Zacks Small-Cap Research

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Revolution Lighting Technologies, Inc.

(RVLT-NASDAQ)

RVLT: Q2 Non-GAAP Shows A Profit and EBITDA Guidance is Raised

With 20% revenue growth expected from 2016 to 2017, we believe the company could be valued at a 20 PE multiple. When looking out to 2017, that yields a stock price of $25.00 per share.

Current Price (08/04/16)	$6.18
Valuation	**$25.00**

OUTLOOK

Revolution Lighting is a pure play in commercial & industrial and government LED end-user lighting products and services. It is consolidating a fragmented market by acquiring companies with complementary products, services or distribution channels addressing incremental markets or geographies. It has no legacy technology dragging down growth and is projected to grow over 20% per year organically as customers reap increasingly attractive paybacks for using LED as prices continue to come down. To date, only 5% of retrofit lighting consists of LED lighting in the US, providing extensive growth opportunity.

SUMMARY DATA

52-Week High	**$12.30**
52-Week Low	**$5.16**
One-Year Return (%)	**-44.8**
Beta	**3.2**
Average Daily Volume (sh)	**36,190**
Shares Outstanding (mil)	**20.8**
Market Capitalization ($mil)	**$128**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**9**
Insider Ownership (%)	**53**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**112.2**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**28.1**
P/E using 2016 Estimate	**11.2**
P/E using 2017 Estimate	**4.9**

Risk Level	**Above Average**
Type of Stock	**Small-Value**
Industry	**Bldg. Prod. -Ltg Fix**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2014	5.0 A	17.5 A	26.9 A	27.5 A	76.8 A
2015	20.3 A	27.2 A	37.7 A	44.3 A	129.7 A
2016	27.6 A	43.1 A	51.0 E	63.0 E	185.0 E
2017					221.7 E

Earnings per Share
(Adjusted Non-GAAP EPS before non-recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2014	-$0.41 A	$0.18 A	-$0.17 A	-$0.59 A	-$0.94 A
2015	-$0.09 A	-$0.03 A	$0.09 A	$0.12 A	$0.09 A
2016	-$0.06 A	$0.07 A	$0.16 E	$0.33 E	$0.55 E
2017					$1.25 E

Zacks Projected EPS Growth Rate - Next 5 Years 20%

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WHAT'S NEW

Company Turns a Profit in Q2 And Raises Guidance

For the second quarter of 2016, the company reported revenues of $43.1 million versus $27.2 million in 2015, showing **growth of 58%**. Revenues beat expectations and EPS was in line. This growth was comprised of 20% internal growth, and the rest through acquisition. Gross margins were 31.0% versus 33.3% as Energy Source and TNT brought down the company average, but the company expects margins at 32% for the full year.

Taking out one-time acquisition costs, expenses rose only 24% to $12 million despite a 58% increase in revenues. We believe this trend will continue expanding operating margins.

Interest expense of $586,000 was slightly higher than the $374,000 in 2015 as the company continued to acquire companies and use more debt.

Taking out one-time expenses for the acquisition of TNT and stock-based compensation, **non-GAAP net income was $1.3 million** versus a loss of $406,000 a year ago.

This resulted in a positive **non-GAAP EPS of $0.07 versus a loss of $0.03** in 2015.

Company Raises 2016 EBITDA Guidance

Investors were told to expect Q3 revenues in the range of $50-52 million and an EBITDA of approximately $5 million. The company reiterated a revenue range of $180-190 million for the year and full year **2016 EBITDA guidance of $18-20 million, which is an increase from its previous guidance of $17 million**.

Acquisitions In the Quarter

TNT Energy was acquired in May 2016 for $10 million. It is a provider of full service turnkey comprehensive savings projects primarily in New England**.** It complements the geographies of Energy Source and is headquartered in Raynham, Massachusetts. Similar to Energy Source, TNT works with the state utilities. TNT addresses energy savings projects within commercial, industrial, hospitality, retail, education, and municipal sectors. TNT Energy's 2015 revenue and adjusted EBITDA were approximately $25 million and $2.3 million. Both TNT and Energy Source are now under one CEO as they similar business but complement each other. One has focused on small businesses, and the other large ones They are looking to cross sell and augment their capabilities as well as to reduce redundant operations and staff.

Marketing Expansion Should Yield Quick Results

The most exciting near term prospect for the company is the roll out of a new distribution channel of sales agents. The company hired a Sr. VP of Sales for the whole company, and he has already put together a network of 70 sales agents, each with 20-30 salesmen, to sell Revolution Lighting products throughout the US. Until now, the company has relied on distribution and a limited number of people to sell and sorely lacked feet on the street. This rollout of commissioned salesmen should show near term results with little to no investment by the company.

Revolution has also been pursuing a large multi-million dollar contract with the Navy for custom tubes to retrofit ships. The RFP has been stalled and the company is awaiting its reissuance. In the mean time, it has worked to achieve 100% percent certification with Navy requirements. It is 99% of the way there and expects the remaining 1% to be resolved in the next 30-45 days. At that point it should be able to bid on any contracts for any vessels used by the US government no matter what branch. The Navy is particularly interested in getting new bidders for LED lighting as it currently has sole source contracts with Energy Focus (EFOI) that is charging huge mark ups for product. Attaining this seaworthy certification from the US government could also help international sales to fleets around the world. In addition, the company continues to pursue land-based military and government contracts, initially by getting its name on bidders lists.

INVESTMENT THESIS

- Revolution Lighting Technology is a **pure play in the LED lighting products and services space, selling to the commercial, and industrial and government sectors.**

- Revolution is exhibiting **operating leverage** that is beginning to deliver accelerating earnings. With its current structure it believes it can bring 26-28% of every dollar in revenue over $100 million to the bottom line. Remarkably this means the company **could go from $0.55 per share in earnings this year to $1.25 in 2017.**

- Replacing incandescent and fluorescent lighting with LED fixtures and/or lamps typically produces measurably **significant payback** for customers. The industry is now at a point where LED prices are so low that significant savings are possible and deal sizes and opportunities are growing and easier to close. The payback period is lowered as utility and state incentives further reduce overall project costs.

- Unlike competitors, it has **no legacy fluorescent lighting** sales to cannibalize. The company growth reflects LED sales and installations alone. The company **does not compete in the consumer market** or direct to consumers, where extensive competition exists.

- The global LED lighting market was $26 billion in 2015 and is expected to reach $31 billion in 2016 as rapid price declines versus legacy technologies have made usage increasingly cost effective. The lighting market in the US has only about 5% penetration and that is expected to rise to 40-50% by 2020 saving customers $20 billion a year in electricity.

- The company is a **consolidation play in an extremely fragmented market.** It has brought together product companies, distributors, and turnkey solution providers who cross-pollinate and complement each other.

- The company grew 69% in 2015; 18% was organic growth and the rest via acquisition. We predict sales growth of 43% to $186 million in sales in 2016 versus $130 in 2015, and fully diluted adjusted EPS of $0.50 versus $0.09 in 2015. In the first half, the company grew revenues 49%. Adjusted EBITDA in 2016 should be about $19 million, which is the company's conservative guidance. **In 2017, adjusted non-GAAP EPS could reach $1.25**.

- Revolution has **opportunities that could provide big upsides to sales** near term that are not in estimates. These are: successful penetration of the Navy and/or other military or government agencies, and additional acquisitions.

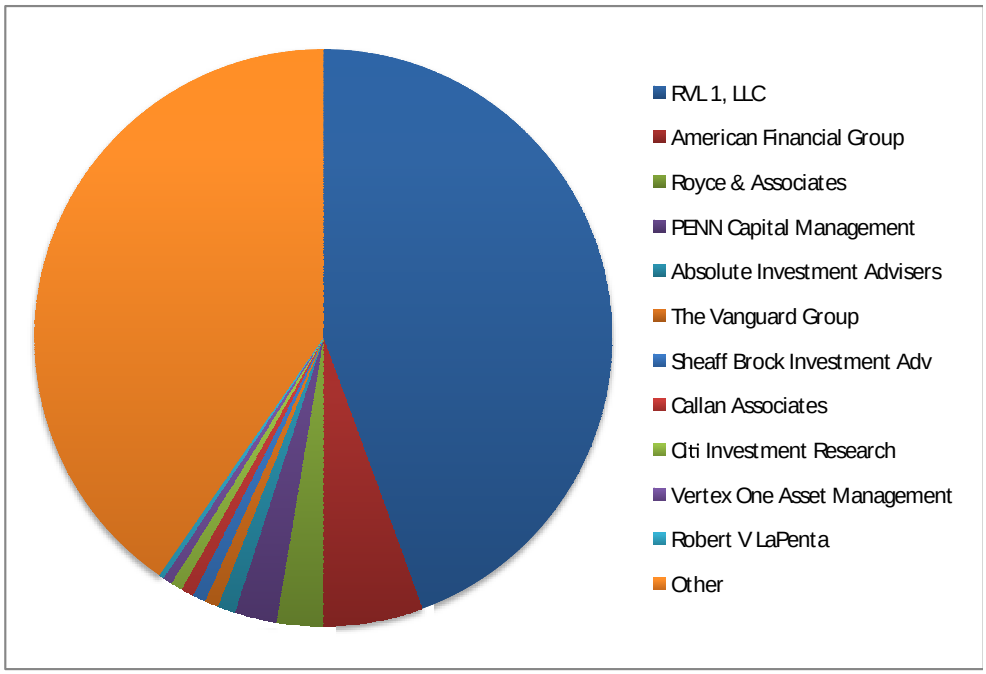
- Given its 20% growth rate, we believe RVLT common stock deserves at 20 PE multiple and could be worth $25.00 when looking at 2017 estimated earnings of $1.25 per share.

OVERVIEW

RVL LLC acquired revolution Lighting Technologies in September of 2012. RVL LLC is an investment company created by Ashton Capital and is owned primarily by Robert LaPenta and principals of Aston Capital. Since 2012, the company has acquired eight more companies in LED lighting products, full service turnkey operations and LED distribution, all of which target commercial, industrial or government end users. Currently the company employs over of 230 full-time employees. They are distributed among 14 locations.

OWNERSHIP – Updated Aug. 1 2016

Aston Capital owns RVL 1 LLC who owns 44% of RVLT. Certain management and directors of Revolution Lighting including Robert LaPenta and James DePalma are also owners of Aston Capital.



RISKS

- Revolution Lighting has not evidenced steady profitability. While it is expected to be profitable later this year, there is no assurance it will be.
- LED lighting products are experiencing rapid declines in price due to extraordinary competition here and in China. The company must be able to maintain parity in pricing and generate margin in order to be profitable.
- The industry is highly fragmented and currently undergoing a shake out leading to unpredictable prospects.

- Management may not be able to manage so many separately operating companies and channel conflict and overlap may be a problem in growing internally.

- Governments and utilities may stop offering subsidies and rebates making LED installation less cost effective. Alternatively given the price of oil, electricity prices may come down in some markets with the same effect.

VALUATION

In the public markets the average lighting company with positive earnings trades at a PE of estimated calendar 2016 revenues of 31 times. The range however is 29X times for LSI Industries (LYTS) to CREE (CREE) at 33 times. This is 1.2 the average growth rate of 29.7%. Revolution Lighting, which is growing faster than that right now, should at least be worth a 20 PE in line with its internal growth. Using $0.55 per share for 2015, the stock is worth $11.00 per share now. By next year, if the company does earn $1.25 as we estimate that price could go to $25.00 at a 20 multiple or even higher in line with its comps.

Company	Ticker	EPS 16	EPS 17	Price	PE 2016	PE 2017	Gr Rate
Acuity Brands	AYI	8.50	10.00	267.50	31.5	26.8	18%
Cree	CREE	0.84	1.19	28.02	33.4	23.5	42%
Energy Focus	EFOI	-0.12	0.21	6.03	-50.3	28.7	-275%
Lighting Science Group Corp.	LSCG	NA	NA	0.10	NA	NA	NA
LSI Industries	LYTS	0.38	NA	11.03	29.0	NA	NA
Orion Energy Systems	OESX	-0.34	NA	1.41	-4.1	NA	NA
TCP International Holdings	TCPI	NA	NA	1.44	NA	NA	NA
Average					31.3	26.3	29.7%

FINANCIALS

Q3 2016 Forecast

The Company has given Q3 2016 guidance of revenues in the $50 - $52 million range, and adjusted EBITDA of approximately $5 million. The midpoint of such guidance gives us Q2 revenues of $51 million versus $37.7 million in 2015, up 35%, and an adjusted fully diluted non-GAAP EPS of $0.16 versus $0.09. We believe the company has near term visibility, and should once again be able to slightly beat those numbers.

Full Year 2016 Forecast

Full year 2016 revenue guidance is still $180-190 million of which 20%+ is from organic growth). It also expects EBITDA of $18 – 20 million, up from previous guidance of $17 million. Using those metrics we see the company able to reach fully diluted adjusted earnings of **$0.55 per share for the year versus $0.09 in 2015**. These revenues could be beat by better than expected results from the new TNT Energy acquisition, headway in military and government sales with dedicated salesmen or success with its soon to be deployed network of sales agents. There are no revenues from the military in the forecast or the company guidance.

Full Year 2017 Forecast

In 2017, we see the full force of the operating leverage of the company kick in. The company has said they believe 26-28% of each dollar sold over an annualized $100 million can be added to EBITDA of the company. So if we anticipate EBIDTA of $19 million in 2016, and the company grows 20% in 2017 that leaves us with near $30 million in EBITDA for 2017. We have used $29.5 million in our model and reach an untaxed adjusted EPS of $1.25 for the year.

INCOME STATEMENT

Revolution Lighting Technologies	Q1 2015 31-Mar	Q2 2015 30-Jun	Q3 2015 30-Sep	Q4 2015 31-Dec	Q1 2016 31-Mar	Q2 2016 30-Jun	Q3 2016E 30-Sep	Q4 2016E 31-Dec	2014	2015	2016E	2017E
Total revenue	**20.3**	**27.2**	**37.7**	**44.3**	**27.6**	**43.1**	**51.0**	**63.0**	**76.8**	**129.7**	**184.7**	**221.7**
Yr-to-yr Growth	311%	56%	40%	61%	36%	58%	35%	42%	194.9%	68.7%	42.5%	20.0%
Cost of services	13.2	18.2	25.5	29.5	18.5	29.8	34.7	42.3	52.6	86.4	125.3	144.1
Gross profit	7.2	9.1	12.2	14.9	9.1	13.3	16.3	20.7	24.2	43.3	59.4	77.6
Gross Margin	35.3%	33.3%	32.3%	33.5%	32.8%	31.0%	32.0%	32.8%	31.5%	33.4%	32.1%	35.0%
Operating expenses:												
Acquisition, severagnce and transition costs	0.3	0.5	0.7	0.5	1.1	1.9	1.0	0.0	2.5	2.0	4.0	0.0
Amortization and depreciation	1.0	1.1	1.2	1.5	1.3	1.6	1.6	1.6	5.6	4.9	6.0	7.5
Stock-based compensation	0.5	0.6	0.9	0.6	0.4	0.6	0.7	0.7	1.7	2.7	2.4	3.0
Other SG&A	6.5	7.7	8.4	9.5	7.6	9.3	10.0	10.7	23.2	32.2	37.6	38.9
R&D	0.7	0.2	0.7	0.8	0.6	0.6	0.7	0.8	2.1	2.5	2.7	3.0
Total operating expenses	9.0	10.2	12.0	13.0	11.1	13.9	14.0	13.8	35.1	44.2	52.7	52.4
Operating income:	(1.9)	(1.1)	0.2	1.9	(2.1)	(0.5)	2.4	6.9	(10.9)	(0.9)	6.7	25.2
Operating margin	-9.1%	-4.1%	0.5%	4.3%	-7.4%	-1.3%	4.6%	11.0%	-14%	-0.7%	3.6%	11.4%
Other income:												
Interest expense, net	(0.2)	(0.4)	(0.5)	(0.5)	(0.6)	(0.6)	(0.6)	(0.6)	(0.8)	(1.5)	(2.3)	(1.0)
Total other income	(0.2)	(0.4)	(0.5)	(0.5)	(0.6)	(0.6)	(0.6)	(0.6)	(0.8)	(1.5)	(2.3)	(1.0)
Income before income taxes	(2.0)	(1.5)	(0.3)	1.4	(2.6)	(1.1)	1.8	6.3	(11.7)	(2.4)	4.3	24.2
Pretax Margin	-10.1%	-5.5%	-0.8%	3.2%	-9.5%	-2.6%	3.5%	10.0%	-15%	-2%	2%	11%
Income tax	-	-	-	-	-	-	-	-	6.6	-	-	-
Tax rate	0%	0%	0%	0%	0%	0%	0%	0%	-4291%	0.0%	0.0%	0.0%
Net income	(2.0)	(1.5)	(0.3)	1.4	(2.6)	(1.1)	1.8	6.3	(12.8)	(2.4)	4.3	24.2
Stk based compensation	0.5	0.6	0.9	0.6	0.4	0.6	0.7	0.7	1.7	2.7	2.4	2.4
One-time expenses	0.3	0.5	0.7	-	1.1	1.9	1.0	-	2.5	2.0	4.0	-
Non-GAAP Income from continuing	(1.2)	(0.4)	1.4	2.1	(1.0)	1.3	3.5	7.0	(8.6)	2.3	10.8	26.6
Yr-over-Yr										-126.5%	370.6%	147.1%
Net income per share:												
EPS	(0.15)	(0.10)	(0.02)	0.09	(0.16)	(0.06)	0.09	0.30	(1.39)	(0.16)	0.23	1.16
EPS Diluted	(0.13)	(0.09)	(0.02)	0.08	(0.16)	(0.06)	0.08	0.30	(1.24)	(0.14)	0.22	1.13
Adjusted Non-GAAP Diluted	**(0.09)**	**(0.03)**	**0.09**	**0.12**	**(0.06)**	**0.07**	**0.16**	**0.33**	**(0.94)**	**0.09**	**0.55**	**1.25**
	-78.5%	-115.9%	-151.0%	-119.8%	-26.5%	-342.1%	86.0%	183.0%		-109.3%	526.6%	128%
Shares												
Basic	13.8	14.4	15.5	15.8	16.1	18.9	20.8	20.8	9.2	14.9	19.1	20.8
Diluted	15.9	16.5	17.6	17.9	16.7	19.4	21.3	21.3	10.4	16.9	19.7	21.3
	95.0%	49.6%	57.2%	59.8%	5.2%	17.7%	21.4%	19.5%		63.3%	16.2%	8.3%
Adjusted EBITDA	0.0	1.1	3.0	4.5	0.8	3.5	5.6	9.2	(1.1)	8.6	19.1	29.46
EBITDA Margin	0%	4%	8%	10%	3%	8%	11%	15%			10%	13%
	-101%	-196%	101%	407%	6800%	212%	86%	104%		-917%	121%	54%

BALANCE SHEET

	June 30, 2016	March 31, 2016	% Change Jun - Mar	Dec. 31, 2015	% Change Mar - Dec
Current assets					
Cash and equivalents	**$5,190**	**$1,290**	302%	**$219**	489%
Accounts receivable, net	43,470	36,013	21%	41,132	-12%
Unbilled contract receivable	5,285	3,495	51%	4,559	-23%
Inventories, net	25,177	25,869	-3%	22,135	17%
Other current assets	5,399	4,003	35%	3,830	5%
Total current assets	84,521	70,670	20%	71,875	-2%
Property and equipment, net	2,769	2,673	4%	2,702	-1%
Accumulated depreciation and amortization	(1,579)	(1,482)	7%	(1,455)	2%
Net property and equipment	1,190	1,191	0%	1,247	-4%
Other assets					
Goodwill	70,575	64,267	10%	64,267	0%
Intangible assets, net of accumulated amortization	45,403	38,523	18%	39,595	-3%
Other assets	504	561	-10%	651	-14%
Total other assets	116,482	103,351	13%	104,513	-1%
Total assets	202,193	175,212	15%	177,635	-1%
Current liabilities					
Accounts payable	21,889	18,262	20%	19,908	-8%
Accrued compensation and benefits	3,869	3,716	4%	3,388	10%
Notes payable	11,360	10,390	9%	10,360	0%
Accrued and other current liabilities	7,462	5,420	38%	5,329	2%
Purchase price obligations, current	4,038	7,990	-49%	7,039	14%
Total current liabilities	48,618	45,778	6%	46,024	-1%
Long-term liabilities					
Revolving credit facility	**22,576**	**23,170**	-3%	**22,026**	5%
Related party payable	**2,565**	**2,565**	0%	**2,565**	0%
Note payable	**3,246**	**2,336**	39%	**2,426**	-4%
Purchase price obligations, non-current	**2,662**	**1,023**	160%	**1,764**	-42%
Other liabilities	1,472	530	178%	727	-27%
Total Liabilities	81,139	75,402	8%	75,532	0%
Stockholder's equity					
Common stock	21	16	31%	16	0%
Additional paid-in capital	199,449	177,083	13%	176,760	0%
Accumulated deficit	(78,416)	(77,289)	1%	(74,673)	4%
Total stockholders' equity	121,054	99,810	21%	102,103	-2%
Total liabilities and stockholders' equity	$202,193	$175,212	15%	$177,635	-1%
Current ratio	1.7	1.5	13%	1.6	-1%
Quick ratio	1.2	1.0	25%	1.1	-9%
Working Capital	35,903	24,892	44%	25,851	-4%
Net Cash as % of assets	3%	1%	249%	0%	NM
Cash per share	$0.00	$0.00	245%	$0.00	NM
Debt % of assets	57%	63%	-9%	61%	3%
Inventory Turnover	3.0	1.8	71%	2.5	-29%
Days Sales	76	126	-39%	68	86%

CASH FLOW

$ in Thousands	3 Months Ended March 31, 2015	3 Months Ended June 30, 2015	3 Months Ended Sep. 30, 2015	3 Months Ended Dec. 31, 2015		3 Months Ended March 31, 2016	3 Months Ended June 30, 2016
Cash Flows from Operating Activities:							
Net loss	$ (2,046)	$ (1,488)	$ (285)	$ 1,437		$ (2,616)	$ (1,127)
Adjustments to reconcile net loss to net cash used in operating activities:							
Depreciation	143	136	136	135		100	98
Amortization of intangibles and other assets	890	1,009	1,077	1,342		1,210	1,467
Reacquired common stock issued for acquisition	(547)	0	0	547		0	0
Change in fair value of contingent consideration	406	79	254	125		377	455
Deferred income tax benefit	$ 0	0	0	0		0	0
Stock-based compensation	534	629	919	637		430	593
Cash flow	(620)	365	2,101	4,223		(499)	1,486
Free cash flow	(780)	285	1,921	4,181		(545)	1,422
Changes in operating assets and liabilities, net of the effect of acquisitions (Note 2):							
Increase in trade accounts receivable, net	2,916	(5,700)	(5,505)	(6,822)		5,119	(5,532)
Increase in unbilled contract receivables	0	0	(2,955)	709		1,064	(154)
Increase in inventories, net	(4,604)	(1,325)	239	(1,544)		(3,734)	691
Increase in other assets	(142)	(295)	360	(622)		(222)	(1,130)
Decrease in accounts payable and other liabilities	(4,223)	(88)	1,672	5,171		(1,751)	3,732
Decrease in accrued compensation and benefits	(527)	326	201	0		116	(116)
Net cash used in operating activities	(7,200)	(6,717)	(3,887)	(6,085)		93	(1,023)
Cash Flows from Investing Activities:							
Acquisition of businesses, net of cash acquired	(100)	0	(10,148)	(251)		0	(9,464)
Payment of acquisition obligations						0	(1,015)
Purchase of property and equipment	(160)	(80)	(180)	(42)		(46)	(64)
Net cash used in investing activities	(260)	(80)	(10,328)	(553)		(46)	(10,543)
Cash Flows from Financing Activities:							
Fee pertaining to the issuance of common stock	(287)	68	219	0		(60)	(11)
Issuance of common stock, net of fees and expenses	0	0	9,525	(565)		0	16,191
Repayments of short-term borrowings and notes payable	(120)	120	(300)	(90)		(60)	(120)
Repayments of loans from affiliates of controlling stockholder	0	(180)	180	0		0	0
Proceeds from revolving credit facility, net	3,469	5,637	$ 4,990	(830)		1,144	(594)
Net cash provided by financing activities	3,062	5,645	$ 14,614	1,577		1,024	15,466
(Decrease) increase in Cash and Cash Equivalents	(4,398)	(1,152)	399	(5,061)		(4,398)	3,900
Cash and Cash Equivalents, beginning of period	6,033	1,635	483	882		219	1,290
Cash and Cash Equivalents, end of period	1,635	483	882	219		1,290	1,290
Supplemental Disclosure of Cash Flow Information:							
Cash paid during period for interest	59	186	228	274		195	5,190
Non-cash investing and financing activities:							
Issuance of promissory notes for acquisition	0	$ 0	$ 10,000	#VALUE!		0	0
Contingent consideration	0	$ 0	$ 1,801	#VALUE!		0	5,632
Deferred consideration for acquisition	500	$ 0	$ (150)	#VALUE!		0	0
Issuance of common stock for contingent consideration	5,839	$ 208	$ (6,047)	0		167	5,884

HISTORICAL STOCK PRICE



DISCLOSURES

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