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## Questions Surrounding Avon Increase

By MOLLY PRIOR

**NEW YORK** — The pressure keeps building at Avon Products Inc.

Following the firing Sunday of Charles Cramb, a top-ranking executive and the right-hand man to its chairman and outgoing chief executive officer Andrea Jung, analysts are beginning to raise even more questions about the overall management of the company, as well as how closely its board was monitoring the firm's business.

Shares of Avon continued to slide Tuesday, falling 1.2 percent to \$17.77 on the New York Stock Exchange versus a 52-week high of \$31.60.

Now talk has turned to whether Jung — who is poised to take on the role of executive chairman once a new ceo is in place — or its newly installed chief financial officer, Kimberly Ross, will lead the company's fourth-quarter earnings call on Tuesday. Either way it will be awkward, as Cramb's departure raises more questions about the ongoing investigation by the U.S. Securities and Exchange Commission, which is proving to be a huge distraction.

Costs tied to the investigation continue to mount. In the company's latest annual report the firm stated the costs associated with the Fair Corrupt Practices Act investigation and compliance reviews were \$95 million in 2010, up from \$59 million in 2009.

Avon revealed news of Cramb's exit from the company as vice chairman, developed markets, in a brief, four-sentence regulatory filing Monday evening, which stated the action was taken in connection with the company's internal investigation and the Regulation FD matter, or fair disclosure. It stated, "The financial terms of his separation are subject to future determinations in connection with such matters."

An Avon spokeswoman said the departure is linked to the ongoing internal investigation, which includes allegations that executives bribed officials in China, and perhaps elsewhere, and improperly disclosed information to Wall Street analysts. She added that at the moment, there are no plans to fill Cramb's post, as the company is in the midst of an operating review.

Cramb's abrupt departure prompted some analysts to point the finger at Avon's board, which one observer described as a tight-knit group. Another source said, "This is a very long tenured board, which has become part of the organization as opposed to independent overseers of the company."

On Tuesday, Morgan Stanley analyst Dara Mohsenian wrote in a research note on Cramb's firing: "We view this announcement as a negative, as it suggests that [Foreign Corrupt Practices Act]/Regulation FD matters stretch to the upper levels of management at Avon — Cramb was cfo when the allegations emerged, which clearly increases the level of risk at a company where there is already a lack of visibility. However, this does further clear the decks of the prior management team...and is a potential indication that there could soon be a resolution to some of these matters."

An Avon internal investigation into the bribery allegations began in June 2008, and the company has stated it voluntarily contacted the SEC and the U.S. Department of Justice, and continues to cooperate with both agencies. In October, Avon received a subpoena from the SEC requesting documents and information in connection with an FD regulation investigation of the company's contacts and communications with certain financial analysts and other representatives of the financial community during 2010 and 2011.

A person familiar with the situation said Cramb's connection to the investigation stems from comments he made

about the bribery probe during a dinner in May hosted by Citi and attended by investors. Industry sources said Cramb also reportedly acknowledged he was not part of the hiring process to select Ross as his successor, which sparked speculation among some analysts that his six-year run at Avon may soon come to an end. Cramb was transferred from the cfo post to his current role in March, when Avon reorganized its six commercial business units into two major business groups: the Developed Market Group and the Developing Market Group. The changes followed a disappointing fourth-quarter performance.

Avon has been shuffling its ranks for the better part of a year. Stifel, Nicolaus & Co. analyst Mark Astrachan noted that the beauty firm appointed four group heads in the last 12 months, referring to the reorganization last March. The management realignment included the departure of Bennett Gallina, who was senior vice president, Western Europe, Middle East and Africa, Asia Pacific and China before being placed on administrative leave in connection with the bribery probe in China.

In May, Avon fired four employees in connection with the bribery probe: S.K. Kao, the former general manager for China; C.Q. Sun, the former head of corporate affairs for China; Jimmy Beh, the former head of finance for China, and Ian Rossetter, the former head of global internal audit and security, who was previously head of finance for Asia-Pacific.

Despite the wave of departures, some sources said Jung should ultimately shoulder the blame for not keeping a tighter handle on the operations in China. In fact, in 2005, as part of a major management overhaul intended to “flatten the organization,” the head of China — then Gallina — reported directly to Jung and the chief operating officer, as did each of the commercial business units. The move was intended to give “management a clearer line of sight to day-to-day business operations and get closer to its representatives and customers.”

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