

April 21st, 2017
Revelon: REV
 Marion HORRY

Sector: Consumer Goods
Industry: Personal Products
Current Price: \$25.30
Target Price: \$30.96

The main activity of Revelon (REV) is to manufacture, markets and sell personal care product as well as beauty products. The company is offering a variety of products to customers such as cosmetics, hair color, hair care, beauty tools, fragrances, deodorants, and skincare products.

To distribute its product the company is using different channels such as retailers, stores, hypermarkets, general stores, e-commerce, television shopping, department stores, cosmetic stores, and perfumeries.

BUY

Current Price: \$ 25.30
 Target Price: \$30.96
 Market Cap: 1.33B
 Beta: 0.49
 52-Week range: \$25.25 – \$37.96
 Volume: 29,796



Thesis:

For the next following year, REV will ensure revenue growth by expanding their brand on the international market. At the same time, REV will be able to ensure a strategic shift in order to increase its brand image and to create products that fits well the demand for customers. Moreover, REV will continually to exercise its competitive advantage on profitability compare to its competitors.

Catalysts:

- **Short Term(within the year):**
The next earning is on April 31, 2017. This can increase the volatility of the stock and help to reach the target price.
- **Mid Term(1-2 years):**
The strategic Shift will increase margins and help to reach target price.
- **Long Term(3+):**
The expansion of the company will ensure revenue growth in the long run.

New Market Expansion Strategy:

REV is operating internationally and nationally. In 2016, the net sales generated by the United State geographic area decrease by 100 basis point compare to 2015, but the dollar amount of sales remain higher in 2016 (\$1,271.2 million) than in 2015 (\$1,043 million). On the opposite side the international geographic area emphasized an increase of revenue of 100 basis point from \$870 million to \$1,062 million.

Net Sales	2016	% of sales	2015	% of sales
United States	\$1,271.20	54.46%	\$1,043.70	54.52%
Outside of U.S	\$1,062.80	45.54%	\$ 870.60	45.48%
Total Sales	\$2,334.00	100%	\$1,914.30	100%

The decrease in percentage of sales with the United States can be explained by consumers shift in purchase habits. Consumers shift toward special stores and online channels. On the opposite side, there is a growing demand for REV products on the international market. REV will continue to expand its brands in Asia and in Latin America area in order to take advantage of growth opportunity. This will ensure that REV will gain new market share and they will ensure revenue growth for the following period.

New plan to attract customers:

REV consumers are shifting their purchase from mass retailers to specialty beauty and from online channels. Rev put in place different plans to increase their market shares and to ensure revenue growth.

The first strategic move of REV is create new innovative products. This year, REV have launched 3 new products which are shampoo, conditioners, and permanent hair color. In order to be able to innovate Rev develop its research and development service to create new products, introduce line extensions, to improve existing products to target well customers preferences. By looking at the amount invested in research and development between 2015 and 2016, it is possible to see the shift in strategy. Between 2015 and 2016, the research and development cost increased by 20%.

(in million)	2016	2015	% change
Research and development Cost	\$ 37.00	\$ 31.20	19%

The second strategic shift made by Rev is to modernize and to improve the brand image of the company. It is possible to see that REV had invested in brand image by looking at its selling, general and administrative expenses. Between 2015 and 2016, the SG&A increased by 14%. REV has starting to put in place this strategy and will continue to increase its brand awareness in order to offset and to reduce the shift in customer purchasing preferences. This will help REV to create customers shopping experience.

(in million)	2016	2015	% change
Selling, General and Administrative Expenses	\$ 421.10	\$ 368.70	14%

Cost Control Management:

Rev is putting in place a strategy to be able to grow profitably and to improve its operating performances. The main objective of this strategy is to increase the gross margin. By putting in place this strategy, the company wants to achieve less product return, decrease inventory level and markdowns.

By looking at the cost of revenue of REV, it is possible to see that historically, REV had lower cost compare to the last 12 months. By comparing REV to its competitors, it is possible to see that REV is more able to generate margin after paying all cost of revenue. During the last 12 month, competitors had 44.84% of cost for the total revenue compare to REV which had 38.38% of cost for tis total revenue. Thus, REV has a real competitive advantage on its gross profit margin compare to its competitors.

	COR/Revenue	
	History	LTM
REV	35.28%	38.38%
Competitors	44.60%	44.84%

By looking at the profitability ratio, it is possible to see that REV has a competitive advantage compare to its competitors. The gross margin ratio shows that the company is retaining more revenue than its competitors after paying its cost of goods sold. It means that REV retains \$0.6856 for every \$1 generated in revenue. By looking at the operating profit margin, it is possible to say that REV is able satisfy its creditors and its shareholders. The profit margin ratio shows that REV is more profitable than its competitors. The ratio shows that Rev is able keeping \$0.1511 for every \$1 of sales.

Name (BICS Best Fit)	Ticker	Mkt Cap (USD)	GM LF	OPM LF	PM LF
Median		2.25B	42.02%	7.47%	5.27%
100) COACH INC	COH US	11.01B	68.56%	20.99%	15.11%
101) FOOT LOCKER INC	FL US	9.95B	33.74%	13.16%	8.94%
102) KATE SPADE & CO	KATE US	2.25B	63.22%	2.54%	0.50%
103) CHILDREN'S PLACE INC/...	PLCE US	1.99B	36.07%	9.34%	6.57%
104) BURLINGTON STORES INC	BURL US	6.82B	42.02%	12.02%	7.42%

Conclusion:

In conclusion, it is important to notice that REV will expand in new market in order to ensure revenue growth. Moreover, REV is putting in place new strategic shift in order to ensure revenue growth and top gain market shares. At the same time, REV will be able to increase and preserve its competitive advantage of profitability.

Revlon, Inc. (REV)		CENTER FOR GLOBAL FINANCIAL STUDIES		BULLISH																									
Analysis by Marion HOBBS 4/21/2017		Current Price: \$25.35	Intrinsic Value: \$21.03	Target 1 year Return: 22.13%	Probability of Price Increase: 65%																								
Dividend Yield: 0.0%		Target Price: \$30.96																											
		Descriptions Revlon, Inc. manufacturer, marketer, and retailer beauty and personal care products worldwide.		Market Data Market Capitalization: \$1,352.39 Daily volume (mil): 0.02 Shares outstanding (mil): 52.52 Diluted shares outstanding (mil): 52.50 % shares held by institutions: 74% % shares held by investment Managers: 18% % shares held by hedge funds: 1% % shares held by insiders: 9.93% Short interest: 0.30% Days to cover short interest: 4.05 52-week high: \$37.96 52-week low: \$25.40 Levered Beta: 0.73 Volatility: 33.64%																									
Part Earning Surprise <table border="1"> <thead> <tr> <th>Quarter ending</th> <th>Revenue</th> <th>EBITDA</th> </tr> </thead> <tbody> <tr> <td>12/31/2015</td> <td>42.87%</td> <td>43.64%</td> </tr> <tr> <td>3/31/2016</td> <td>-5.18%</td> <td>-14.42%</td> </tr> <tr> <td>6/30/2016</td> <td>-0.02%</td> <td>N/A</td> </tr> <tr> <td>9/30/2016</td> <td>28.48%</td> <td>25.03%</td> </tr> <tr> <td>12/31/2016</td> <td>51.00%</td> <td>25.52%</td> </tr> <tr> <td>Mean</td> <td>24.67%</td> <td>22.44%</td> </tr> <tr> <td>Standard error</td> <td>12.0%</td> <td>12.9%</td> </tr> </tbody> </table>		Quarter ending	Revenue	EBITDA	12/31/2015	42.87%	43.64%	3/31/2016	-5.18%	-14.42%	6/30/2016	-0.02%	N/A	9/30/2016	28.48%	25.03%	12/31/2016	51.00%	25.52%	Mean	24.67%	22.44%	Standard error	12.0%	12.9%	General Information Sector: Consumer Staples Industry: Personal Products Last Guidance: November 3, 2015 Next earnings date: May 4, 2017 Estimated Country Risk Premium: 8.11% Effective Tax rate: 32% Effective Operating Tax rate: 52%		Peer Nu Skin Enterprises, Inc. Coty Inc. Chicks' FAS, Inc. Esprit, Inc. Tupperware Brands Corporation G-III Apparel Group, Ltd. Walgreens WorldWide, Inc. Columbia Sportswear Company	
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Management Pieraccini, Gianni: Chief Operating Officer of M Dolpani, Lorenzo: Advisor Garcia, Fabian: Chief Executive Officer, Pro Figueroa, Juan: Chief Financial Officer and Peterzan, Christopher: Chief Operating Officer for Anderson, Siabhan: Chief Accounting Officer, Se		Total compensation growth -23.9% per annum over 1y 138.34% per annum over 2y N/M N/M N/M N/M		Total return to shareholders -18.5% per annum over 1y 5.61% per annum over 2y N/M N/M N/M N/M																									
Profitability ROIC: 10.7% NOPAT Margin: 5% Revenue/Invested Capital: 2.06 ROE: -6.1% Adjusted net margin: 2% Revenue/Adjusted Book Value: -3.47		REV (5 years historical over Industry (LTM)) 63.13% 19.96% 3.16 -26.18% 15.95% -1.64		REV (5 years historical over Industry (LTM)) 13.98% 9.3% 1.51 17.51% 6.9% 2.53																									
Invested Funds Total Cash/Total Capital: 6.3% Estimated Operating Cash/Total Capital: 6.3% Non-cash working Capital/Total Capital: 8.7% Invested Capital/Total Capital: 55.0%		REV (5 years historical over Industry (LTM)) 12.5% 10.9% 5.0% 54.8%		REV (5 years historical over Industry (LTM)) 14% N/A 5% 30%																									
Capital Structure Total Debt/Common Equity (LTM): 1.76 Cost of Existing Debt: 5.78% Estimated Cost of new Borrowing: 4.65% CGFS Risk Rating: 00 Unlevered Beta (LTM): 0.39 WACC: 6.52%		REV (5 years historical over Industry (LTM)) 1.34 6.40% 5.05% 0 0.99 10.89%		REV (5 years historical over Industry (LTM)) 0.31 3.74% 3.74% 00 0.50 7.70%																									
Porter's 5 forces (scores are out of 100) 		Period Base Year: 21.9% 12/31/2017: 20.3% 12/31/2018: 18.7% 12/31/2019: 17.1% 12/31/2020: 15.4% 12/31/2021: 13.8% 12/31/2022: 12.2% 12/31/2023: 10.6% 12/31/2024: 8.9% 12/31/2025: 7.3% 12/31/2026: 5.7% Continuing Period: 4.1%		Valuation NOPAT margin: 5.2% 12.9% 12.1% 11.3% 10.5% 9.7% 9.0% 8.3% 7.5% 6.8% 6.1% 5.3%																									
		Revenue growth 21.9% 20.3% 18.7% 17.1% 15.4% 13.8% 12.2% 10.6% 8.9% 7.3% 5.7% 4.1%		ROIC/WACC 1.64 3.48 2.95 2.67 2.44 2.23 2.04 1.86 1.67 1.49 1.31 1.07																									
		Period Base Year: \$320.14 12/31/2017: \$381.59 12/31/2018: \$902.50 12/31/2019: \$1,017.57 12/31/2020: \$1,133.60 12/31/2021: \$1,622.04 12/31/2022: \$2,130.25 12/31/2023: \$2,565.07 12/31/2024: \$2,006.91 12/31/2025: \$2,469.16 12/31/2026: \$3,936.05 Continuing Period		Net Claims \$2,740.30 \$2,623.13 \$2,382.10 \$2,105.07 \$1,806.44 \$1,476.70 \$1,112.36 \$664.26 \$227.01 -\$247.84 -\$759.96		Price per share \$21.71 \$31.45 \$41.87 \$52.80 \$64.27 \$76.30 \$88.94 \$103.10 \$116.91 \$131.28 \$146.15																							
		Invested Capital \$320.14 \$381.59 \$902.50 \$1,017.57 \$1,133.60 \$1,622.04 \$2,130.25 \$2,565.07 \$2,006.91 \$2,469.16 \$3,936.05		Price per share \$21.71 \$31.45 \$41.87 \$52.80 \$64.27 \$76.30 \$88.94 \$103.10 \$116.91 \$131.28 \$146.15																									
		Operating Cash 1.3%																											