

obligations, Revlon's sizable debt burden is the reason for its high interest expenses. Interest exper FY13 amounted to approximately 43% of operating profit earned, compared to 30% the previou Going forward, we expect that interest expenses as a percentage of operating profits would stan 40%, if not go higher, due to the \$700 million in additional debt from the Colomer acquisition.

See Our Full Analysis for Revion Stock

Weak U.S. Sales' Volumes, Slow Product Adaptation Result In Tepid Top Line Performance in 2013

Revlon generates approximately 56% of its revenues from the U.S. alone. Reported revenues from the U.S. market stood at approximately \$186 million and were down 3.2% y-o-y for the quarter. Continued weak performance of the *Almay* brand along with lower sales from *Revlon* weighed down on higher sales from the *Colorsilk* brand, contributing to this decline. Sales for the *Almay* brand have declined for the fifth quarter in a row, and Revlon's efforts in improving the brand's position don't seem to be gaining traction in sales. As part of its renovation plan for *Almay*, the company expanded its offerings in the eye make-up removal range and reentered the lip category with newer products. ^[1]

Additionally, product adaptations to changing consumer trends seem weak from Revlon in comparison to its competitors. In 2013, nail polishes and BB creams were the main drivers of the U.S. cosmetics market.

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http://www.trefis.com/stock/rev/articles/213106/weak-u-s-sales-and-declining-margins-continue-to-strain-revlons-business/2013-10-29

5/13/2015

Weak U.S. Sales and Declining Margins Continue To Strain Revlon's Business -- Trefis

^[2] Consistent to the market trend, Revlon has seen growth in its only BB cream product, *PhotoReady BB Cream*, and nail polish offerings. Revlon re-launched two of its biggest nail franchises in the U.S. market in Q4 FY12, along with the release of new products such as *Nail Art* and *Brilliant Strength Enamel*. However, these launches were only completed in Q4 FY12. ^[3] In comparison, competitors such as <u>L'Oreal</u> (PINK:LRLCY) increased offerings in these niche segments as early as Novermber 2011 in response to consumer demand. ^[4] We believe that the decline in volume growth of products might be a result of slow adaptation of products, resulting in a slowdown in constant currency revenues in 2013.

International Sales Gain Traction From Global Economic Stabilization

Sales from international geographies in Q3 FY13 were \$153.6 million, compared to \$146 million in Q2 FY13 and \$155 million in Q3 FY12. In constant dollar terms, all of the international regions that Revlon operates in showed positive y-o-y growth rates due to the recovery in European markets and strong demand in Asia and Latin America. Sales from Asia-Pacific region, the largest segment after the U.S. for Revlon, gained 4.8% from a year ago compared to a y-o-y growth rate of 0.9% in Q2 FY13. Similarly, the EMEA and Latin America & Canada geographic segments posted decent y-o-y-growth rates of 13.9% and 2% in Q3 FY13 compared to 3.6% and (-5.1%) during Q2 FY13.

With 60% of TCG's revenues arising from international markets, we believe the acquisition could significantly boost Revlon's top line. Additionally, we should see further revival in consumer spending due to the strengthening European economy along with the high demand for beauty products in growth markets of Latin America and Asia Pacific, contributing to a turnaround in Revlon's declining international market sales.

Revion Interactive Slideshow	Slide 1 of 9

	DIVISION % of S	STOCK PRICE
30.89 Trefis Net Debt 54.1%	Color Cosmetics	51.7%
	Hair Color	27.9%
	Skin Care	12.0%
	Antiperspirants, Deodorants & Fragrances	8.5%
	TOTAL	100%

Trefis Analysts estimate a price of \$30.89 for Revlon's stock, about 13% lower than the current market price. * Color Cosmetics constitute 52% of the Trefis price estimate for Revlon's stock. * Hair... <u>More</u>

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We have reduced our price estimate from \$24.58 to \$24.16 for Revion to reflect the recent Q3 earnings.

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Notes:

- 1. Revlon's CEO Discusses Q3 2013 Results Earnings Call Transcript, Seeking Alpha, October 2013 [↩]
- 2. Nail polish and BB creams star performers for US color cosmetic market, cosmeticsdesign.com, August 2013 [↩]
- 3. ((Revlon's CEO Discusses Q4 2012 Results Earnings Call Transcript, Seeking Alpha, February 2013 [↔]
- 4. BB CREAM BY GARNIER, L'Oréal Newsroom, November 2011 [↩]

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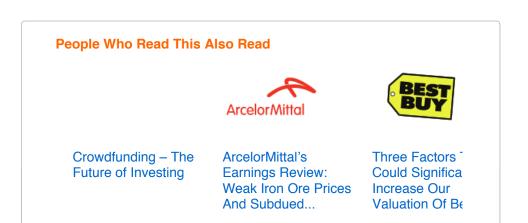
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