailed our shareholders a Notice of Internet Availability of Proxy Materials (proxy notice), which contains instructions on how to access our proxy materials over the internet and vote online. If you received a proxy notice, you will not receive a printed copy of our proxy materials by mail unless you request one by following the instructions provided on the proxy notice. We mailed the proxy materials to participants in our Avon Personal Savings Account Plan.

Shareholders Entitled to Vote

Shareholders of our common stock and of our Series C Preferred Stock as of the close of business on March 20, 2017, the record date, are entitled to vote. There were approximately 439,300,464 shares of our common stock

outstanding on March 20, 2017 for an aggregate vote of approximately 439,300,464 (or one vote per share) and 435,000 shares of our Series C Preferred Stock outstanding on March 20, 2017 for an aggregate vote of 87,051,524 (on an as-converted basis). Shareholders of our common stock and of our Series C Preferred Stock will vote together as a single class on all matters being presented in this Proxy Statement, for up to an aggregate 526,351,988 votes. We refer to the holders of shares of our common stock and of shares of our Series C Preferred Stock (which are convertible into shares of our common stock) as *shareholders* throughout this Proxy Statement.

How to Vote

Shareholders can vote in one of several ways:

Via the Internet Visit the website on the proxy notice or proxy card

By Telephone Call the telephone number on the proxy card

By Mail Sign, date and return your proxy card in the enclosed envelope

In Person Attend the Annual Meeting (follow instructions below)

If your shares are held in a stock brokerage account or by a bank or other record holder, follow the voting instructions on the form that you receive from them. The availability of telephone and internet voting will depend on their voting process. If you do not give instructions to the broker, bank or other record holder holding your shares, it will not be authorized to vote with respect to Proposals 1, 2 or 3. We therefore urge you to provide instructions so that your shares may be voted.

Attending the Annual Meeting

Shareholders who would like to attend the Annual Meeting in person are asked to follow the guidelines below. Anyone who arrives without an

admission ticket or pre-registration will not be admitted to the Annual Meeting unless it can be verified that the individual was a shareholder as of March 20, 2017.