Zacks Small-Cap Research

November 10, 2016

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Revolution Lighting Technologies, Inc.

(RVLT-NASDAQ)

RVLT: Guidance Lowered Due to Rapid LED Price Declines

With a five year earnings growth rate of 25%, we believe the company could be valued at a 25 PE multiple. When looking out to 2017, that yields a stock price of $12.50 per share.

Current Price (11/09/16)	$5.93
Valuation	**$12.50**

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 revenues 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	**$9.90**
52-Week Low	**$5.16**
One-Year Return (%)	**-38.6**
Beta	**3.6**
Average Daily Volume (sh)	**56,163**
Shares Outstanding (mil)	**21**
Market Capitalization ($mil)	**$124**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**20**
Insider Ownership (%)	**53**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**120.6**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**24.7**
P/E using 2016 Estimate	**21.9**
P/E using 2017 Estimate	**11.9**

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	50.2 A	52.1 E	173.0 E
2017					207.6 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	$0.11 A	$0.13 E	$0.27 E
2017					$0.50 E

Zacks Projected EPS Growth Rate - Next 5 Years 25%

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GUIDANCE SLASHED AS LED PRICE DECLINE ACCELERATED

While business prospects accelerate and margins hold firm at Revolution Lighting, the entire industry has seen LED prices plummet. In 2016, prices have already declined an average of 15% and further price erosion is expected. The price decline accelerated late in the year catching management off guard and making them revise their outlook for Q4 and 2017. Unit pricing has come down as technology improves, and production shows economies of scale, resulting in cheaper component costs. While there were price declines planned in estimates, the decline had been even more rapid than expected. Prices are expected to come down further, but not as rapidly as experienced in 2016. To mitigate these declines, the company is moving into less competitive and higher margin fixtures and lighting products that shield it from more commodity-like pricing in tubes and lamps. This past quarter, the company introduced the most efficient 10.5-watt LED tube in the market as well as a new product line of flat panels, troffers and wall packs. In particular, the company sees that new flat panels are an elegant and growing alternative to fixtures using tubes.

Figure 1. Revolution Lighting Troffer



Revenue guidance for the year is now in the range of **$170-175 million**, down from previous guidance of $180-190 million. Current full year EBITDA margin guidance is 8% or $13.8 million down from previous guidance of $19 million.

In Q3, investors were told to expect revenues in the range of $50-52 million and an EBITDA of approximately $5 million, and the company however reported $50.2 million n revenues and EBITDA of $4.6 million.

The Company expects **Q4 2016 revenue in the range of $50 - $54 million**, up 22% from Q4 2015, and for adjusted EBITDA margin of 9-11% which would be $5.2 million at the midpoint versus $4.5 million last year.

For 2017 the company still expects revenues over $200 million and EBITDA over 8%.

Figure 2. Revolution Flat Panels Installed at West Coast Customs



Profit Margins Continue to Improve as Economies of Scale Kick In

Revolution Lighting is hitting its stride via economies of scale as it posted its second non-GAAP profitable quarter and its first profitable GAAP quarter of 2016. It had positive operating earnings, and net margins (still untaxed) increased to 4.4%. Non-GAAP net income was up 64% from a year ago. The stock however fell 15% as the company reduced guidance for Q4 2016 as well as 2017 due to product price declines being much higher than expected. Although gross margins should hold, and the market should expand even faster on a unit basis due the economics of the price reductions, revenue growth will harder to achieve.

Revolution, which has great dependence on LED tubes, has seen a price decline of that product by as much as 50% this year, but has still grown overall sales internally 16%. Although the company expects further price erosion (albeit not as dramatic) it has two main initiatives that should negate the reduced pricing going forward.

1) The company is in the process **of greatly expanding its distribution**. It is now adding 15 more sales agencies bring the total to 30 by next year. These agencies have 20-60 agents each and are eager to carry Revolution products, which fill a gap in their product offerings to current customers. It also is in the process of hiring specifically for selling to the Navy, military and international maritime markets as it has recently been qualified to sell to the Navy. It believes it only the second company to be qualified. 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. Sales to this new customer should start in Q1 2017 but may even commence as soon as Q4 2016.

2) The company is diversifying away from the retrofit market with new products such as fixtures to sell the new construction market that Value Lighting currently serves. Part of this effort is the plan to roll out a complete catalog of outdoor products by Q2 of next year. These products will have higher ASPs and gross margins than the current company average. Also planned are new state-of-the-art high end, high quality lighting controls that will work with both lamps, as well as its fixture product platform.

Q3 Earnings Results

For the third quarter of 2016, the company reported revenues of $50.2 million versus $37.7 million in 2015, showing **growth of 33%**. Revenues and EBITDA were at the low end of guidance. This growth was comprised of 10% internal growth, and the rest through acquisition. Gross margins were 31.6% versus 32.3% 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 18% to $13.4 million despite a 33% increase in revenues. We believe this trend will continue expanding operating margins.

Interest expense of $747,000 was higher than the $459,000 in 2015 as the company continued to acquire companies and use more debt.

The company does not pay taxes and still has a $65 million tax loss carry forward and amortizable goodwill and intangibles.

Taking out one-time expenses for the acquisition of TNT and stock-based compensation, **non-GAAP net income was $2.2 million** versus $1.4 million a year ago.

This resulted in a **non-GAAP EPS of $0.11 versus $0.09** in 2015, an increase of 26%.

News Since Q3 Ended

On October 19, 2016 Revolution announced that it completed the Navy testing requirements for its two (2) foot T8 LED tube for use in the U.S. Navy fleet and this product will be available through the Navy supply chain. An independent testing laboratory confirmed Revolution's LED tube solution is the highest performing, and longest lasting tube in the industry and the company is optimistic it will be able to take market share from the only other approved vendor, Energy Focus.

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 upwards of 26-28% of every dollar in revenue over $100 million to the bottom line. This means the company **could go from $0.27 per share in earnings this year to $0.50 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 33% to $173 million in sales in 2016 versus $130 in 2015, and fully diluted adjusted EPS of $0.27 versus $0.09 in 2015. In the first nine months, the company grew revenues 42%. Adjusted EBITDA in 2016 should be about $14 million or 8%. **In 2017, adjusted non-GAAP EPS could reach $0.50**.

- 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.

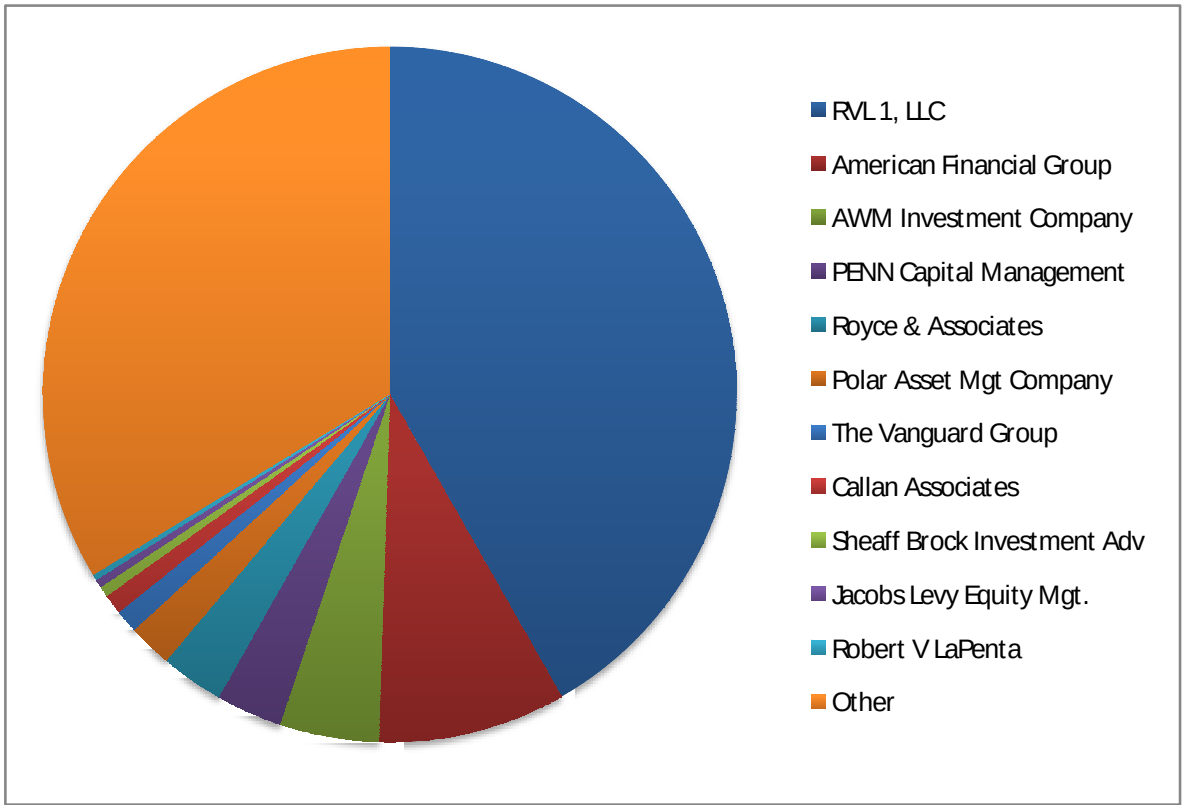
- Given its 25% growth rate, we believe RVLT common stock deserves at 25 PE multiple and could be worth $12.50 when looking at 2017 estimated earnings of $0.50 per share.

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 November 10, 2016

Aston Capital owns RVL 1 LLC who owns 42% 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 of the two lighting company with positive earnings trades at a PE of 25 times estimated calendar year 2016 EPS. CREE (CREE) at 39xs and Acuity Brands trades at 31xs. This is a PE to Growth Rate of 1.0 the average EPS growth rate of 7%. Revolution Lighting, which is growing much faster than that right now, should at least be worth a 25 PE in line with its forward 5-year earnings growth. By next year, if the company does earn $0.50 as we estimate that price could go to $12.50 at a 25 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	8.26	10.00	254.95	30.9	25.5	21%
Cree	CREE	0.60	0.56	23.21	38.7	41.4	-7%
Energy Focus	EFOI	-0.97	-0.54	4.29	-4.4	-7.9	-44%
Lighting Science Group Corp.	LSCG	NA	NA	0.10	NA	NA	NA
LSI Industries	LYTS	NA	NA	0.03	NA	NA	NA
Orion Energy Systems	OESX	-0.29	NA	1.50	-5.2	NA	NA
TCP International Holdings	TCPI	NA	NA	1.32	NA	NA	NA
Average					34.8	33.5	7%

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 2016 30-Sep	Q4 2016E 31-Dec	2014	2015	2016E	2017E
Total revenue	**20.3**	**27.2**	**37.7**	**44.3**	**27.6**	**43.1**	**50.2**	**52.1**	**76.8**	**129.7**	**173.0**	**207.6**
Yr-to-yr Growth	311%	56%	40%	61%	36%	58%	33%	17%	194.9%	68.7%	33.4%	20.0%
Cost of services	13.2	18.2	25.5	29.5	18.5	29.8	34.3	35.4	52.6	86.4	118.0	140.1
Gross profit	7.2	9.1	12.2	14.9	9.1	13.3	15.9	16.7	24.2	43.3	54.9	67.5
Gross Margin	35.3%	33.3%	32.3%	33.5%	32.8%	31.0%	31.6%	32.0%	31.5%	33.4%	31.8%	32.5%
Operating expenses:												
Acquisition, severance and transition costs	0.3	0.5	0.7	0.5	1.1	1.9	0.1	0.0	2.5	2.0	3.1	0.0
Amortization and depreciation	1.0	1.1	1.2	1.5	1.3	1.6	1.6	1.7	5.6	4.9	6.2	7.1
Stock-based compensation	0.5	0.6	0.9	0.6	0.4	0.6	0.5	0.6	1.7	2.7	2.1	2.9
Other SG&A	6.5	7.7	8.4	9.5	7.6	9.3	10.6	10.7	23.2	32.2	38.1	43.8
R&D	0.7	0.2	0.7	0.8	0.6	0.6	0.7	0.8	2.1	2.5	2.7	2.9
Total operating expenses	9.0	10.2	12.0	13.0	11.1	13.9	13.5	13.8	35.1	44.2	52.3	56.7
											28%	27%
Operating income:	(1.9)	(1.1)	0.2	1.9	(2.1)	(0.5)	2.4	2.9	(10.9)	(0.9)	2.7	10.8
Operating margin	-9.1%	-4.1%	0.5%	4.3%	-7.4%	-1.3%	4.7%	5.5%	-14%	-0.7%	1.5%	5.2%
Other income:												
Interest expense, net	(0.2)	(0.4)	(0.5)	(0.5)	(0.6)	(0.6)	(0.7)	(0.7)	(0.8)	(1.5)	(2.6)	(3.0)
Total other income	(0.2)	(0.4)	(0.5)	(0.5)	(0.6)	(0.6)	(0.7)	(0.7)	(0.8)	(1.5)	(2.6)	(3.0)
Income before income taxes	(2.0)	(1.5)	(0.3)	1.4	(2.6)	(1.1)	1.6	2.1	(11.7)	(2.4)	0.0	7.8
Pretax Margin	-10.1%	-5.5%	-0.8%	3.2%	-9.5%	-2.6%	3.2%	4.1%	-15%	-2%	0%	4%
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)	1.6	2.1	(12.8)	(2.4)	0.0	7.8
Stk based compensation	0.5	0.6	0.9	0.6	0.4	0.6	0.5	0.6	1.7	2.7	2.1	2.9
One-time expenses	0.3	0.5	0.7	-	1.1	1.9	0.1	-	2.5	2.0	3.1	-
Non-GAAP Income from continuing	(1.2)	(0.4)	1.4	2.1	(1.0)	1.3	2.2	2.7	(8.6)	2.3	5.2	10.7
Net Margin	-6.0%	-1.5%	3.6%	4.7%	-3.8%	3.1%	4.4%	5.2%	-11.3%	1.8%	3.0%	5.1%
Yr-to-yr Growth	-64%	-126%	-187%	-139%	-14%	-427%	64%	31%		-126.5%	128.4%	104.4%
Net income per share:												
EPS	(0.15)	(0.10)	(0.02)	0.09	(0.16)	(0.06)	0.08	0.10	(1.39)	(0.16)	0.00	0.38
EPS Diluted	(0.13)	(0.09)	(0.02)	0.08	(0.16)	(0.06)	0.08	0.10	(1.24)	(0.14)	0.00	0.36
Adjusted Non-GAAP Diluted	**(0.09)**	**(0.03)**	**0.09**	**0.12**	**(0.06)**	**0.07**	**0.11**	**0.13**	**(0.94)**	**0.09**	**0.27**	**0.50**
	-78.5%	-115.9%	-151.0%	-119.8%	-26.5%	-342.1%	25.8%	11.5%		-109.3%	206.3%	87%
Shares												
Basic	13.8	14.4	15.5	15.8	16.1	18.9	20.5	20.5	9.2	14.9	19.0	20.7
Diluted	15.9	16.5	17.6	17.9	16.7	19.4	21.1	21.0	10.4	16.9	19.5	21.3
	95.0%	49.6%	57.2%	59.8%	5.2%	17.7%	20.4%	17.8%		63.3%	15.4%	9.0%
Adjusted EBITDA	0.0	1.1	3.0	4.5	0.8	3.5	4.6	5.2	(1.1)	8.6	14.1	20.8
EBITDA Margin	0.1%	4.1%	8.0%	10.1%	3.0%	8.1%	9.2%	9.9%			8.1%	10.0%
	-101%	-196%	101%	407%	6800%	212%	52%	15%		-917%	63%	48%

BALANCE SHEET

	Sept. 30, 2016	June 30, 2016	% Change	March 31, 2016	% Change Jun - Mar
Current assets					
Cash and equivalents	**$3,911**	**$5,190**	-25%	**$1,290**	302%
Accounts receivable, net	47,678	43,470	10%	36,013	21%
Unbilled contract receivable	7,869	5,285	49%	3,495	51%
Inventories, net	24,225	25,177	-4%	25,869	-3%
Other current assets	6,487	5,399	20%	4,003	35%
Total current assets	90,170	84,521	7%	70,670	20%
Property and equipment, net	1,218	2,769	-56%	2,673	4%
Accumulated depreciation and amortization	0	(1,579)	-100%	(1,482)	7%
Net property and equipment	1,218	1,190	2%	1,191	0%
Other assets					
Goodwill	71,827	70,575	2%	64,267	10%
Intangible assets, net of accumulated amortization	44,472	45,403	-2%	38,523	18%
Other assets	474	504	-6%	561	-10%
Total other assets	116,773	116,482	0%	103,351	13%
Total assets	208,161	202,193	3%	175,212	15%
Current liabilities					
Accounts payable	25,241	21,889	15%	18,262	20%
Accrued compensation and benefits	0	3,869	-100%	3,716	4%
Notes payable	11,360	11,360	0%	10,390	9%
Accrued and other current liabilities	9,849	7,462	32%	5,420	38%
Purchase price obligations, current	2,899	4,038	-28%	7,990	-49%
Total current liabilities	49,349	48,618	2%	45,778	6%
Long-term liabilities					
Revolving credit facility	**25,513**	**22,576**	13%	**23,170**	-3%
Related party payable	**2,565**	**2,565**	0%	**2,565**	0%
Note payable	**3,156**	**3,246**	-3%	**2,336**	39%
Purchase price obligations, non-current	**2,518**	**2,662**	-5%	**1,023**	160%
Other liabilities	1,497	1,472	2%	530	178%
Total Liabilities	84,598	81,139	4%	75,402	8%
Stockholder's equity					
Common stock	21	21	0%	16	31%
Additional paid-in capital	200,329	199,449	0%	177,083	13%
Accumulated deficit	(76,787)	(78,416)	-2%	(77,289)	1%
Total stockholders' equity	123,563	121,054	2%	99,810	21%
Total liabilities and stockholders' equity	$208,161	$202,193	3%	$175,212	15%
Current ratio	1.8	1.7	5%	1.5	13%
Quick ratio	1.3	1.2	9%	1.0	25%
Working Capital	40,821	35,903	14%	24,892	44%
Net Cash as % of assets	2%	3%	-27%	1%	249%
Cash per share	$0.00	$0.00	-31%	$0.00	245%
Debt % of assets	57%	57%	-1%	63%	-9%
Inventory Turnover	3.4	3.0	11%	1.8	71%
Days Sales	64	76	-16%	126	-39%

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	3 Months Ended Sept. 30, 2016
Cash Flows from Operating Activities:							
Net loss	$ (2,046)	$ (1,488)	$ (285)	$ 1,437	$ (2,616)	$ (1,127)	$ 1,629
Adjustments to reconcile net loss to net cash used in operating activities:							
Depreciation	143	136	136	135	100	98	109
Amortization of intangibles and other assets	890	1,009	1,077	1,342	1,210	1,467	1,518
Reacquired common stock issued for acquisition	(547)	0	0	547	0	0	0
Change in fair value of contingent consideration	406	79	254	125	377	455	(901)
Deferred income tax benefit	$ 0	0	0	0	0	0	0
Stock-based compensation	534	629	919	637	430	593	462
Other non-cash items affecting net loss				0	0	0	181
Cash flow	(620)	365	2,101	4,223	(499)	1,486	2,817
Free cash flow	(780)	285	1,921	4,181	(545)	1,422	2,707
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)	(4,908)
Increase in unbilled contract receivables	0	0	(2,955)	709	1,064	(154)	(3,836)
Increase in inventories, net	(4,604)	(1,325)	239	(1,544)	(3,734)	691	1,321
Increase in other assets	(142)	(295)	360	(622)	(222)	(1,130)	(1,073)
Decrease in accounts payable and other liabilities	(4,223)	(88)	1,672	5,171	(1,751)	3,732	2,357
Decrease in accrued compensation and benefits	(527)	326	201	0	116	(116)	0
Net cash used in operating activities	(7,200)	(6,717)	(3,887)	(6,085)	93	(1,023)	(3,322)
Cash Flows from Investing Activities:							
Acquisition of businesses, net of cash acquired	(100)	0	(10,148)	(251)	0	(9,464)	(949)
Payment of acquisition obligations					0	(1,015)	0
Purchase of property and equipment	(160)	(80)	(180)	(42)	(46)	(64)	(110)
Proceeds from the sale of assets					0	0	2
Net cash used in investing activities	(260)	(80)	(10,328)	(553)	(46)	(10,543)	(1,103)
Cash Flows from Financing Activities:							
Fee pertaining to the issuance of common stock	(287)	68	219	0	(60)	(11)	71
Issuance of common stock, net of fees and expenses	0	0	9,525	(565)	0	16,191	1
Repayments of short-term borrowings and notes payable	(120)	120	(300)	(90)	(60)	(120)	(90)
Repayments of loans from affiliates of controlling stockholder	0	(180)	180	0	0	0	0
Proceeds from revolving credit facility, net	3,469	5,637	4,990	(830)	1,144	(594)	2,937
Net cash provided by financing activities	3,062	5,645	14,614	1,577	1,024	15,466	2,919
(Decrease) increase in Cash and Cash Equivalents	(4,398)	(1,152)	399	(5,061)	(4,398)	3,900	(1,506)
Cash and Cash Equivalents, beginning of period	6,033	1,635	483	882	219	1,290	5,190
Cash and Cash Equivalents, end of period	1,635	483	882	219	1,290	5,190	3,911

HISTORICAL STOCK PRICE



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