

# MITTLEMAN BROTHERS

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## Revlon: Chp. 11 Bankruptcy Filing

June 16, 2022

Just before midnight last night, June 15<sup>th</sup>, Revlon filed for chp. 11 bankruptcy in the Southern District of New York. As mentioned in my June 10<sup>th</sup> email commenting on the rumor of an impending chp. 11 filing, I remain confident that Revlon's equity will retain substantial value despite the bankruptcy reorganization, a process which normally wipes out existing equity holders. After closing yesterday at \$2.25 per share, the stock ended another highly volatile day of trading today down 13% to close at \$1.95, a market cap. of \$106M, of which roughly 85% is owned by Ron Perelman, nearly 3% is owned by us (MIM), and ~2% by index funds.

Revlon's business has been improving, with sales up +11% over the trailing 12 months ending 3/31/22, and +7.8% in Q1, their strongest Q1 results in 6 years on almost all metrics. But as revealed in a presentation they made to lenders on June 13<sup>th</sup>, supply chain issues have worsened, with suppliers demanding cash up front, making chp. 11 the fastest way to get relief on the mission critical priority of being able to fulfill customer demand. A link to that presentation is provided here, which also shows some encouraging data points about the market position of the various brands and business units owned by Revlon:

[https://www.sec.gov/Archives/edgar/data/887921/000114036122023182/brhc10038750\\_ex99-3.htm](https://www.sec.gov/Archives/edgar/data/887921/000114036122023182/brhc10038750_ex99-3.htm)

Still, I've lowered my estimate of fair value from \$25 to \$10, using the same multiples of roughly 2x sales and 14x EBITDA, but against slightly lowered inputs on both metrics and higher net debt.

Revlon's \$2.078B sales in 2021 likely rise to \$2.2B in 2022 (+5.9%), after Q1 was +7.8%. Adj. EBITDA was \$300M in 2021, should be \$320M at same EBITDA margin of 14.5% as last year. So 2x sales = \$4.4B EV, or 13.75x EBITDA, still less than COTY's valuation (see below), but would allow for \$700M in recovery for existing equity (\$4.4B EV minus \$3.7B liabilities), divided by 55M shares = \$12.73 per share. But assuming bankruptcy costs roughly estimated at \$150M, that takes \$2.72 per share out of \$12.73 leaving us with \$10.00 per share.

This is clearly not ideal in comparison to the ~\$25 fair value estimate I had before bankruptcy, but it's a lot better than current price of \$1.95, and the \$0 one might expect in most bankruptcies. So we're still holding the stock for now.

## Revlon v. Major Beauty Brand Giants

Name	Tkr & Exch	Mkt Cap (USD)	EV/EBITDA T12M	EV/Sales T12M	Net Sales T12M	Gross Profit T12M	EBITDA T12M	T12M EBITDA Mrgn:Q	CAPEX T12M	Net Interest Expense
Average		144.51B	18.97	4.03	38.66B	22.33B	10.29B	20.78%	-1.49B	228.33M
100 REVON INC-CLASS A	REV US	122.71M	12.36	1.81	2.11B	1.26B	309.73M	14.66%	-15.80M	247.70M
102 ESTEE LAUDER COMPANIES-C	EL US	86.88B	23.46	5.65	18.11B	13.85B	4.36B	24.07%	-909.00M	122.00M
103 PROCTER & GAMBLE CO/THE	PG US	317.93B	19.10	4.93	79.62B	38.47B	20.57B	25.84%	-3.18B	457.00M
104 UNILEVER PLC	ULVR LN	111.65B	13.01	2.83	62.03B	--	13.48B	--	-1.30B	600.85M
105 JOHNSON & JOHNSON	JNJ US	447.31B	14.56	4.97	94.88B	64.49B	32.37B	34.11%	-3.58B	130.00M
106 L'OREAL	OR FP	170.93B	28.37	7.03	38.19B	28.19B	9.46B	--	-1.27B	23.06M
107 SHISEIDO CO LTD	4911 JP	15.14B	25.54	2.65	9.13B	6.75B	946.67M	10.37%	--	10.90M
108 COTY INC-CL A	COTY US	6.12B	15.38	2.40	5.20B	3.29B	812.30M	15.63%	-163.20M	235.10M

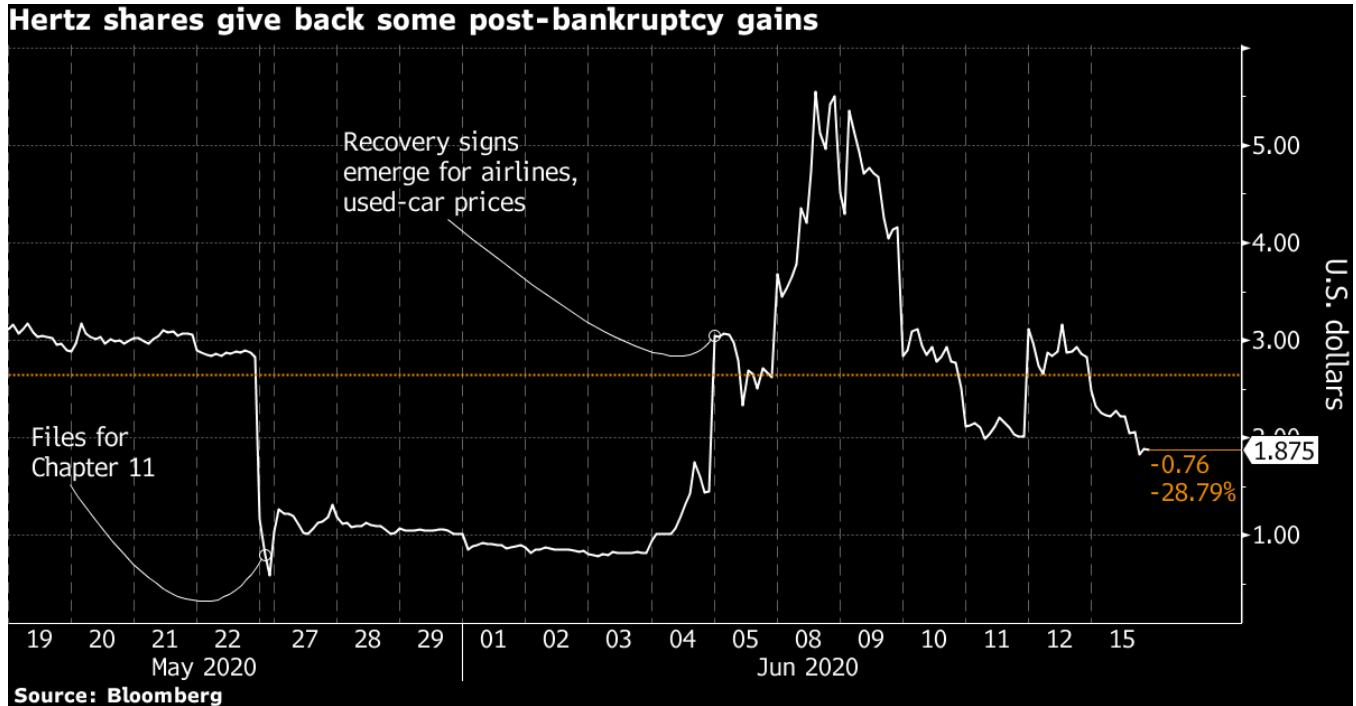
Source: RV <GO>, Bloomberg Intelligence

The expectation of a positive recovery for existing equity in bankruptcies is usually the domain of delusional speculators, but I view Revlon as a liquidity driven chp. 11, not a truly insolvent entity (despite being so on a book value basis, given the value of its brands are not well expressed on the asset side). The most analogous

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situation recently would be the bankruptcy of Hertz (HTZ) in May 2020. The stock fell from over \$3.00 to less than \$1.00 on the filings news, and Carl Icahn sold his nearly 40% stake at just under \$1.00 for a \$1.8B loss. Hertz itself warned its shareholders that the stock was likely worthless. But the business improved, and the stock was \$5.50 a month later, and over \$8.00 not long thereafter (not shown in chart below). Hertz's unsecured notes went from less than \$10 to over \$100 over that time frame.



Revlon is not Hertz, but like Hertz when it filed chp. 11 Revlon's business is improving, discernibly, as is its industry overall. IRI scan data shows industry-wide sales of mass market cosmetics up 12% in the 4 week period through May 15, about half from units, half from pricing. That's a major acceleration from Q1.

With all of that in mind, we haven't sold our shares, believing that Revlon's existing equity should retain substantial value even through a chp. 11 reorg., and that this is a liquidity problem, not a solvency problem. (see Bill Ackman's treatise on that key difference from his 2009 presentation on General Growth Properties (then in bankruptcy) which became a huge winner, pages 22-32: <https://www.10xbitda.com/wp-content/uploads/2016/11/Pershing-Square-General-Growth-Properties-First-Presentation-May-2009.pdf>)

Feel free to call or email me anytime if you would like to discuss Revlon or any other holdings in the portfolio.

Sincerely,

**Christopher P. Mittleman**  
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