

AVON PRODUCTS INC  
Form 10-K  
February 22, 2017

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

---

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended December 31, 2016

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

(Address of principal executive offices)

+44-1604-232425

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class            | Name of each exchange on which registered |
|--------------------------------|---|
| Common stock (par value \$.25) | New York Stock Exchange                   |

Securities registered pursuant to Section 12(g) of the Act: None

---

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 Website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Act). Yes  No

The aggregate market value of voting and non-voting Common Stock (par value \$.25) held by non-affiliates at June 30, 2016 (the last business day of our most recently completed second quarter) was 1.7 billion.

The number of shares of Common Stock (par value \$.25) outstanding at January 31, 2017, was 437,991,751

---

Documents Incorporated by Reference

Part III - Portions of the registrant's Proxy Statement relating to the 2017 Annual Meeting of Shareholders.

---

## Table of Contents

| Item     |   | Page           |
|----------|---|----------------|
| Part I   |   |                |
| Item 1   | <u>Business</u>   | <u>3 - 7</u>   |
| Item 1A  | <u>Risk Factors</u>   | <u>7 - 20</u>  |
| Item 1B  | <u>Unresolved Staff Comments</u>  | <u>20</u>      |
| Item 2   | <u>Properties</u>   | <u>20</u>      |
| Item 3   | <u>Legal Proceedings</u>  | <u>20</u>      |
| Item 4   | <u>Mine Safety Disclosures</u>  | <u>20</u>      |
| Part II  |   |                |
| Item 5   | <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> | <u>21 - 22</u> |
| Item 6   | <u>Selected Financial Data</u>  | <u>22 - 25</u> |
| Item 7   | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                        | <u>26 - 57</u> |
| Item 7A  | <u>Quantitative and Qualitative Disclosures About Market Risk</u>   | <u>58</u>      |
| Item 8   | <u>Financial Statements and Supplementary Data</u>  | <u>59</u>      |
| Item 9   | <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>                         | <u>59</u>      |
| Item 9A  | <u>Controls and Procedures</u>  | <u>59 - 60</u> |
| Item 9B  | <u>Other Information</u>  | <u>60</u>      |
| Part III |   |                |
| Item 10  | <u>Directors, Executive Officers and Corporate Governance</u>   | <u>61</u>      |
| Item 11  | <u>Executive Compensation</u>   | <u>61</u>      |
| Item 12  | <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>               | <u>61</u>      |
| Item 13  | <u>Certain Relationships and Related Transactions, and Director Independence</u>                                    | <u>61</u>      |
| Item 14  | <u>Principal Accountant Fees and Services</u>   | <u>61</u>      |
| Part IV  |   |                |
| Item 15  | <u>Exhibits and Financial Statement Schedule</u>  | <u>62</u>      |
|          | <u>15 (a) 1 Consolidated Financial Statements</u>   | <u>62</u>      |
|          | <u>15 (a) 2 Financial Statement Schedule</u>  | <u>62</u>      |
|          | <u>15 (a) 3 Index to Exhibits</u>   | <u>62 - 66</u> |
| Item 16  | <u>Form 10-K Summary</u>  | <u>66</u>      |
|          | <u>Signatures</u>   | <u>67</u>      |

CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE HARBOR" STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Statements in this report (or in the documents it incorporates by reference) that are not historical facts or information may be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "estimate," "project," "forecast," "plan," "believe," "may," "expect," "anticipate," "intend," "planned," "potential," "can," "expectation," "could," "will," "would" and similar expressions, or the negative of those expressions, may identify forward-looking statements. They include, among other things, statements regarding our anticipated or expected results, future financial performance, various strategies and initiatives (including our transformation plan, stabilization strategies, cost savings initiatives, restructuring and other initiatives and related actions), costs and cost savings, competitive advantages, impairments, the impact of foreign currency, including devaluations, and other laws and regulations, government investigations, internal investigations and compliance reviews, results of litigation, contingencies, taxes and tax rates, potential alliances or divestitures, liquidity, cash flow, uses of cash and financing, hedging and risk management strategies, pension, postretirement and incentive compensation plans, supply chain and the legal status of our Representatives. Such forward-looking statements are based on management's reasonable current assumptions, expectations, plans and forecasts regarding the Company's current or future results and future business and economic conditions more generally. Such forward-looking statements involve risks, uncertainties and other factors, which may cause the actual results, levels of activity, performance or achievement of Avon to be materially different from any future results expressed or implied by such forward-looking statements, and there can be no assurance that actual results will not differ materially from management's expectations. Therefore, you should not rely on any of these forward-looking statements as predictors of future events. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements include, among others, the following:

- our ability to improve our financial and operational performance and execute fully our global business strategy, including our ability to implement the key initiatives of, and/or realize the projected benefits (in the amounts and time schedules we expect) from, our transformation plan, stabilization strategies, cost savings initiatives, restructuring and other initiatives, product mix and pricing strategies, enterprise resource planning, customer service initiatives, sales and operation planning process, outsourcing strategies, Internet platform and technology strategies including e-commerce, marketing and advertising strategies, information technology and related system enhancements and cash management, tax, foreign currency hedging and risk management strategies, and any plans to invest these projected benefits ahead of future growth;
- our ability to achieve the anticipated benefits of our strategic partnership with Cerberus Capital Management, L.P. ("Cerberus");
- our broad-based geographic portfolio, which is heavily weighted towards emerging markets, a general economic downturn, a recession globally or in one or more of our geographic regions or markets, such as Brazil, Mexico or Russia, or sudden disruption in business conditions, and the ability to withstand an economic downturn, recession, cost inflation, commodity cost pressures, economic or political instability (including fluctuations in foreign exchange rates), competitive or other market pressures or conditions;
- the effect of economic factors, including inflation and fluctuations in interest rates and foreign currency exchange rates;
- the possibility of business disruption in connection with our transformation plan, stabilization strategies, cost savings initiatives, or restructuring and other initiatives;
- our ability to reverse declining revenue, to improve margins and net income, or to achieve profitable growth, particularly in our largest markets, such as Brazil, and developing and emerging markets, such as Mexico and Russia;
- our ability to improve working capital and effectively manage doubtful accounts and inventory and implement initiatives to reduce inventory levels, including the potential impact on cash flows and obsolescence;
- our ability to reverse declines in Active Representatives, to enhance our sales Leadership programs, to generate Representative activity, to increase the number of consumers served per Representative and their engagement online, to enhance branding and the Representative and consumer experience and increase Representative productivity through field activation and segmentation programs and technology tools and enablers, to invest in the direct-selling

channel, to offer a more social selling experience, and to compete with other direct-selling organizations to recruit, retain and service Representatives and to continue to innovate the direct-selling model;

general economic and business conditions in our markets, including social, economic and political uncertainties, such as in Russia and Ukraine, and any potential sanctions, restrictions or responses to such conditions imposed by other markets in which we operate;

developments in or consequences of any investigations and compliance reviews, and any litigation related thereto, including the investigations and compliance reviews of Foreign Corrupt Practices Act and related United States ("U.S.") and foreign law matters in China and additional countries, as well as any disruption or adverse consequences resulting from such investigations, reviews, related actions or litigation, including the retention of a compliance monitor as required

by the deferred prosecution agreement with the U.S. Department of Justice and a consent to settlement with the Securities and Exchange Commission ("SEC"), any changes in Company policy or procedure suggested by the compliance monitor or undertaken by the Company, the duration of the compliance monitor and whether and when the Company will be permitted to undertake self-reporting, the Company's compliance with the deferred prosecution agreement and whether and when the charges against the Company are dismissed with prejudice;

the effect of political, legal, tax, including changes in tax rates, and other regulatory risks imposed on us abroad and in the U.S., our operations or our Representatives, including foreign exchange, pricing, data privacy or other restrictions, the adoption, interpretation and enforcement of foreign laws, including in jurisdictions such as Brazil and Russia, and any changes thereto, as well as reviews and investigations by government regulators that have occurred or may occur from time to time, including, for example, local regulatory scrutiny;

competitive uncertainties in our markets, including competition from companies in the consumer packaged goods industry, some of which are larger than we are and have greater resources;

the impact of the adverse effect of volatile energy, commodity and raw material prices, changes in market trends, purchasing habits of our consumers and changes in consumer preferences, particularly given the global nature of our business and the conduct of our business in primarily one channel;

our ability to attract and retain key personnel;

other sudden disruption in business operations beyond our control as a result of events such as acts of terrorism or war, natural disasters, pandemic situations, large-scale power outages and similar events;

key information technology systems, process or site outages and disruptions, and any cyber security breaches, including any security breach of our systems or those of a third-party provider that results in the theft, transfer or unauthorized disclosure of Representative, customer, employee or Company information or compliance with information security and privacy laws and regulations in the event of such an incident which could disrupt business operations, result in the loss of critical and confidential information, and adversely impact our reputation and results of operations, and related costs to address such malicious intentional acts and to implement adequate preventative measures against cyber security breaches;

the risk of product or ingredient shortages resulting from our concentration of sourcing in fewer suppliers;

any changes to our credit ratings and the impact of such changes on our financing costs, rates, terms, debt service obligations, access to lending sources and working capital needs;

the impact of our indebtedness, our access to cash and financing, and our ability to secure financing or financing at attractive rates and terms and conditions;

the impact of a continued decline in our business results, which includes the impact of any adverse foreign exchange movements, significant restructuring charges and significant legal settlements or judgments, on our ability to comply with certain covenants in our revolving credit facility;

our ability to successfully identify new business opportunities, strategic alliances and strategic alternatives and identify and analyze alliance candidates, secure financing on favorable terms and negotiate and consummate alliances;

disruption in our supply chain or manufacturing and distribution operations;

the quality, safety and efficacy of our products;

the success of our research and development activities;

our ability to protect our intellectual property rights, including in connection with the separation of the North America business;

our ability to repurchase the Series C Preferred Stock (as defined herein) in connection with a change of control; and

the risk of an adverse outcome in any material pending and future litigation or with respect to the legal status of Representatives.

Additional information identifying such factors is contained in Item 1A of our 2016 Form 10-K for the year ended December 31, 2016, and other reports and documents we file with the SEC. We undertake no obligation to update any such forward-looking statements.



## PART I

### ITEM 1. BUSINESS

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

When used in this report, the terms "Avon," "Company," "we," "our" or "us" mean, unless the context otherwise indicates, Avon Products, Inc. and its majority and wholly owned subsidiaries.

#### General

We are a global manufacturer and marketer of beauty and related products. We commenced operations in 1886 and were incorporated in the State of New York on January 27, 1916. We conduct our business in the highly competitive beauty industry and compete against other consumer packaged goods ("CPG") and direct-selling companies to create, manufacture and market beauty and non-beauty-related products. Our product categories are Beauty and Fashion & Home. Beauty consists of skincare (which includes personal care), fragrance and color (cosmetics). Fashion & Home consists of fashion jewelry, watches, apparel, footwear, accessories, gift and decorative products, housewares, entertainment and leisure products, children's products and nutritional products.

Our business is conducted primarily in one channel, direct selling. Our reportable segments are based on geographic operations in four regions: Europe, Middle East & Africa; South Latin America; North Latin America; and Asia Pacific. Financial information relating to our reportable segments is included in "Segment Review" within Management's Discussion and Analysis of Financial Condition and Results of Operations, which we refer to in this report as "MD&A," on pages 26 through 57 of this 2016 Annual Report on Form 10-K, which we refer to in this report as our "2016 Annual Report," and in Note 13, Segment Information, to the Consolidated Financial Statements on pages F-41 through F-43 of our 2016 Annual Report. We refer to each of the Notes to the Consolidated Financial Statements in this 2016 Annual Report as a "Note." Information about geographic areas is included in Note 13, Segment Information on pages F-41 through F-43 of our 2016 Annual Report. All of our consolidated revenue is derived from operations of subsidiaries outside of the United States ("U.S.").

In December 2015, we entered into definitive agreements with affiliates of Cerberus Capital Management L.P. ("Cerberus"), which included a \$435 investment in Avon by an affiliate of Cerberus through the purchase of our convertible preferred stock and the separation of the North America business (including approximately \$100 of cash, subject to certain adjustments) from Avon into New Avon LLC ("New Avon"), a privately-held company that is majority-owned and managed by an affiliate of Cerberus. These transactions closed in March 2016 and Avon retained approximately 20% ownership in New Avon. Refer to Note 3, Discontinued Operations and Divestitures, on pages F-16 through F-18 of our 2016 Annual Report, for additional information regarding the investment by an affiliate of Cerberus and the separation of the North America business.

#### Distribution

During 2016, we had sales operations in 57 countries and territories, and distributed our products in 18 other countries and territories. In March 2016, we separated from our North America business, which had consisted of the Company's operations in the U.S., Canada and Puerto Rico; this business has been presented as discontinued operations for all periods presented.

Unlike most of our CPG competitors, which sell their products through third-party retail establishments (e.g., drug stores and department stores), we primarily sell our products to the ultimate consumer through the direct-selling channel. In our case, sales of our products are made to the ultimate consumer principally through direct selling by Representatives, who are independent contractors and not our employees. As of December 31, 2016, we had approximately 6 million active Representatives which represents the number of Representatives submitting an order in a sales campaign, totaled for all campaigns during the year and then divided by the number of campaigns.

Representatives earn by purchasing products directly from us at a discount from a published brochure price and selling them to their customers, the ultimate consumer of our products. Representatives can start their Avon businesses for a nominal fee, or in some markets, for no fee at all. We generally have no arrangements with end users of our products beyond the Representative, except as described below. No single Representative accounts for more than 10% of our net sales.

A Representative contacts their customers directly, selling primarily through our brochure, which highlights new products and special promotions for each sales campaign. In this sense, the Representative, together with the brochure,



are the "store" through which our products are sold. A brochure introducing a new sales campaign is typically generated every three to four weeks. Generally, the Representative forwards an order for a campaign to us using the Internet, mail, telephone, or fax. This order is processed and the products are assembled at a distribution center and delivered to the Representative usually through a combination of local and national delivery companies. Generally, the Representative then delivers the merchandise and collects payment from the customer for her or his own account. A Representative generally receives a refund of the price the Representative paid for a product if the Representative chooses to return it.

We employ certain web-enabled systems to increase Representative support, which allow a Representative to run her or his business more efficiently and also allow us to improve our order-processing accuracy. For example, in many countries,

Representatives can utilize the Internet to manage their business electronically, including order submission, order tracking, payment and communications with us. In addition, in many markets, Representatives can further build their own business through personalized web pages provided by us, enabling them to sell a complete line of our products online. Self-paced online training also is available in certain markets.

In some markets, we use decentralized branches, satellite stores and independent retail operations (e.g., beauty boutiques) to serve Representatives and other customers. Representatives come to a branch to place and pick up product orders for their customers. The branches also create visibility for us with consumers and help reinforce our beauty image. In certain markets, we provide opportunities to license our beauty centers and other retail-oriented and direct-to-consumer opportunities to reach new customers in complementary ways to direct selling. In the United Kingdom and certain other markets, we also utilize e-commerce and market our products through consumer websites. The recruiting or appointing and training of Representatives are the primary responsibilities of district sales managers, zone managers and independent leaders. Depending on the market and the responsibilities of the role, some of these individuals are our employees and some are independent contractors. Those who are employees are paid a salary and an incentive based primarily on the achievement of a sales objective in their district. Those who are independent contractors are rewarded primarily based on total sales achieved in their zones or downline team of recruited, trained and managed Representatives. Personal contacts, including recommendations from current Representatives (including the sales Leadership program), and local market advertising constitute the primary means of obtaining new Representatives. The sales Leadership program is a multi-level compensation program which gives Representatives, known as independent leaders, the opportunity to earn discounts on their own sales of our products, as well as commissions based on the net sales made by Representatives they have recruited and trained. This program generally limits the number of levels on which commissions can be earned to three. The primary responsibilities of independent leaders are the prospecting, appointing, training and development of their downline Representatives while maintaining a certain level of their own sales. Development of the sales Leadership program throughout the world is one part of our long-term growth strategy. As described above, the Representative is the "store" through which we primarily sell our products and, given the high rate of turnover among Representatives, which is a common characteristic of direct selling, it is critical that we recruit, retain and service Representatives on a continuing basis in order to maintain and grow our business.

From time to time, local governments and others question the legal status of Representatives or impose burdens inconsistent with their status as independent contractors, often in regard to possible coverage under social benefit laws that would require us (and, in most instances, the Representatives) to make regular contributions to government social benefit funds. Although we have generally been able to address these questions in a satisfactory manner, these questions can be raised again following regulatory changes in a jurisdiction or can be raised in other jurisdictions. If there should be a final determination adverse to us in a country, the cost for future, and possibly past, contributions could be so substantial in the context of the volume and profitability of our business in that country that we would consider discontinuing operations in that country.

#### Promotion and Marketing

Sales promotion and sales development activities are directed at assisting Representatives, through sales aids such as brochures, product samples and demonstration products. In order to support the efforts of Representatives to reach new customers, specially designed sales aids, promotional pieces, customer flyers, television advertising and print advertising may be used. In addition, we seek to motivate our Representatives through the use of special incentive programs that reward superior sales performance. Periodic sales meetings with Representatives are conducted by the district sales or zone managers. The meetings are designed to keep Representatives abreast of product line changes, explain sales techniques and provide recognition for sales performance.

A number of merchandising techniques are used, including the introduction of new products, the use of combination offers, the use of trial sizes and samples, and the promotion of products packaged as gift items. In general, for each sales campaign, a distinctive brochure is published, in which new products are introduced and selected items are offered as special promotions or are given particular prominence in the brochure. A key priority for our merchandising is to continue the use of pricing and promotional models and tools to enable a deeper, fact-based understanding of the role and impact of pricing within our product portfolio.

From time to time, various regulations or laws have been proposed or adopted that would, in general, restrict the frequency, duration or volume of sales resulting from new product introductions, special promotions or other special price offers. We expect our broad product lines and pricing flexibility to mitigate the effect of these regulations.

#### Competitive Conditions

We face competition from various products and product lines. The beauty and beauty-related products industry is highly competitive and the number of competitors and degree of competition that we face in this industry varies widely from country

to country. We compete against products sold to consumers in a number of distribution methods, including direct selling, through the Internet, and through the mass market retail and prestige retail channels. Specifically, due to the nature of the direct-selling channel, we compete on a regional, often country-by-country basis, with our direct-selling competitors. Unlike a typical CPG company which operates within a broad-based consumer pool, direct sellers compete for representative or entrepreneurial talent by providing a more competitive earnings opportunity or "better deal" than that offered by the competition. Providing a compelling earnings opportunity for our Representatives is as critical as developing and marketing new and innovative products. As a result, in contrast to a typical CPG company, we must first compete for a limited pool of Representatives before we reach the ultimate consumer.

Within the broader CPG industry, we principally compete against large and well-known cosmetics (color), fragrance and skincare companies that manufacture and sell broad product lines through various types of retail establishments and other channels, including through the Internet. In addition, we compete against many other companies that manufacture and sell more narrow beauty product lines sold through retail establishments and other channels, including through the Internet.

We also have many global branded and private label competitors in the accessories, apparel, housewares, and gift and decorative products industries, including retail establishments, principally department stores, mass merchandisers, gift shops and specialty retailers. Our principal competition in the fashion jewelry industry consists of a few large companies and many small companies that sell fashion jewelry through department stores, mass merchandisers, specialty retailers and e-commerce.

We believe that the personalized customer service offered by our Representatives; the amount and type of field incentives we offer our Representatives on a market-by-market basis; the high quality, attractive designs and prices of our products; the high level of new and innovative products; our easily recognized brand name and our guarantee of product satisfaction are significant factors in helping to establish and maintain our competitive position.

#### International Operations

During 2016, our international operations, outside of the U.S., were conducted primarily through subsidiaries in 57 countries and territories. Outside of the U.S., our products were also distributed in 17 other countries and territories. In March 2016, we separated from our North America business, which had consisted of the Company's operations in the U.S., Canada and Puerto Rico; this business has been presented as discontinued operations for all periods presented. As a result, all of our consolidated revenue is derived from operations of subsidiaries outside of the U.S. During 2016, approximately 38% of our consolidated revenue was derived from South Latin America, approximately 37% was derived from Europe, Middle East & Africa, approximately 15% was derived from North Latin America and approximately 10% was derived from Asia Pacific. Further, approximately 21% of our consolidated revenue during 2016 was derived from Brazil, which is our largest market and is included within the South Latin America reportable segment.

Our international operations are subject to risks inherent in conducting business abroad, including, but not limited to, the risk of adverse foreign currency fluctuations, foreign currency remittance restrictions, the ability to procure products and unfavorable social, economic and political conditions.

See the sections "Risk Factors - Our ability to conduct business in our international markets may be affected by political, legal, tax and regulatory risks" and "Risk Factors - We are subject to financial risks as a result of our international operations, including exposure to foreign currency fluctuations and the impact of foreign currency restrictions" in Item 1A on pages 7 through 20 of our 2016 Annual Report for more information.

#### Manufacturing

We manufacture and package the majority of our Beauty products. Raw materials, consisting chiefly of essential oils, chemicals, containers and packaging components, are purchased for our Beauty products from various suppliers. Most of our Fashion & Home products are purchased from various third-party suppliers. Additionally, we design the brochures that are used by the Representatives to sell our products. The loss of any one supplier would not have a material impact on our ability to source raw materials for our Beauty products or source products for our Fashion & Home categories or paper for the brochures.

Packages, consisting of containers and packaging components, are designed by our staff of artists and designers. The design and development of new Beauty products are affected by the cost and availability of materials such as glass, plastics and chemicals. We believe that we can continue to obtain sufficient raw materials and supplies to manufacture and produce our Beauty products for the foreseeable future.

See Item 2, Properties, on page 20 of our 2016 Annual Report for additional information regarding the location of our principal manufacturing facilities.

5

---

Product Categories

Both of our product categories individually account for 10% or more of consolidated net sales in 2016. The following is the percentage of net sales by product category for the years ended December 31:

|                | 2016 | 2015 | 2014 |
|----------------|------|------|------|
| Beauty         | 74 % | 74 % | 75 % |
| Fashion & Home | 26 % | 26 % | 25 % |

Trademarks and Patents

Our business is not materially dependent on the existence of third-party patent, trademark or other third-party intellectual property rights, and we are not a party to any ongoing material licenses, franchises or concessions. We do seek to protect our key proprietary technologies by aggressively pursuing comprehensive patent coverage in major markets. We protect our Avon name and other major proprietary trademarks through registration of these trademarks in the markets where we sell our products, monitoring the markets for infringement of such trademarks by others, and by taking appropriate steps to stop any infringing activities.

Seasonal Nature of Business

Our sales and earnings are typically affected by seasonal variations, a characteristic of many companies selling beauty, gift and decorative products, apparel and fashion jewelry. For instance, our sales are generally highest during the fourth quarter due to seasonal and holiday-related patterns. However, the sales volume of holiday gift items is, by its nature, difficult to forecast, and taken as a whole, seasonality does not have a material impact on our financial results.

Research and Product Development Activities

New products are essential to growth in the highly competitive cosmetics industry. Our research and development ("R&D") department's efforts are important to developing new products, including formulating effective beauty treatments relevant to women's needs, and redesigning or reformulating existing products. To increase our brand competitiveness, we have sustained our focus on new technology and product innovation to deliver first-to-market products that provide visible consumer benefits.

Our global R&D facility is located in Suffern, NY. A team of researchers and technicians apply the disciplines of science to the practical aspects of bringing products to market around the world. Relationships with dermatologists and other specialists enhance our ability to deliver new formulas and ingredients to market. Additionally, we have R&D facilities located in Argentina, Brazil, China, Mexico, the Philippines, Poland, South Africa and the United Kingdom.

In 2016, our most significant product launches included: Anew Ultimate Supreme Advanced Performance Crème, Anew Vitale Visible Perfection Blurring Treatment, Big & Multiplied Volume Mascara, Avon True Perfectly Matte Lipstick, Avon Life for Him and for Her Fragrances, Far Away Infinity Fragrance and Avon Nutra Effects body collection with Active Seed Complex.

The amounts incurred on research activities relating to the development of new products and the improvement of existing products were \$52.1 in 2016, \$61.9 in 2015 and \$64.7 in 2014. This research included the activities of product research and development and package design and development. Most of these activities were related to the design and development of Beauty products.

Environmental Matters

Compliance with environmental laws and regulations impacting our global operations has not had, and currently is not anticipated to have, a material adverse effect on our financial position, capital expenditures or competitive position.

Employees

At December 31, 2016, we employed approximately 26,400 employees. Of these, approximately 600 were employed in the U.S. and approximately 25,800 were employed in other countries.

Transformation Plan

In January 2016, we announced a transformation plan (the "Transformation Plan"), which includes investing in growth, reducing costs in an effort to continue to improve our cost structure and improving our financial resilience. See "Results Of Operations - Consolidated" within MD&A on pages 35 through 47 for more information on these items.



### Acquisitions and Dispositions

In December 2015, we entered into definitive agreements with affiliates of Cerberus, which included the separation of the North America business from Avon into New Avon, a privately-held company that is majority-owned and managed by an affiliate of Cerberus. Avon retained approximately 20% ownership in this new privately-held company. These transactions closed in March 2016. In July 2015, we completed the sale of Liz Earle. Refer to Note 3, Discontinued Operations and Divestitures, on pages F-16 through F-18 of our 2016 Annual Report, for additional information regarding the sales of the North America business and Liz Earle.

### Website Access to Reports

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, are, and have been throughout 2016, available without charge on our investor website ([www.avoninvestor.com](http://www.avoninvestor.com)) as soon as reasonably practicable after they are filed with or furnished to the U.S. Securities and Exchange Commission (the "SEC"). We also make available on our website the charters of our Board Committees, our Corporate Governance Guidelines and our Code of Conduct. Copies of these SEC reports and other documents are also available, without charge, by sending a letter to Investor Relations, Avon Products, Inc., 601 Midland Avenue, Rye, N.Y. 10580, by sending an email to [investor.relations@avon.com](mailto:investor.relations@avon.com) or by calling (212) 282-5320. Information on our website does not constitute part of this report. Additionally, our filings with the SEC may be read and copied at the SEC Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. These filings, including reports, proxy and information statements, and other information regarding the Company are also available on the SEC's website at [www.sec.gov](http://www.sec.gov) free of charge as soon as reasonably practicable after we have filed or furnished the above-referenced reports.

### ITEM 1A. RISK FACTORS

You should carefully consider each of the following risks associated with an investment in our publicly traded securities and all of the other information in our 2016 Annual Report. Our business may also be adversely affected by risks and uncertainties not presently known to us or that we currently believe to be immaterial. If any of the events contemplated by the following discussion of risks should occur, our business, prospects, financial condition, liquidity, results of operations and cash flows may be materially adversely affected.

#### Risks Related to Us and Our Business

Our success depends on our ability to improve our financial and operational performance and execute fully our global business strategy.

Our ability to improve our financial and operational performance and implement the key initiatives of our global business strategy is dependent upon a number of factors, including our ability to:

- implement our transformation plan, stabilization strategies, cost savings initiatives, restructuring and other initiatives, and achieve anticipated savings and benefits from such programs and initiatives;
- reverse declines in our market share and strengthen our brand image;
- implement appropriate pricing strategies and product mix that are more aligned with the preferences of local markets and achieve anticipated benefits from these strategies;
- reduce costs and effectively manage our cost structure, particularly selling, general and administrative ("SG&A") expenses;
- improve our business in the markets where we operate, including through improving field health;
- execute investments in information technology ("IT") infrastructure and realize efficiencies across our supply chain, marketing processes, sales model and organizational structure;
- implement and continue to innovate our Internet platform, technology strategies and customer service initiatives, including our ability to offer a more compelling social selling experience and the roll-out of e-commerce in certain markets;
- effectively manage our outsourcing activities;