

REVLON INC /DE/
Form 10-Q
August 04, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2017

OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 1-11178
REVLON, INC.
(Exact name of registrant as specified in its charter)

Delaware 13-3662955
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

One New York Plaza, New York, New York 10004
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: 212-527-4000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company
reporting company)

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of June 30, 2017, 52,615,412 shares of Class A Common Stock were outstanding. At such date, 43,109,460 shares of Class A Common Stock were beneficially owned by MacAndrews & Forbes Incorporated and certain of its affiliates.

REVLON, INC. AND SUBSIDIARIES
INDEX

PART I - Financial Information

| | |
|---|-----------|
| Item 1. Financial Statements | <u>2</u> |
| Consolidated Balance Sheets as of June 30, 2017 (Unaudited) and December 31, 2016 | <u>2</u> |
| Unaudited Consolidated Statements of Operations and Comprehensive Income (Loss) for the Three and Six Months Ended June 30, 2017 and 2016 | <u>3</u> |
| Unaudited Consolidated Statement of Stockholders' Deficiency for the Six Months Ended June 30, 2017 | <u>4</u> |
| Unaudited Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2017 and 2016 | <u>5</u> |
| Notes to Unaudited Consolidated Financial Statements | <u>6</u> |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | <u>31</u> |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk | <u>44</u> |
| Item 4. Controls and Procedures | <u>45</u> |

PART II - Other Information

| | |
|---------------------------|-----------|
| Item 1. Legal Proceedings | <u>48</u> |
| Item 1A. Risk Factors | <u>48</u> |
| Item 5. Other Information | <u>48</u> |
| Item 6. Exhibits | <u>49</u> |
| Signatures | <u>49</u> |

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

REVLON, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(dollars in millions, except share and per share amounts)

| | June 30, 2017 (Unaudited) | December 31, 2016 |
|--|---------------------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 83.7 | \$ 186.8 |
| Trade receivables, less allowance for doubtful accounts of \$10.5 and \$11.1 as of June 30, 2017 and December 31, 2016, respectively | 389.7 | 423.9 |
| Inventories | 518.1 | 424.6 |
| Prepaid expenses and other | 121.6 | 88.8 |
| Total current assets | 1,113.1 | 1,124.1 |
| Property, plant and equipment, net of accumulated depreciation of \$357.2 and \$304.7 as of June 30, 2017 and December 31, 2016, respectively | 334.4 | 320.5 |
| Deferred income taxes | 188.4 | 149.7 |
| Goodwill | 702.7 | 689.5 |
| Intangible assets, net of accumulated amortization of \$108.7 and \$84.8 as of June 30, 2017 and December 31, 2016, respectively | 607.6 | 636.6 |
| Other assets | 115.8 | 103.1 |
| Total assets | \$ 3,062.0 | \$ 3,023.5 |
| LIABILITIES AND STOCKHOLDERS' DEFICIENCY | | |
| Current liabilities: | | |
| Short-term borrowings | \$ 11.8 | \$ 10.8 |
| Current portion of long-term debt | 105.5 | 18.1 |
| Accounts payable | 344.6 | 296.9 |
| Accrued expenses and other | 354.8 | 382.9 |
| Total current liabilities | 816.7 | 708.7 |
| Long-term debt | 2,658.3 | 2,663.1 |
| Long-term pension and other post-retirement plan liabilities | 182.8 | 184.1 |
| Other long-term liabilities | 76.6 | 82.4 |
| Stockholders' deficiency: | | |
| Class A Common Stock, par value \$0.01 per share; 900,000,000 shares authorized; 54,657,348 and 53,956,073 shares issued as of June 30, 2017 and December 31, 2016, respectively | 0.5 | 0.5 |
| Additional paid-in capital | 1,037.6 | 1,033.2 |
| Treasury stock, at cost: 1,114,528 and 1,024,908 shares of Class A Common Stock as of June 30, 2017 and December 31, 2016, respectively | (21.7) | (19.2) |
| Accumulated deficit | (1,451.5) | (1,377.6) |
| Accumulated other comprehensive loss | (237.3) | (251.7) |
| Total stockholders' deficiency | (672.4) | (614.8) |
| Total liabilities and stockholders' deficiency | \$ 3,062.0 | \$ 3,023.5 |

See Accompanying Notes to Unaudited Consolidated Financial Statements

2

REVLON, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

(dollars in millions, except share and per share amounts)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|------------|------------------------------|------------|
| | 2017 | 2016 | 2017 | 2016 |
| Net sales | \$645.7 | \$ 488.9 | \$1,240.6 | \$ 928.5 |
| Cost of sales | 268.2 | 171.5 | 533.3 | 325.4 |
| Gross profit | 377.5 | 317.4 | 707.3 | 603.1 |
| Selling, general and administrative expenses | 359.1 | 259.0 | 712.7 | 507.1 |
| Acquisition and integration costs | 10.0 | 5.5 | 27.5 | 6.0 |
| Restructuring charges and other, net | 3.7 | 0.5 | 4.9 | 1.8 |
| Operating income (loss) | 4.7 | 52.4 | (37.8) | 88.2 |
| Other expenses, net: | | | | |
| Interest expense | 36.7 | 20.9 | 71.7 | 41.9 |
| Amortization of debt issuance costs | 2.3 | 1.4 | 4.5 | 2.9 |
| Foreign currency (gains) losses, net | (9.4) | 8.5 | (13.7) | 5.1 |
| Miscellaneous, net | 0.3 | 0.2 | 1.5 | 0.5 |
| Other expenses, net | 29.9 | 31.0 | 64.0 | 50.4 |
| (Loss) income from continuing operations before income taxes | (25.2) | 21.4 | (101.8) | 37.8 |
| Provision for (benefit from) income taxes | 11.9 | 10.6 | (27.0) | 16.4 |
| (Loss) income from continuing operations, net of taxes | (37.1) | 10.8 | (74.8) | 21.4 |
| Income (loss) from discontinued operations, net of taxes | 0.6 | (2.5) | 0.9 | (2.1) |
| Net (loss) income | \$(36.5) | \$ 8.3 | \$(73.9) | \$ 19.3 |
| Other comprehensive income: | | | | |
| Foreign currency translation adjustments, net of tax ^(a) | 1.8 | 2.6 | 6.5 | 5.3 |
| Amortization of pension related costs, net of tax ^{(b)(c)} | 2.1 | 2.0 | 4.1 | 3.8 |
| Pension curtailment gain, net of tax ^(d) | — | — | 2.6 | — |
| Reclassification into earnings of accumulated losses from the de-designated 2013 Interest Rate Swap, net of tax ^(e) | 0.6 | — | 1.2 | — |
| Revaluation of derivative financial instruments, net of reclassifications into earnings, net of tax ^(f) | — | 0.2 | — | (0.7) |
| Other comprehensive income, net | 4.5 | 4.8 | 14.4 | 8.4 |
| Total comprehensive (loss) income | \$(32.0) | \$ 13.1 | \$(59.5) | \$ 27.7 |
| Basic (loss) earnings per common share: | | | | |
| Continuing operations | \$(0.70) | \$ 0.21 | \$(1.42) | \$ 0.41 |
| Discontinued operations | — | (0.05) | 0.01 | (0.04) |
| Net (loss) income | \$(0.70) | \$ 0.16 | \$(1.41) | \$ 0.37 |
| Diluted (loss) earnings per common share: | | | | |
| Continuing operations | \$(0.70) | \$ 0.21 | \$(1.42) | \$ 0.41 |
| Discontinued operations | — | (0.05) | 0.01 | (0.04) |
| Net (loss) income | \$(0.70) | \$ 0.16 | \$(1.41) | \$ 0.37 |
| Weighted average number of common shares outstanding: | | | | |
| Basic | 53,096,932 | 52,515,869 | 52,569,473 | 52,499,141 |
| Diluted | 53,096,932 | 52,592,368 | 52,569,473 | 52,621,066 |

- (a) Net of tax expense of \$0.7 million and \$0.5 million for the three months ended June 30, 2017 and 2016, respectively, and \$1.7 million and \$0.6 million for the six months ended June 30, 2017 and 2016, respectively.
- (b) Net of tax expense of \$0.5 million and \$0.4 million for the three months ended June 30, 2017 and 2016, respectively, and \$0.9 million and \$0.7 million for six months ended June 30, 2017 and 2016, respectively.
This other comprehensive (loss) income component is included in the computation of net periodic benefit (income)
- (c) costs. See Note 11, "Pension and Post-Retirement Benefits," for additional information regarding net periodic benefit (income) costs.
- (d) Net of tax expense of \$0.3 million for the six months ended June 30, 2017, respectively.
- (e) Net of tax benefit of \$0.3 million and \$0.7 million for the three and six months ended June 30, 2017, respectively.
- (f) Net of tax expense (benefit) of \$0.1 million and \$(0.4) million for the three and six months ended June 30, 2016, respectively.

See Accompanying Notes to Unaudited Consolidated Financial Statements

REVLON, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY

(dollars in millions, except share and per share amounts)

| | Common Stock | Additional Paid-In-Capital | Treasury Stock | Accumulated Deficit | Accumulated Other Comprehensive Loss | Total Stockholders' Deficiency |
|---|-----------------|-------------------------------|-------------------|------------------------|---|--------------------------------------|
| Balance, January 1, 2017 | \$ 0.5 | \$ 1,033.2 | \$(19.2) | \$(1,377.6) | \$ (251.7) | \$ (614.8) |
| Treasury stock acquired, at cost ^(a) | — | — | (2.5) | — | — | (2.5) |
| Stock-based compensation amortization | — | 4.4 | — | — | — | 4.4 |
| Net loss | — | — | — | (73.9) | — | (73.9) |
| Other comprehensive income, net ^(b) | — | — | — | — | 14.4 | 14.4 |
| Balance, June 30, 2017 | \$ 0.5 | \$ 1,037.6 | \$(21.7) | \$(1,451.5) | \$ (237.3) | \$ (672.4) |

Pursuant to the share withholding provisions of the Fourth Amended and Restated Revlon, Inc. Stock Plan (the "Stock Plan"), certain senior executives, in lieu of paying certain withholding taxes on the vesting of restricted stock, authorized the withholding of an aggregate 89,620 shares of Revlon Class A Common Stock during the six months ended June 30, 2017, to satisfy certain minimum statutory tax withholding requirements related to the vesting of such shares. These withheld shares were recorded as treasury stock using the cost method, at a weighted average price per share of \$27.67 during the six months ended June 30, 2017, based on the closing price of Revlon Class A Common Stock as reported on the New York Stock Exchange (the "NYSE") consolidated tape on each respective vesting date, for a total of \$2.5 million. See Note 15, "Stock Compensation Plan" to the Consolidated Financial Statements in Revlon's Annual Report on Form 10-K for the fiscal year ended December 31, 2016, filed with the SEC on March 3, 2017 (the "2016 Form 10-K") for details regarding restricted stock awards under the Stock Plan.

^(b) See Note 13, "Accumulated Other Comprehensive Loss," regarding the changes in the accumulated balances for each component of other comprehensive loss during the six months ended June 30, 2017.

See Accompanying Notes to Unaudited Consolidated Financial Statements

REVLON, INC. AND SUBSIDIARIES
 UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (dollars in millions)

| | Six Months Ended June 30, | |
|--|---------------------------------|--------|
| | 2017 | 2016 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net (loss) income | \$(73.9) | \$19.3 |
| Adjustments to reconcile net (loss) income to net cash used in operating activities: | | |
| Depreciation and amortization | 73.8 | 52.2 |
| Foreign currency (gains) losses from re-measurement | (15.3) | 4.2 |
| Amortization of debt discount | 0.6 | 0.7 |
| Stock-based compensation amortization | 4.4 | 3.3 |
| (Benefit from) provision for deferred income taxes | (36.5) | 5.5 |
| Amortization of debt issuance costs | 4.5 | |