

REVLON INC /DE/
Form 10-Q
November 09, 2018

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 September 30, 2018

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 x No "

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes x 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 x
Non-accelerated filer " Smaller reporting company x
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. "

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

As of September 30, 2018, 52,836,808 shares of Class A Common Stock were outstanding. At such date, 45,002,130 shares of Class A Common Stock were beneficially owned by MacAndrews & Forbes Incorporated and certain of its affiliates.

The aggregate market value of the registrant's Class A Common Stock held by non-affiliates (using the New York Stock Exchange closing price as of June 29, 2018, the last business day of the registrant's most recently completed second fiscal quarter) was approximately \$144,926,092. Accordingly, the registrant qualifies under the SEC's revised rules as a "smaller reporting company."

REVLON, INC. AND SUBSIDIARIES
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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

REVLON, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

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

| | September 30, 2018 | December 31, 2017 |
|---|-----------------------|----------------------|
| | (Unaudited) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 61.8 | \$ 87.1 |
| Trade receivables, less allowance for doubtful accounts of \$13.4 and \$13.5 as of September 30, 2018 and December 31, 2017, respectively | 441.6 | 444.8 |
| Inventories | 587.6 | 497.9 |
| Prepaid expenses and other assets | 171.2 | 113.4 |
| Total current assets | 1,262.2 | 1,143.2 |
| Property, plant and equipment, net of accumulated depreciation of \$418.1 and \$385.5 as of September 30, 2018 and December 31, 2017, respectively | 358.4 | 372.7 |
| Deferred income taxes | 198.0 | 138.0 |
| Goodwill | 692.1 | 692.5 |
| Intangible assets, net of accumulated amortization of \$160.3 and \$130.9 as of September 30, 2018 and December 31, 2017, respectively | 560.1 | 592.1 |
| Other assets | 117.5 | 118.4 |
| Total assets | \$ 3,188.3 | \$ 3,056.9 |
| LIABILITIES AND STOCKHOLDERS' DEFICIENCY | | |
| Current liabilities: | | |
| Short-term borrowings* | \$ 21.4 | \$ 12.4 |
| Current portion of long-term debt | 420.3 | 170.2 |
| Accounts payable | 363.2 | 336.9 |
| Accrued expenses and other current liabilities | 411.6 | 412.8 |
| Total current liabilities | 1,216.5 | 932.3 |
| Long-term debt | 2,731.4 | 2,653.7 |
| Long-term pension and other post-retirement plan liabilities | 164.1 | 172.8 |
| Other long-term liabilities | 64.5 | 68.5 |
| Stockholders' deficiency: | | |
| Class A Common Stock, par value \$0.01 per share: 900,000,000 shares authorized; 55,762,771 and 54,556,100 shares issued as of September 30, 2018 and December 31, 2017, respectively | 0.5 | 0.5 |
| Additional paid-in capital | 1,054.8 | 1,040.0 |
| Treasury stock, at cost: 1,533,320 and 1,114,528 shares of Class A Common Stock as of September 30, 2018 and December 31, 2017, respectively | (25.3) | (21.7) |
| Accumulated deficit | (1,784.7) | (1,560.8) |
| Accumulated other comprehensive loss | (233.5) | (228.4) |
| Total stockholders' deficiency | (988.2) | (770.4) |
| Total liabilities and stockholders' deficiency | \$ 3,188.3 | \$ 3,056.9 |

* Includes \$11.0 million of borrowings as of September 30, 2018 under the 2018 Senior Line of Credit Facility between Products Corporation and MacAndrews & Forbes Incorporated, a related party. See Note 7, "Long-term Debt," for more information.

See Accompanying Notes to Unaudited Consolidated Financial Statements

REVLOON, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

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

| | Three Months Ended September 30, 2018 | | Nine Months Ended September 30, 2017 | |
|--|---|---------------------------------|--|---------------------------------|
| | 2017 | (as adjusted) ^(*) | 2018 | (as adjusted) ^(*) |
| Net sales | \$ 666.5 | \$ 655.4 | 1,822.9 | \$ 1,907.1 |
| Cost of sales | 290.5 | 305.0 | 807.2 | 824.4 |
| Gross profit | 376.0 | 350.4 | 1,015.7 | 1,082.7 |
| Selling, general and administrative expenses | 362.3 | 340.8 | 1,087.1 | 1,074.5 |
| Acquisition and integration costs | 12.7 | 3.4 | 12.0 | 40.2 |
| Restructuring charges and other, net | 6.4 | 3.9 | 13.9 | 11.3 |
| Loss on disposal of minority investment | — | — | 20.1 | — |
| Operating income (loss) | (5.4) | 2.3 | (117.4) | (43.3) |
| Other expenses: | | | | |
| Interest expense | 38.6 | 46.4 | 129.1 | 110.3 |
| Amortization of debt issuance costs | 2.3 | 3.8 | 9.1 | 6.8 |
| Foreign currency losses (gains), net | (3.1) | 1.1 | 10.7 | (16.8) |
| Miscellaneous, net | 0.4 | 0.4 | 0.6 | 1.8 |
| Other expenses | 38.2 | 51.7 | \$ 149.5 | 102.1 |
| Loss from continuing operations before income taxes | (43.6) | (49.4) | (266.9) | (145.4) |
| Benefit from income taxes | (10.8) | (38.7) | (43.1) | (37.8) |
| Loss from continuing operations, net of taxes | (32.8) | (10.7) | (223.8) | (107.6) |
| (Loss) income from discontinued operations, net of taxes | 0.4 | (0.4) | (0.1) | 1.3 |
| Net loss | (32.4) | \$(11.1) | \$(223.9) | \$(106.3) |
| Other comprehensive (loss) income: | | | | |
| Foreign currency translation adjustments, net of tax ^(a) | (1.2) | (4.9) | (12.3) | 5.3 |
| Amortization of pension related costs, net of tax ^{(b)(c)} | 2.0 | 2.3 | 6.5 | 6.1 |
| Pension curtailment, 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 | — | 0.7 | 1.8 |
| Other comprehensive (loss) income, net | 1.4 | (2.6) | (5.1) | 15.8 |
| Total comprehensive loss | \$(31.0) | \$(13.7) | \$(229.0) | \$(90.5) |
| Basic (loss) earnings per common share: | | | | |
| Continuing operations | \$(0.62) | \$(0.20) | \$(4.24) | \$(2.04) |
| Discontinued operations | 0.01 | (0.01) | — | 0.02 |
| Net loss | \$(0.61) | \$(0.21) | \$(4.24) | \$(2.02) |
| Diluted (loss) earnings per common share: | | | | |
| Continuing operations | \$(0.62) | \$(0.20) | \$(4.24) | \$(2.04) |
| Discontinued operations | 0.01 | (0.01) | — | 0.02 |
| Net loss | \$(0.61) | \$(0.21) | \$(4.24) | \$(2.02) |
| Weighted average number of common shares outstanding: | | | | |
| Basic | 52,615,412 | 52,834,872 | 52,777,883 | 52,584,954 |
| Diluted | 52,615,412 | 52,834,872 | 52,777,883 | 52,584,954 |

- (*) Adjusted as a result of the adoption of certain accounting pronouncements during 2018. See Note 1, "Description of Business and Summary of Significant Accounting Policies - Recently Adopted Accounting Pronouncements," for details of these adjustments.
- (a) Net of tax benefit of nil and \$0.2 million for the three months ended September 30, 2018 and 2017, respectively, and tax expense of nil and \$1.5 million for the nine months ended September 30, 2018 and 2017, respectively. Net of tax expense of \$0.3 million and \$0.4 million for the three months ended September 30, 2018 and 2017,
- (b) respectively, and \$0.8 million and \$1.3 million for the nine months ended September 30, 2018 and 2017, respectively.
- (c) This amount is included in the computation of net periodic benefit costs (income). See Note 10, "Pension and Post-Retirement Benefits," for additional information regarding net periodic benefit costs (income).
- (d) Net of tax expense of \$0.3 million for the nine months ended September 30, 2017.
- (e) Net of tax benefit of nil and \$0.4 million for the three months ended September 30, 2018 and 2017, and \$0.5 million and \$1.1 million for the nine months ended September 30, 2018 and 2017, 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, 2018 | \$ 0.5 | \$ 1,040.0 | \$ (21.7) | \$ (1,560.8) | \$ (228.4) | \$ (770.4) |
| Treasury stock acquired, at cost ^(a) | — | — | (3.6) | — | — | (3.6) |
| Stock-based compensation amortization | — | 14.8 | — | — | — | 14.8 |
| Net loss | — | — | — | (223.9) | — | (223.9) |
| Other comprehensive loss, net ^(b) | — | — | — | — | (5.1) | (5.1) |
| Balance, September 30, 2018 | \$ 0.5 | \$ 1,054.8 | \$ (25.3) | \$ (1,784.7) | \$ (233.5) | \$ (988.2) |

Pursuant to the share withholding provisions of the Fourth Amended and Restated Revlon, Inc. Stock Plan (the "Stock Plan"), the Company withheld an aggregate of 167,297 shares of Revlon Class A Common Stock during the nine months ended September 30, 2018 to satisfy certain minimum statutory tax withholding requirements related to the vesting of restricted shares for certain senior executives. These withheld shares were recorded as treasury stock using the cost method, at a weighted-average price per share of \$21.42 during the nine months ended ^(a) September 30, 2018, 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 \$3.6 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, 2017, filed with the SEC on March 15, 2018 (the "2017 Form 10-K"), for details regarding restricted stock awards under the Stock Plan.

^(b) See Note 12, "Accumulated Other Comprehensive Loss," regarding the changes in the accumulated balances for each component of other comprehensive loss during the nine months ended September 30, 2018.

See Accompanying Notes to Unaudited Consolidated Financial Statements

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

| | Nine Months Ended September 30, | |
|---|---------------------------------------|-----------|
| | 2018 | 2017 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$(223.9) | \$(106.3) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 119.4 | 111.7 |
| Foreign currency losses (gains) from re-measurement | 10.7 | (20.8) |
| Amortization of debt discount | 0.9 | 0.9 |
| Stock-based compensation amortization | 14.8 | |