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COMPANY / TICKER:	Revlon Inc. (REV)		
MARKET CAP:	$900 million	**LTM REVENUE:**	$2.7 billion
SHARE PRICE:	$17.00	**TOTAL DEBT:**	$2.9 billion
SHARES OUT:	52.8 million	**AVG DAILY VOLUME:**	184,000 shares per day
TRADEABLE FREE FLOAT:	5.2 million shares	**SHORT INTEREST:**	2.05 million shares (40% of float)

Long Revlon (REV): Trap doors and black holes. Missed disclosure changes point to Revlon buyout.

Revlon Inc (REV)	Direction: LONG	Exp Price: $32-36	Timing: 2-16 weeks

Much of the information in this report appears to have been entirely missed by the market. Only 5-10% of Revlon's shares are in the public float. Only a single analyst covers the stock with only very perfunctory coverage.

Revlon's latest 10Q (May 2018) contains a subtle seven-word change from what was disclosed in the 10K in March. This disclosure now signals that Revlon is gearing up to conduct "asset transfers", stripping bondholders of collateral so that Revlon can raise between $500 million and $1 billion to ramp up its turnaround program.

Such a move is punishing to bondholders but will be sharply rewarding to shareholders because it demonstrates that billionaire Perelman is now entering the final stages of taking Revlon private.

J Crew had made use of a similar "trap door" feature last year to strip bondholders of collateral by shifting IP assets into unrestricted subsidiaries. But Revlon's ability to move assets to the benefit of shareholders is far, far greater. According to Debtwire: "*the trap door mechanics in Revlon are a bit different from J.Crew's. Revlon's trap door is more like a black hole*."

Perelman is unequivocally betting on a successful turnaround at Revlon. But he is also using the turnaround plan to acquire his new shares near multi year lows. In 2017, Perelman increased his stake in Revlon to 84.65%, paying up to $23.50. But many of his shares were acquired near multi year lows simply because his turnaround plan front-end-loads the expenses, pressuring the share price.

Right after the about-face on disclosure regarding asset transfers, Revlon immediately appointed Perelman's daughter (Debra Perelman) as CEO.

Perelman already owns 84.65% of Revlon. In September 2017 he agreed to a standstill at the request of Mittleman Investment, the second largest shareholder. But it was later realized the standstill to which Perelman agreed ***does not*** preclude him from making a tender offer in the interim.

Perelman has repeatedly engaged in the same tactics to acquire past companies at bargain prices following very short-term quarterly weakness in financial results which were the predictable result of a planned restructuring.

Because Perelman already owns 84.65% of Revlon, the price he pays for the remaining 15.35% stub will not have a meaningful effect on his overall average price. So he can certainly pay a significant premium. Mittleman claims that current fair value should be from $50 to $100. But actually, market comparables would put the price target closer to the lower end of $40-50 at present. In reality, Perelman will attempt to acquire the remaining 15.35% stub as cheaply as possible. He may be able to acquire the final shares at $32-36.

However, due to Revlon's very low public float and high short interest, the share price could easily overshoot on any positive update. Short interest is over 2 million shares even though the tradable free float is just 5.2m shares (a 40% effective short interest).

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Section I

Long Revlon – Investment Overview

Revlon Background – much better than "Billions" .

Today I am looking at Revlon Inc. (REV) where an asset transfer and takeover play is emerging from billionaire Ronald Perelman. In September 2017, Forbes magazine named Perelman as one of the 100 Greatest Living Business Minds. Perelman has been involved in dozens of well orchestrated takeover plays over the past 40 years and is currently worth an estimated $13 billion. Perelman's original hostile takeover of Revlon was very fittingly a focus of the 1980's book "The Predator's Ball".

After being involved for more than 30 years, Perelman is about to make his final play to acquire all of Revlon. Because outside shareholders have largely ***misread*** recent financials and bondholder issues, Perelman is likely to be able to acquire the remainder of Revlon for somewhere in the range of $32-36 despite a fair value that is demonstrably much higher.

In general, I am starting to really like these billionaire plays. Unlike watching an episode of "Billions", paying attention to the machinations of real corporate raiders can lead to some very profitable trades.

Last year my long trade on Carl Icahn's Hertz (HTZ) worked quite well. Following my report on Hertz, the shares quickly jumped 80% from $14.50 to $26.00 despite dire sell side warnings suggesting imminent bankruptcy. Prior to that, Icahn had previously been loading up on shares of Herbalife (HLF) at prices below $20, when the stock was widely being called "a zero". Icahn only recently began selling when the share price exceeded $50.

Likewise, my thesis on Dillard's has also been playing out, albeit a bit slower than expected. In 2008, David Einhorn had been caught on the wrong side of a painful "infinity squeeze" when the float at Volkswagen quickly disappeared. But in 2017 Einhorn could be found on the other side. Einhorn was the largest outside shareholder of heavily shorted Dillard's (DDS) department store just as that company was buying back dangerous amounts of the float. Since my report, Dillard's stock is now regaining multi year highs in the $80s. Surprisingly, Einhorn exited most of his position in the $60s.

MoxReports.com (Aug 2017) – Shares of Hertz Could Still Double From Here

MoxReports.com (Jul 2017) - Long Dillard's on potential "infinity squeeze"

Perelman's sudden purchases of Revlon (prior to standstill agreement)

Following weak earnings in May 2017, Perelman bought almost 4 million shares of Revlon taking his stake to 84.4%.

Perelman agreed to a 12 month standstill agreement in September 2017

(but that does not preclude a tender offer !!)

When, how and why. Summary of Perelman's timeline to buy out Revlon

Background. Shares of Revlon have recently been hitting multi-year lows, based on two main factors. First, margins and overall financial results are under pressure due to spending increases required by Revlon's 2017 turnaround plan. This turnaround plan was part of the integration of Elizabeth Arden which was acquired by Revlon in 2016. Second, shareholders have been spooked by Revlon's plunging bond prices which ***appear to*** portend a high likelihood of bankruptcy. And now, billionaire Ron Perelman is set to aggressively capitalize on both of these market misreads of Revlon.

As the share price plunged during 2017, *Perelman increased his stake in Revlon to 84.65%, paying up to $23.50 per share.* Perelman has been heavily involved with Revlon since his 1986 hostile bid for Revlon. He is also the Chairman of Revlon. By late 2017, it was becoming apparent in the media that Perelman was actively looking to acquire the remainder of Revlon. Even when paying a substantial premium, Perelman could possibly acquire the remaining stub of Revlon in the $30's, still below where it was trading in early 2017.

Perelman buyout becomes obvious. In August 2017, Revlon's second largest shareholder (Mittleman Investment, 5.4% holder) demanded from Revlon's board that Perelman enact a standstill agreement for five years. This would prevent Perelman from scooping up the entire company at artificially low prices prior to realizing the payoff from the turnaround program. Mittleman has owned Revlon since 2010 even when the share price was well into the $40s. Mittleman has stated that they expect the stock to trade to $50-100 when the benefits of restructuring kick in the next two years or so. So they are clearly unhappy about the idea of Perelman acquiring the company in the $30s, just as it is about to hit a sharp upward inflection point.

Perelman responded to Mittleman with a very token standstill agreement. Rather than five years, Perelman only agreed to a 12 month halt until September 2018. Furthermore, Mittleman later realized that the standstill agreement protects only against "short form merger" and ***NOT against a tender offer which could occur at any time (even before September).***

Perelman knows what the market has missed. First, investors are misreading the financial performance of Revlon. Those expenses from the turnaround plan were set up to be very heavily front-end loaded. Expenses are just now dropping off sharply, just as the benefits are kicking in. Even small benefits like simple streamlining and end of severance payouts will quickly have a very significant impact on Revlon's bottom line.

Second, the reason those bond prices are distressed is that bondholders are rightfully concerned that Perelman is going to conduct a "J Crew Style Asset Transfer" which would strip bondholders of their collateral and allow Perelman to fully finance the turnaround strategy and going private plan. Yes, this is very bad for bondholders. But it is actually very good for current shareholders who get bought out at a substantial premium from current levels. (Mittleman would not agree of course).

Rationale. Remember, Perelman already owns 84.65% of Revlon. Even if he acquires the remainder in the $30s it will not have a huge impact on his overall cost basis. His visible goal is simply to buy the stub and take the whole company private. If Perelman can acquire the remainder in the $30s, he stands to to reap $2-3 billion in profits by taking the company private at these artificial lows.

Precedents. In numerous past buyouts, Perelman scooped up dirt cheap shares just after unusually weak quarterly results and then watched his holdings soar by ***hundreds of percent within months***. Multiple past examples are included in section IV of this report, including Perelman's past "prescient" trades on Revlon.

New catalyst. Changes in Revlon's latest 10Q (***May 2018***) are an abrupt about face from statements in the March 10K. These changes suddenly make clear the preparations for the asset transfers which Revlon had denied in March. No one seems to have noticed these changes. Almost immediately after changing that disclosure, Perelman appointed his daughter as CEO for all of Revlon. As a result, I see that timing on the asset transfers could be imminent. When that happens, the share price should spike ahead of Perelman's very obvious buyout.

Technical overshoot. Low float. High short. Heavy leverage. Perelman and Mittleman now own over 47 million shares of Revlon, leaving only 5 million shares in the tradable float. Index funds own a further 2.5 million shares. Against this, over 2 million shares are currently sold short. Total value of tradable float is as low as $29 million. *Tiny.* ***Any small surge in buying activity could see Revlon overshoot into the $40s.***

Why has the market missed this information ?

In this report I lay out very clear cut findings including recently changed SEC disclosure from Revlon that shows quite clearly that Ronald Perelman is about to quickly launch a two pronged strategy involving asset transfers and an all-out offer for Revlon (via either a tender offer or short form merger). These conclusions are all based on publicly available information.

Question: How could the market miss such significant disclosure ?

Answer: With very little float in public hands, there is *very limited investor attention* being focused on Revlon. Likewise, only a single analyst (Jefferies) covers Revlon shares from the sell side. She *provides virtually no coverage* and only perfunctory price target updates.

Complete lack of analysis and coverage create a perfect environment for Perelman to acquire Revlon at artificially distressed prices. In fact, this is what Perelman has specialized in in the past !

Only one analyst (Jefferies) provides any coverage on Revlon.

REV US Equity | Actions | Alert | Analyst Recommendations

Revlon Inc — As of 06/03/18

Consensus Rating		3.00
Buys	0.0%	0
Holds	100.0%	1
Sells	0.0%	0
12M Tgt Px	1/2	20.00
Last Price		16.50
Pricing Currency		USD
Return Potential		21.2%
LTM Return		-12.9%

Showing 2 of 2 sources

	Firm	Analyst	Recommendation	Tgt Px	Date	1 Yr Rtn	BARR	Rank
1)	EVA Dimensions	Anthony Campagna	sell		05/24/18			
2)	Jefferies	Stephanie Wissink	hold	20	05/23/18			

Jefferies provides only perfunctory coverage with little focus on target price.

Revlon Inc — Recommendation: Hold — Target Price: 20.00 USD

Stephanie Wissink, Jefferies — Consensus: Hold — Consensus: 20.00 USD

Date	Recommendation	Target Price	Close Price	Implied Return	Consensus Tgt Px
05/23/18	hold	20.00	17.55	13.96%	20.00
05/10/18	hold	20.00	18.10	10.50%	20.00
03/22/18	hold	20.00	21.30	-6.10%	20.00
03/16/18	hold	20.00	25.15	-20.48%	20.00
01/29/18	hold	20.00	22.00	-9.09%	20.00
01/02/18	hold	20.00	21.95	-8.88%	20.00
11/03/17	hold	20.00	22.20	-9.91%	20.00
10/25/17	hold	16.00	21.80	-26.61%	16.00
10/05/17	hold	16.00	22.95	-30.28%	16.00
09/13/17	hold	16.00	16.45	-2.74%	16.00

High short interest plus ultra low float - Revlon could shoot beyond $32-36

Like most “brick and mortar” retail stocks, Revlon has a very high short interest, which is exacerbated by the market “misreads”. Against this, Revlon’s extremely low float creates the possibility that the share price may substantially overshoot the expected range of $32-36.

Bloomberg cites a float of 7.2 million shares with short interest at 28.3%. However, Bloomberg ignores the fact that Mittleman owns 2.957 million shares and has stated their “intention to hold for years to come” in a 13D filing. Because of Mittleman, the real tradeable float is just 4.7 million shares. ***This means that the real short interest is 47.8%***. Finally, index funds typically must continue holding in proportion to their index. The lack of availability of these shares can also make the true float tighter than what is reported. ***For reference, the total value of all readily available shares is as low as $29 million. It is a very tight float.***

The true float is significantly lower than what is quoted on Bloomberg

	Float as per Bloomberg	Excl Mittleman From float	Excl Mittleman and index funds
Total shares outstanding	52,799,048	52,799,048	52,799,048
Less: shares held by Perelman	(44,573,187)	(44,573,187)	(44,573,187)
Less: Shares held by other REV insiders	(995,510)	(995,510)	(995,510)
Less: shares held by Mittleman		(2,957,865)	(2,957,865)
Less: shares held by index funds			(2,550,173)
Remaining shares in tradable public float	7,230,351	4,272,486	1,722,313
Shares short	2,045,891	2,045,891	2,045,891
Short interest % of float	28.3%	47.9%	118.8%
Current share price	$ 17.00	$ 17.00	$ 17.00
Value of publcily available float	122,915,967	72,632,262	29,279,321

Bloomberg cites short interest at 28.3% of float. However the real float is much tighter, such that the true short interest is much higher

In any event, the total value of all publicly available shares is tiny. As low as just $29 million.

Top few holders own 95% of shares.

REVLON INC-CLASS A

1) Current | 2) Historical | 3) Matrix | 4) Ownership Summary | 5) Insider Transactions | 6) Op

Search Name: All Holders, Sorted by Size · 21) Save Search · 22) Delete Search

Text Search · Holder Group: All Holders

24) Color Legend · Shrs Out 52.8M · % Out 100.92 · Float/Shrs C

	Holder Name	Portfolio Name	Source	Opt	Position	% Out
			All	All		
1.	PERELMAN RONALD OWEN		Form 4		44,573,187	84.42
2.	MITTLEMAN BROTHERS ...	MITTLEMAN BROTHE...	13F		2,957,865	5.60
3.	DIMENSIONAL FUND AD...	DIMENSIONAL FUND...	13F		969,316	1.84
4.	VANGUARD GROUP		ULT-AGG		798,704	1.51
5.	BLACKROCK		ULT-AGG		782,153	1.48
6.	ALBERTA INVESTMENT M...	ALBERTA INV MGMT...	13F		516,072	0.98

Short interest has remained steady at around 2 million shares. Bloomberg says that this is only 28% of float.

REV US Equity · 97) Output to Excel · Short Interest

11) Exchange Reported · 12) Markit Securities Finance - Daily · 13) S3 BLACKLIGHT Market Composite Rate

Date 05/30/17 - 05/30/18 · 2) Sector Analysis | SIA » · Markit SI Score 1 · S3 Rate Temp 100

Short Interest 2,045,891 · Short Interest Ratio 15.32 · % Float 28.30 · Currency USD

Change in Short Interest 123,881 · Change in SI Ratio -2.95 · Change in % Float 1.71 · 7) Chart · 8) Table

Date	Short Interest	Closing Price	Average Daily Volume	Short Interest Ratio
05/15/2018	2,045,891	16.85	133,574	15.317
04/30/2018	1,922,010	22.80	105,192	18.271
04/13/2018	1,843,083	21.20	68,848	26.770
03/29/2018	1,991,705	20.60	151,756	13.124
03/15/2018	2,305,492	21.50	55,603	41.463
02/28/2018	2,317,408	19.70	66,174	35.020
02/15/2018	2,342,640	21.40	66,976	34.977
01/31/2018	2,351,478	20.50	70,635	33.291
01/12/2018	2,483,619	22.25	74,223	33.462

Section II

The distressed bonds are actually a strong *positive* for shareholders

Shareholders have completely misunderstood the meaning of Revlon’s distressed bond prices

Although Revlon’s recent financial performance has been visibly a bit weak, this weakness is not nearly bad enough to cause such a plunge in the bonds. The actual catalyst for the plunge in Revlon’s bonds was that they have “trap doors” in the covenants which will allow Perelman to shift collateral away from bondholders to the sharp benefit of equity holders.

This is exactly what J Crew and several other borrowers have done over the past year.

In early May of 2017, Revlon’s 5.75% bonds and the 6.25% bonds were both trading around par. But they have since fallen to levels of around 75 and 57 respectively, each now yielding over 17%.

Right at this time (April and May 2017), heavily levered J Crew Group was in the process of a financial and organizational restructuring. J Crew’s declining financial results could no longer support its heavy leverage. J Crew was going to make use of “*trap doors*” in its bond covenants to shift assets into unrestricted subsidiaries, away from the creditors. This could be done for two purposes: a direct transfer of assets to all shareholders or just to reuse the newly liberated assets as collateral for further borrowing.

Beginning in June, it became clear that “***trap door***” features in Revlon’s credit docs made Revlon bondholders far more vulnerable to such moves than J Crew bondholders were. ***In November 2017, Debtwire noted that compared to J Crew’s “trap door” covenants, the covenants at Revlon were actually a “Black hole”.***

True, the initial slight drop in Revlon’s bonds did begin on May 5th, 2017, following the release of disappointing earnings. But even after the stock had plunged from $25 to $19, Revlon’s bonds were still trading around 90-95. Certainly not in “distressed” territory.

The key driver of bond prices plunging below 90 was simply concern that “trap doors” could be used to benefit equity holders at the expense of bondholders. Specifically, such a move would allow Revlon to add new capital for Perelman to execute his turnaround and his buyout plan.

Source	***Date***	***Article***
Reuters	May 6, 2017	Latest victim of retail downturn, Revlon tumbles 23 percent
Reuters	Jun 15, 2017	J.Crew bond revamp is roadmap for asset transfers
Debtwire	Nov 7, 2017	LEGAL ANALYSIS: Revlon could pull a J.Crew style IP transfer with less litigation exposure
Bloomberg	Jan 25, 2018	Revlon Creditors Brace for Perelman Pulling a J.Crew-Style Deal

Revlon bonds dropped only slightly on earnings calls, but dropped massively around “trap door” concerns.

Revlon’s bond covenant “black hole” is a huge boon to equity holders

The article from Debtwire on November 7th made clear that the situation for Revlon Bondholders was far more severe than it had been with J Crew (a “***black hole***” rather than just a “trap door”). Not surprisingly, the spread on Revlon’s 6.25% bonds shot up from T+950 bps to T+1,550 bps almost immediately after that article.

By January 2018, the bonds had briefly drifted back to around T+1,000. But then on January 24th Bloomberg warned that timing on a “J Crew Style Deal” was looking more imminent. The credit spread on Revlon’s bonds then quickly shot back to T+1,500 (a yield of 17-19%).

From Debtwire ***Nov 27, 2017:***

> *“Similar to J.Crew, the investment covenants in Revlon’s credit agreements contain “trap-door” provisions that increase investment capacity beyond the obvious dollar-cap baskets. While the trap door in both J.Crew and Revlon necessitate two step transactions to increase investment capacity,* ***the trap door mechanics in Revlon are a bit different from J.Crew’s. Revlon’s trap door is more like a black hole****.”*

From Bloomberg ***Jan 24, 2018*** *:*

> *“The stock has lost about half its value since March 2015, potentially putting pressure on Revlon to aid shareholders -- with Perelman’s investment firm MacAndrews & Forbes Holdings controlling the biggest stake…. A “J. Crew-style trapdoor” in its loan documents means Revlon could make an unlimited amount of asset investments in unrestricted subsidiaries, according to a report Tuesday by Covenant Review’s Adam Cohen. Xtract’s Jenny Warshafsky said in a November report that even the company’s most restrictive agreements would still allow it to move $645 million or more beyond reach…..* ***Revlon could then distribute equity in that subsidiary to its shareholders -- namely, Perelman’s firm, Warshafsky said. MacAndrews & Forbes controls about 85 percent of Revlon’s Class A stock****.”*

Conclusion: *The “black hole” in Revlon’s loan covenants is horrible for bondholders but is FANTASTIC for anyone holding the equity. But because of limited sell side coverage, equity holders still mistakenly think that distressed bonds make Revlon’s equity even more distressed.*

Revlon credit spread primarily spiked as a result of “black hole” concerns not due to business concerns

Rating agency downgrades were in response to "trap door" articles (*NOT* in response to deteriorating equity fundamentals at Revlon)

As is often the case, credit rating agencies have repeatedly been a day late and a dollar short when it comes to evaluating Revlon. Only after articles from Debtwire and Bloomberg (in each of November 2017 and January 2018) did Moody's and S&P downgrade Revlon's bonds into CCC/Caa territory.

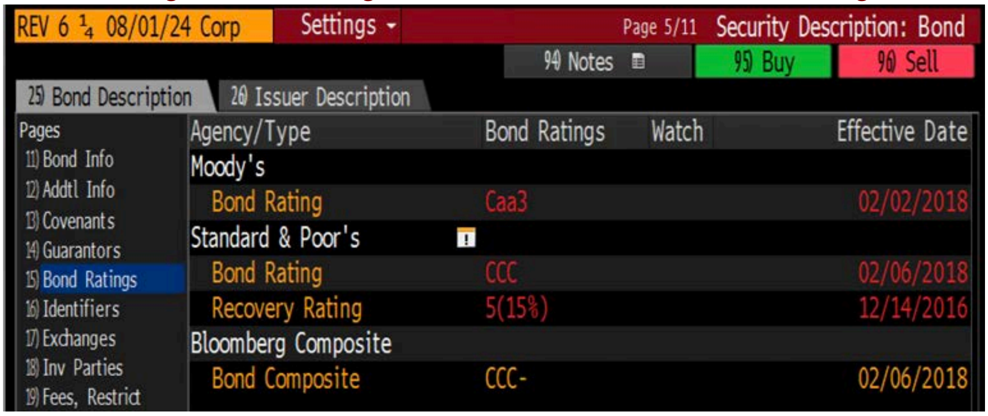
Regardless of any weakness or volatility in financial results, Revlon's share price has stayed in a narrow range of around $18-22 since May 2017. Most notably, after weak earnings in November 2017, the share price only moved a few percent. It was certainly nothing that merited a 900 bps move in the bond spreads.

In other words, the distressed bond levels are not being caused by weakness in Revlon's fundamentals. The bonds are under pressure out of fear that they will be stripped of collateral to ***the benefit of shareholders***.

Regardless of earnings, Revlon's share price has traded in a tight range of around $20 +/- $2.00

Date	Results	Price t-1	Price t+3	Percent Change
May 5, 2017	"Gross margin rate down 960 bps to 55.4%"	25.25	20.95	-17.0%
Aug 4, 2017	"Q2 EPS of -$0.46"	17.75	18.40	3.66%
Nov 3, 2017	"Pro forma adjusted EBITDA fell 48.9% to $53.6M"	22.50	21.90	-2.67%
Mar 15, 2018	"Beats by $0.39, beats on revenue"	21.50	21.75	1.16%
May 10, 2018	"Adjusted EBITDA sharply fell 86.7% to $4.2M."	19.90	17.90	-10.05%

Bonds downgraded following articles from Debtwire and Bloomberg



----- *8 days after Bloomberg Article*

----- *12 days after Bloomberg Article*

----- *12 days after Bloomberg Article*

----- *9 days after Debtwire Article*

Unnoticed disclosure changes. Abrupt about-face on "asset transfers"

In Revlon's 10K from March 2018, the company noted that as of January 1, 2018, it had adopted FASB's ASU 2017-01 clarifying the treatment of asset transfers as "a business or not a business". By using this guidance, Revlon can transfer the IP assets of businesses (ie. Elizabeth Arden) into an offshore subsidiary for the benefit of shareholders without constituting transfer of an actual business.

In that same 10K, Revlon had noted specifically that the company

#1 > *"expects that this new guidance* ***will not have a material impact*** *on the Company's results of operations, financial conditional and/or other financial statement disclosures."*

The statements in the 10K in March closely echoed statements made by management in January just after the Bloomberg article. *Shortly after those statements were made, Revlon CEO Fabian Garcia suddenly resigned and Perelman's daughter Debra was appointed as COO of Revlon.*

But in May…***everything changed***. In the 10Q from May 2018, Revlon now says of ASU 2017-01 that

#2 > "**while the adoption of the new guidance did not have any impact** on the Company's results of operations, financial condition and/or financial statement disclosures, **future transactions will be evaluated under this new guidance."**

Almost immediately after the appearance of this little noticed disclosure change, Revlon formally appointed Debra Perelman to the role of CEO which had been "vacated" by former CEO Fabian Garcia following the earlier denials in January.

Revlon 10K. March 2018. Adoption of new accounting standard for asset transfers. (p. 48)

In January 2017, the FASB issued ASU No. 2017-01, "Clarifying the Definition of a Business," which further clarifies the definition of a business in an effort to assist entities in evaluating whether a set of transferred assets constitutes a business. Under this new guidance, if substantially all of the fair value of gross assets acquired is concentrated in a single asset or similar asset group, the set of transferred assets would not meet the definition of a business and no further evaluation is necessary. If this threshold is not met, the entity would then evaluate whether the set of transferred assets and activities meets the requirement that a business include, at a minimum, an input and a process that together have the ability to create an output. This guidance is effective for annual and quarterly periods beginning after Dec #1 15, 2017, with early adoption permitted. The Company adopted ASU No. 2017-01 beginning as of January 1, 2018 and expects that this new guidance will not have a material impact on the Company's results of operations, financial condition and/or financial statement disclosures.

Revlon 10Q. May 2018. REVISED. Adoption of new accounting standard for asset transfers. (p.8)

In January 2017, the FASB issued ASU No. 2017-01, "Clarifying the Definition of a Business," which further clarifies the definition of a business in an effort to assist entities in evaluating whether a set of transferred assets constitutes a business. Under this new guidance, if substantially all of the fair value of gross assets acquired is concentrated in a single asset or similar asset group, the set of transferred assets would not meet the definition of a business and no further evaluation is necessary. If this threshold is not met, the entity would then evaluate whether the set of transferred assets and activities meets the requirement of a business including, at a minimum, an input and a p #2 that together have the ability to create an output. The Company adopted ASU No. 2017-01 as of January 1, 2018 and while the adoption of this new guidance did not have any impact on the Company's results of operations, financial condition and/or financial statement disclosures, future transactions will be evaluated under this new guidance.

Section III

Revlon valuation and turnaround plan

Revlon business and turnaround plan

Revlon, Inc. (REV) was founded 86 years ago by Charles Revson, whose innovation was to offer nail enamels matched to lipsticks in fashion colors. Revlon produces and distributes beauty and personal care products, including color cosmetics, hair color, hair care, fragrances, skin care, beauty tools, men's grooming products, and anti-perspirant deodorants globally. Revlon conducts its business exclusively through its direct wholly-owned operating subsidiary, Revlon Consumer Products Corporation ("Products Corporation") and its subsidiaries.

Revlon's four reporting segments are: Consumer; Elizabeth Arden; Professional; and Other. Revlon acquired the Elizabeth Arden businesses in September 2016. The Elizabeth Arden segment markets, distributes and sells fragrances, skin care and color cosmetics to prestige retailers, the mass retail channel, specialty stores, perfumeries, department stores, boutiques, e-commerce, travel retailers and distributors, as well as direct sales to consumers via its Elizabeth Arden branded retail stores and ElizabethArden.com e-commerce business.

The turnaround. Over the past several years, Revlon's financial results have been significantly weighed down as a result of the company's failure to fully embrace consumers' shift to ecommerce. It's products were still largely stuck behind the counters of brick and mortar department stores and drug stores even as competitors (most notably Amazon) started to aggressively steal market share. The good news is that this is a very fixable problem. Women are still buying plenty of makeup. They are just buying it in a different way.

On June 2016, Revlon announced the acquisition of Elizabeth Arden for $14.00 in cash amounting to an enterprise value of $870 million and a 50% premium over the previous days' closing price.

In January 2017, Revlon announced a sweeping restructuring plan to integrate Elizabeth Arden into the business and streamline the other business segments. Not surprisingly, the strategy was very visibly "brand centric", and was built around four global brand divisions, Revlon, Elizabeth Arden, Fragrances and Portfolio Brands. A look at the 8K filing from January 2017 shows two very clear elements of the restructuring plan:

In Revlon's restructuring plan, expenses are very much front-end weighted but revenues and savings/ benefits are backend weighted*. More than 50% of the expenses and capex occur in 2017 with the balance spread out over the three remaining years. The obvious result of this cost/benefit skew is that the first 1-2 years will see visibly depressed margins and overall financial results. But when the front end costs fall off, they will do so just as the benefits of the plan are realized beginning in late 2018 or 2019. As a result, there is a disproportionately large inflection point in the financials, even simply due to the drop in expenses when the integration of Elizabeth Arden is mostly paid for.*

Since 2017, the expense heavy "restructuring plan" has seen Revlon fall from $35 to around $17

Valuation and motivation – Animated correspondence between Perelman and Mittleman

Mittleman will hold for years, stock should be at $50 today.

Link: [Mittleman's standstill demand to Revlon's board (Aug 2017)]

*"**Our intention is to hold a stake for years to come** as we believe that the shares are severely undervalued, and that the current weakness in North American consumer sales will prove transitory….*

…the Board's fiduciary duties of loyalty and care extend to all shareholders, including minority shareholders. So if the Board determines that a threat or potential threat to minority shareholder value exists due to overreaching or abuse by a controlling shareholder, the Board must take defensive action that would be effective and proportionate…

*Revlon is at $17.15 today, and we believe that at parity with Coty's (COTY $19.55) EV/EBITDA multiple of 14.5x on calendar 2018 estimated EBITDA, **Revlon's stock price would be about $50 today**, and we don't see Coty as having performed any better than Revlon over the past couple of years, nor can we discern that it has better growth prospects.*

Perelman doesn't intend to buy out Revlon at this moment… but if he changes his mind he will give 5 days notice

LINK: **[Perelman's response to Mittleman. Standstill agreement. (Sep 2017)]**

*"MacAndrews & Forbes **presently** does not intend to increase its beneficial ownership above 89% of the issued and outstanding Revlon Class A Common Stock ("Common Stock") or to undertake transactions to take Revlon private. **Should MacAndrews & Forbes determine to undertake transactions** to increase its beneficial ownership above 89% of the issued and outstanding Common Stock or to take Revlon private, MacAndrews & Forbes agrees to: (1) notify the Board at least **5 business days in advance of such transactions**; and, prior to consummating such transactions, (2) convene a Board meeting; (3) support the creation of a special committee of independent directors empowered to select its own advisors; and (4) negotiate with that special committee regarding the terms of such transactions by MacAndrews & Forbes, in order to promote the interests of all shareholders, including minority shareholders. The agreement in this paragraph shall **terminate on the first anniversary** of the date hereof, unless extended in writing by MacAndrews & Forbes prior to such date.*

"For the avoidance of doubt, this letter should not be construed as an admission by MacAndrews & Forbes that any of the assertions made in the Mittleman Letter have any merit whatsoever."

Perelman's agreement is inadequate… does not protect against tender offer

If stock were to fall into the teens, Perelman could launch take over in the $30s (just 5 day notice to the board)

A "better informed controlling shareholder taking advantage of short term weakness"

LINK: **[Mittleman's repsonse to Perelman's "standstill agreement" (Sep 2017)]**

We disagree, and believe that the fractional accommodation (the "September 15 Agreement") made by Mr. Perelman in response to our request for a justified increase in minority shareholder protection is clearly inadequate to that end, for reasons we explain herein.

*Another short-coming in the September 15 Agreement is that **while seeming to grant minority shareholders reprieve from a short-form merger in the absence of a negotiated price for one year, it does not preclude a tender offer in the interim, which if coercively timed to coincide with a low point in operating performance and stock price**, could be just as destructive to minority shareholder value as a short-form merger by itself.*

*His [Pereleman's] stake in Revlon has now increased by 7.35% of shares outstanding from 77.3% to 84.65%, in just over 4.5 months. And while such a forceful show of confidence in the share value is undoubtedly encouraging, especially when the buyer has such an outstanding track record as an investor as Mr. Perelman does, it also raises red flags as to what his ultimate intent may be with regard to minority shareholders**. So presumably if the stock were to fall back to the recent lows, maybe upon release of another weak quarterly report, we might wake up to find a $30 take-over offer versus a $15 then-current stock price, when in three to five years we might reasonably expect $100 per share to be attainable.***

*Mr. Perelman offers assurances in the September 15 Agreement **that if he was to change his mind and decide to buy-out minority shareholders in Revlon in such a manner or otherwise, it would only be done with five business days advance notice to the Board**, a Board meeting, creation of a special committee of independent directors empowered to select its own advisors, and negotiation with that special committee regarding terms of any such transaction(s). And while such "checking all the boxes" in terms of establishing an ostensibly proper process might get the transaction through legal challenges in Delaware Chancery Court, as we recounted in our August 21 Letter referencing the Perelman take-private of M&F Worldwide ("MFW") in 2011, such adherence to ostensibly proper protocols does not insure that minority shareholder value is protected from the possibility of predatory coercion by **a better-informed controlling shareholder taking advantage of a short-term weakness in operating results and share price.***

Valuation: So what is Revlon worth to Ron Perelman ?

The only metric that matters is what Perelman is willing to pay. He already owns 84.65% of Revlon. Even at much higher prices, the remaining 15.35% will not have a huge impact on his overall basis.

Comparable companies. L'Oreal and Estee Lauder are visibly healthier companies while Coty shares some of the current struggles of Revlon. Yet even vs. depressed Coty, Revlon still trades at a significant discount.

Revlon's current price of around $17 reflects a negative double whammy. ***First****, the margins are temporarily depressed* as a result of elevated spending during the early part of the restructuring program. ***Second****, the multiple is depressed* because Revlon is perceived as a struggling brand.

Perelman has nearly perfect information. He is Chairman of Revlon, he owns 84% of the company and his daughter is now CEO. Perelman is well aware that under Revlon's turnaround plan, the expenses (and capex) were heavily front-end weighted and are now coming to an end. (see next page). EBITDA margins are set to rebound sharply on that basis alone.

Likewise, Perelman will value Revlon on the basis of how it could be taken private and re-launched later or how it could be slotted into to the business of one of its global competitors in a future sale.

As a result, in determining what price he can receive for Revlon in a few years, Perelman will look at Revlon with normalized (higher) EBITDA and valued off of a higher multiple against it. In the meantime, all of these companies can be more readily compared on the basis of EV/Sales (still applying a very hefty discount against Revlon just to be extra conservative).

Even compared to lackluster Coty, Mittleman noted in August that if valued on the same basis, Revlon should be trading at $50. Using more current numbers still suggests that Revlon should trade at around $40.

Estee Lauder and L'Oreal are both bigger and healthier, but the valuation differential is truly massive. Those larger competitors trade at around 4x EV/Forward Sales vs. Revlon which is trading at a deeply distressed 1.4x. If Revlon can trade at 1.9x EV/Forward Sales, the stock should climb to around $40.

	EV/Sales Multiple				
	1.7x	1.8x	1.9x	2.0x	2.1x
Consensus 2018 Sales	$2,636	$2,636	$2,636	$2,636	$2,636
Implied EV	$4,481	$4,745	$5,008	$5,272	$5,536
Less: Debt	$2,917	$2,917	$2,917	$2,917	$2,917
Less: Minority Interest	$0	$0	$0	$0	$0
Less: Cash	$56	$56	$56	$56	$56
Implied Market Cap	**$1,620**	**$1,884**	**$2,148**	**$2,411**	**$2,675**
Shares Outstanding	52.8	52.8	52.8	52.8	52.8
Price Target	**$30.69**	**$35.68**	**$40.67**	**$45.66**	**$50.66**
Current Stock Price	$16.40	$16.40	$16.40	$16.40	$16.40
% upside	**87%**	**118%**	**148%**	**178%**	**209%**

Even if Revlon can trade in line with distressed Coty at 1.9x forward sales, the stock should trade to over $40.

Revlon's peers trade at multiples of 1.9x to 4.1x forward sales

Name	Ticker	Mkt Cap	Net Sales T12M	BEst Est Sales Next Year	EV/Next Yr Est Sales
Median		32.24B	11.31B	12.11B	2.84
100) REVLON INC-CLASS A	REV US	876.46M	2.66B	2.64B	1.41
101) L'OREAL	OR FP	136.95B	29.40B	27.80B	4.13
102) ESTEE LAUDER COMP...	EL US	54.58B	13.28B	14.68B	3.80
103) COTY INC-CL A	COTY US	9.91B	9.34B	9.53B	1.89

Section IV

Conspicuous. Tactics with Revlon are identical to past Perelman deals

Perelman’s impeccable timing on Revlon

Revlon. Perelman’s involvement with Revlon has a long and storied history including an important legal precedent. His initial takeover of Revlon in 1985, using Florida based grocer Pantry Pride as the takeover vehicle, was the impetus for the Delaware courts to create what is known as the “Revlon Rule”. This precedent clarified and significantly narrowed the scope of the fiduciary duty owed by the board of directors for shareholders. Instead of a wider approach of considering all factors affecting the future health of a company, directors were required by the court to consider only the short term financial performance of the company. This lead to Perelman’s higher bid for the company being accepted over a lower, but board preferred, bid by Forstmann, Little, and Company. The share price of the company rose to nearly $58 per share after the news of Perelman’s bid being accepted. Prior to the successful takeover attempt, Revlon was trading at $45 per share, a 29% premium for Revlon shareholders. In the first half of 1987 Perelman took the company private in of this deal Perelman, using Macandrew and Forbes, took Revlon private at a price of $20.10.

In 1996, Perelman took the company public again by selling 15% of the company in an IPO. This was Perelman’s second attempt to take the company public, after failing to do so in 1992.

In 2009 Revlon offered preferred shares yielding 12.75% in order to entice investors to give up their shares to Perelman. Revlon shares had fallen to just around $5 on the back of a streak of unexpectedly weak earnings. When the stock was sitting below $6.00, Perelman acquired millions of shares from those investors who were eager to sell what appeared to be a dying dog. A few weeks later, the company released better than expected results. This acted as a catalyst to send the stock to as high as $19. From the new shares alone, Perelman’s prescient timing netted him around $135M. But Perelman had already been sitting on around 27 million at the time such that his total gain for the period after the preferred shares closed was in excess of $500M.

Now fast forward a few years. In 2016 there was speculation that Perelman would take Revlon private for as much as $50 a share. Those who were hoping for such a rich valuation at the time should have taken note of Perelman’s history. Indeed such speculation ended when Perelman, once again, shook up the management of the company by installing Fabian Garcia as CEO to implement another turnaround plan. As with previous turnaround plans initiated by Perelman, the stock price immediately began falling amidst mounting losses.

While investors initially believed that Perelman’s turnaround plan reduced the likelihood of going private, it was merely the first act in Perelman’s plan. His intentions towards Revlon soon became too obvious too ignore.

In 2017, Perelman once again took advantage of an “engineered” weakness in financial results, loading up on over 2 million more shares at some of the lowest prices since 2013.

Following a common Perelman tactic, Revlon had already announced a restructuring plan in which investments and the concomitant losses were heavily font end loaded, with the payoffs pushed to later quarters. Investors dumped their shares of Revlon in huge numbers pushing the price to as low as $15. Between July and September, Perelman acquired a total of 3.1 million shares, paying from $16-23.50 per share.

Perelman has used these same maneuvers before

M & F Worldwide (April 2011 - June 2011). Perelman took M & F Worldwide private in mid 2011, in very similar circumstances to Revlon today. Just like Revlon, M & F was fully controlled by Perelman with 43% of shares outstanding. Also just like Revlon, the key to everything was weak earnings. Shares were well above $25 in April and had a high of $26.84. Following very weak earnings in early May, shares fell dramatically and went as low as $16.77 in June before Perelman offered to buy the company for $24 per share, later raising the bid to $25 per share. Perelman would have argued that's a reasonable premium to the market price at the time. However, it was significantly below the price before the earnings miss just two months earlier, and in terms of absolute value it was extremely low, only about 5.3x EV/EBITDA. Two years later, the private Perelman controlled company sold a subsidiary, Harland Financial Solutions, for $1.2 B in cash, or 20x EBITDA of $60m. Almost a 4x higher EBITDA multiple compared to the Perelman buyout, and in cash. Clearly there was a major disconnect between the intrinsic value of M & F at the time Perelman bought it and the buyout price he was able to achieve. It points to a pattern of Perelman using major earnings misses to acquire big portions of stock in companies he controls. All of these elements of the M & F situation apply exactly to Revlon today. Importantly, while Perelman managed to get a massive deal for himself, shareholders who bought during the weakness actually managed to do incredibly well for themselves between the time after the earnings weakness and the buyout. Shareholders who bought in the weakness around $17 made almost a 50% gain to the $25 deal price in just a few months.

Panavision (November 2000 - October 2002). With Panavision, Perelman was selling a company to minority shareholders rather than buying one from them. This time, Perelman's tactics were much more egregious and straightforward. Perelman owned an 83 % stake in Panavision, and at the time had a smaller, 35 % stake in M & F Worldwide. Perelman attempted to convince the board to approve a truly obscene deal for M & F to buy Panavision at roughly a 4.5x premium to the prevailing market price of Panavision at the time. Ultimately the deal went through at a smaller, roughly 3x premium. The net result of this was a $100 million cash hand out to Perelman. This was especially egregious because Perelman didn't even bother to use the pretext of a major earnings surprise to create the opportunity for himself. He simply used minority shareholder money to buy a company he owned at a massive unwarranted premium. The premium was so egregious that the deal was entirely undone in 2002 in a settlement of another major lawsuit between Perelman and his minority shareholders. The pattern of transferring wealth from minority shareholders to Perelman becomes especially clear when it's done without even the excuse of major earnings weakness.

Perelman typically gets about 4x better of a deal than a fair price when he pulls these tactics on minority shareholders, booking a 300 % gain for himself. He typically waits for a weakness in the underlying business, due to macro economic events or whatever company specific weakness may arise as is the case with Revlon currently. He has an incentive to portray the weakness as more serious than it is as he did with Revlon in 2009. While waiting for this weakness allows him to get a truly extreme deal for himself, he always offers shareholders a big premium in order to get the deal done. In the case of M & F it was about 50 % and in the case of Revlon it was about 100 %. *This means shareholders who buy during the weakness Perelman takes advantage of for buyouts are still making big short term gains.* Also, since the value of the underlying assets is much higher than the trading price around the short term weakness, buyers have a lot of additional protection should events play out in a more equitable way.

Perelman has used these same maneuvers before (continued)

Scientific Games. Perelman is the chairman and has almost 40% of shares outstanding. He managed to acquire this stake by buying major chunks of stock on earnings weakness and/or before there were major positive developments that the market had yet to appreciate, just like the transactions he was able to complete with M & F and Revlon as a controlling shareholder.

October 2003 Perelman bought his initial 24 % stake in SGMS for $194 million in October 2003 when SGMS was a much smaller company. At the time the share price was around 11-12. The share price more than doubled over the next two years and as over $30 in October 2005.

February 2007 Perelman managed to buy another 4 million shares in February 2007 around $30. The stock spent the rest of 2007 at significantly higher prices and topped $40. Though the great financial crisis came into play shortly thereafter, at the time it was a very good buy.

December 2010 Perelman was able to get in his best buy as a result of the Great Financial Crisis just as he did with Revlon. In 2010, shortly after the GFC, SGMS stock remained depressed and had very weak performance towards the end of the year. Perelman was able to scoop up another 4.5 million shares for about $8.5 per share. $8.5 turned out to be within $3 of the all time low since then and the stock has mostly stayed higher. ***Today the stock is over $60.***