

Avon Brings In a Partner

By DANA MATTIOLI
AND NATHAN BECKER

Cerberus Capital Management LP struck a \$605 million deal to buy 80% of **Avon Products Inc.'s** North American business and take a nearly 17% stake in the famed cosmetics company.

The Wall Street Journal had reported the firm was close to such a deal with Avon just after midnight on Thursday.

Avon also said Thursday it would suspend its dividend, choosing instead to reinvest cash in its business. It had paid a six-cent quarterly dividend since late 2012, when it cut the dividend from 23 cents to give it more flexibility. Shares of the company were off 1.5% at \$4.03 in afternoon trading in New York.

The companies said the deal, which has been approved by Avon's board of directors, would help enhance focus on Avon's international markets and rev up its North American business.

"The capital infusion from Cerberus, alongside the suspension of the dividend, and additional operating efficiencies provide us the needed financial flexibility to implement operational and capital plans that fully support the international business," Avon Chief Executive Sherrilyn McCoy said in prepared remarks. The CEO said she expects the company to unveil its growth plan in January.

The private-equity firm will pay \$170 million for the 80.1% stake in Avon's ailing North American business, which will be split off into a private entity. Cerberus will also make a \$435 million preferred-stock investment in the parent,



Avon Products, whose direct-sales model has faltered, is selling a 17% stake to Cerberus Capital.

which had a market value of \$1.8 billion as of Wednesday's close.

There will be a turnover of Avon's board as part of the agreement—six directors, including Chairman Douglas Conant, will step down and the board's size will be cut to 11 from 12. Cerberus will take three seats on Avon's board of directors, and the company will name two new independent directors. Cerberus-affiliated Chan Galbato will be named nonexecutive chairman of the board. Avon director W. Don Cornwell will become lead independent director.

The deal comes as Avon is fending off activist investor **Barington Capital Group LP**, which is part of a group that disclosed a 3% stake in Avon earlier this month and is calling for the company to cut costs and replace its CEO.

Barington Capital said Thursday that it is dissatisfied with the terms of the Cerberus transaction, arguing the Avon board had agreed to "fire sale prices." The activist is also disappointed the deal will allow Ms. McCoy to remain in her role.

"While we are pleased that six existing board members have agreed to step down, we are astonished that Sheri McCoy remains as CEO," said James Mitarotonda, the CEO of Barington Capital. "We intend to explore all available options."

The Wall Street Journal reported in April that Avon was considering strategic alternatives, including a possible sale of the North American business, and in September that Avon was in talks to sell a minority stake to Cerberus or Platinum Equity LLC.

It later reported that Cerberus was closing in on both transactions.

Avon has been beset by difficulties in recent years. Its North American business has been particularly troubled, with sales falling steadily over the past seven years. The business has been more vulnerable to increased online shopping than Avon's operations abroad, in part because some foreign consumers have been slower to embrace the Internet.

World-wide, Avon's revenue declined 19% in the first nine months of 2015 to \$5.3 billion, though excluding currency hits it was flat.

Goldman Sachs and Centerview Partners served as financial advisors to Avon. Cravath, Swaine & Moore LLP served as Avon's legal counsel. Kirkland & Ellis LLP served as Cerberus's legal counsel.