Zacks Small-Cap Research

July 27, 2017

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Revolution Lighting Technologies, Inc.

(RVLT-NASDAQ)

RVLT: Record Backlog Supports Huge Q4 Expectations

Using a blended valuation of PE and multiple of EBITDA versus its peers, we come up with an average price target of $16.50 by next year should our estimates prove accurate.

Current Price (07/26/17)	$7.68
Valuation	**$16.50**

OUTLOOK

Revolution Lighting is a pure play in commercial & industrial and government LED end-user lighting products and services. It has no legacy technology dragging down growth and is projected to grow over 25% per year as customers reap increasingly attractive paybacks. To date, only 5% of retrofit lighting consists of LED lighting in the US, providing extensive growth opportunity. Its sales channel has been greatly enlarged and the company has just been qualified by the Navy and is bidding contracts. It now has product made in America that having great success with the new emphasis to Buy American.

SUMMARY DATA

52-Week High	**$8.94**
52-Week Low	**$5.29**
One-Year Return (%)	**21.3**
Beta	**3.7**
Average Daily Volume (sh)	**75,507**
Shares Outstanding (mil)	**21.1**
Market Capitalization ($mil)	**$162**
Short Interest Ratio (days)	**29.8**
Institutional Ownership (%)	**29**
Insider Ownership (%)	**42**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**131**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**59.1**
P/E using 2017 Estimate	**17.9**
P/E using 2018 Estimate	**10.2**

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)
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	51.2 A	172.1 A
2017	30.6 A	43.4 A	53.5 E	72.6 E	200.0 E
2018					240.0 E

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
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	$0.14 A	$0.29 A
2017	-$0.15 A	$0.03 A	$0.12 E	$0.48 E	$0.43 E
2018					$0.75 E

Zacks Projected EPS Growth Rate - Next 5 Years 25%

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Q2 in Line; Company Guides to Huge Q4

Revolution reported revenues for Q2 2017 of $43.4 million, in line with its guidance of $43-$45 million versus $43.1 million in 2016. Gross margins were 32.8%, versus a 31.0% a year ago, and similar to Q1 2017. Again, despite the decline in tube prices near 25% year over year, margins were helped by an increase in the percent of higher margin products and a consolidation of facilities.

Taking out one-time costs, expenses rose to $13.3 million versus $12.0 million last year, but down slightly from Q1 2017 due to a decrease in stock-based compensation expense. There was a $1.1 million increase in SG&A. Additional spending had been going into sales and marketing as well as setting up and ramping the company's new Simi Valley production facility. "Buy American" backlog has increased for the company despite the ramp in production achieved thus far.

Interest expense of $759,000, slightly down from Q1 2017 and higher than the $586,000 in Q1 2016. The company does not pay taxes and has a $61 million tax loss carry forward.

Taking out one-time expenses and stock-based compensation, **non-GAAP net loss was $634,000** versus $1.3 million a year ago. Adjusted EBITDA in the quarter $3.2 million versus $3.5 million in 2016. This resulted in a **non-GAAP EPS of $0.03 versus $0.07** in 2016.

Backlog reached a record and stands at $35 to $45 million and is spread across all businesses. The company anticipates that 80-90% of this backlog will be shipped by the end of Q4.

During the quarter the company earned qualification with the Navy. It indicated that it expected to win its first bid "momentarily." When it receives notification, the company plans to reveal the details and size of the order. To date Revolution has not included any business from the Navy in its forward guidance, so any wins would be upside to numbers.

Q3 2017

The Company offered guidance of **Q3 2017 revenue in the range of $52 million to $55 million, up** 7% from Q3 2016. It also projected adjusted EBITDA in the 8-10% range. At midpoint this yields $4.8 million in EBITDA for Q3. We are using a non-GAAP profit for Q3 2017 of $2.4 million or $0.12 per share versus EPS of $0.11 per share. In Q3 2017 the company has 7% more shares than last year.

Full Year 2017 Estimates Remain the Same

Revenue guidance for the 2017 year was maintained at **$195-205 million,** as was EBITDA margin guidance at 10% and a non-GAAP EPS range of $0.40 to $0.45. The slightly lower revenue expected for Q3 should be made up in Q4. There was one caveat offered by management on the full year revenue estimates based on the Connecticut state budget. Connecticut is running tremendous deficits and one place legislators are looking for cash is in electricity incentives. Should the state agree to cuts in this area, Revolution believes revenues could be impacted by as much $5-$10 million in 2017. The governor has states he is firmly against changes.

Near Term Opportunities

In addition to an imminent Navy contract, the company has other opportunities near term. The first is a new partnership with a US company that sells products complementary to Revolution including fixtures and troffers. To date Revolution has been stymied by a limited product line that has allowed it to bid only 20-30% of some contracts. With this new partnership, the two companies may be able to provide upwards of 70-80% of a given proposal leading to a much higher probability of an award.

Secondly the company continues to be excited about potential sales to an extremely large retailer. It is currently in a pilot program in which three companies were awarded contracts to retrofit a few stores. Revolution has estimated that the price to retrofit the entire chain could cost upwards of $175 million dollars which in turn would save the customer $50-$60 million per year. Based on feedback, management is optimistic it can be awarded a fair chunk of that $175 million.

The third, and most cryptic opportunity is with key customers in Connecticut that represents an "interesting way of doing business in the future." The company also described this idea as a "game changer." While this is not much to go on, if it is successful, Revolution believes revenues from this could start as early as Q4.

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 $0.29 per share in earnings this past year to $0.43 in 2017 and $0.75 in 2018.**

- 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 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.

- Revolution has **two 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 sales based on the Buy America Act. The company has reached compliance for both programs. The Buy America products have record backlog and the company expects to win its first Navy contract at any moment.

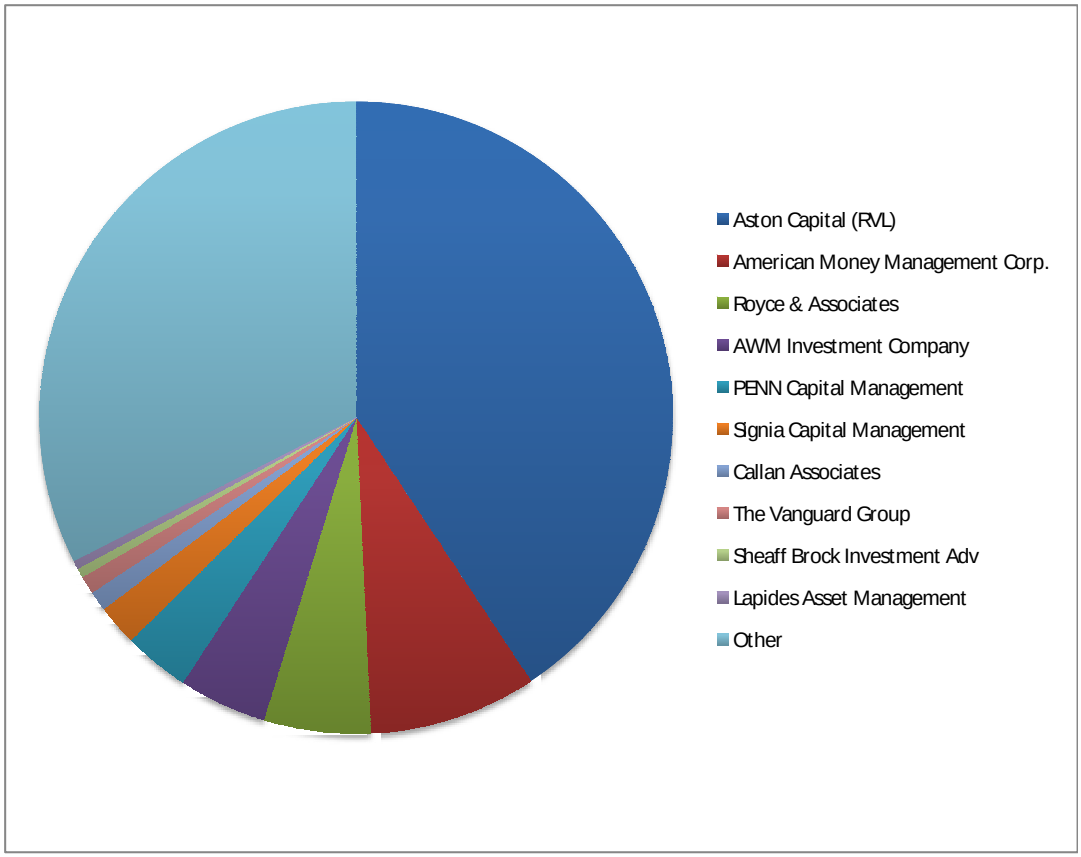
- The company grew 33% in 2016. We predict sales growth of 16% to $200 million in sales in 2017 and fully diluted adjusted non-GAAP EPS of $0.43 versus $0.29 in 2016. Adjusted EBITDA in 2017 should be about $20 million or 10%. **In 2018, adjusted non-GAAP EPS could reach $0.75**.

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. Its operating divisions include Energy Source, Value Lighting, Tri-State LED, E-Lighting, All-Around Lighting, and TNT Energy. The company has over 300 full-time employees distributed among 10 locations.

OWNERSHIP – Updated July 2017

Aston Capital owns RVL 1 LLC and owns 41% of RVLT. Certain management and directors of Revolution Lighting including Robert LaPenta and James DePalma are also owners of Aston Capital. As of July 21, 2017 the company had 21.1 million shares outstanding.



RISKS

- 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.
- The production facility in California may not be able to easily scale to meet demand or costs to produce there might be uncompetitive.

VALUATION

In the public markets the average of the three lighting company with positive earnings trades at a PE of 39 times calendar year 2017 EPS. CREE (CREE) trades at 64xs, Acuity Brands (AYI) trades at 24xs, and LSI Industries trades at 29xs. Revolution Lighting should at least be worth a 25 PE in line with its forward 5-year earnings growth. With an EPS estimate of $0.43 RVLT is worth $10.75 at a 25 multiple or even higher in line with its comps. Using the 2018 estimate of $0.75 the price rises to $18.75.

Alternatively, we could value the company on enterprise value to trailing 12-month EBITDA as management runs the business based on EBITDA goals. If we average all the company peers together, they trade at 7.5 times EV/EBITDA. But if we eliminate the EBITDA negative companies, that rises to 17.2 times. Using RVLT's 2017 adjusted EBITDA of $20 million would value the company at an enterprise value of $344 million. This equates to a stock price of $14.32 per share.

Using a blended valuation of $14.32 and $10.75, RVLT stock is estimated to be worth $12.53 today and **by next year could be worth $16.53.**

	Ticker	EPS 17	EPS 18	Price	PE 2017	PE 2018	Gr Rate	EBITDA	EV	EV/EBITDA
Company										
Acuity Brands	AYI	8.58	NA	208.07	24.3	NA	NA	585	8,867	15.2
Cree	CREE	0.41	NA	26.30	64.1	NA	NA	111	2,105	19.0
Energy Focus	EFOI	-1.11	-0.38	2.33	-2.1	-6.1	-66%	-17	13	-0.7
Lighting Science Group Corp.	LSCG	NA	NA	0.03	NA	NA	NA	-16	56	-3.4
LSI Industries	LYTS	0.31	NA	8.91	28.7	NA	NA	16	275	17.3
Orion Energy Systems	OESX	-0.50	NA	1.08	-2.2	NA	NA	-10	24	-2.3
Average					39.0	NA	NA		All	7.5
									Profitable	17.2

INCOME STATEMENT

Revolution Lighting Technologies	Q1 2016 31-Mar	Q2 2016 30-Jun	Q3 2016 30-Sep	Q4 2016 31-Dec	Q1 2017 31-Mar	Q2 2017 30-Jun	Q3 2017E 30-Sep	Q4 2017E 31-Dec	2015	2016	2017E	2018E
Total revenue	**27.6**	**43.1**	**50.2**	**51.2**	**30.6**	**43.4**	**53.5**	**72.6**	**129.7**	**172.1**	**200.0**	**240.1**
Yr-to-yr Growth	36%	58%	33%	16%	11%	1%	7%	42%	68.7%	32.8%	16.2%	20.0%
Cost of services	18.5	29.8	34.3	33.6	20.5	29.1	36.0	45.0	86.4	116.3	130.6	157.5
Gross profit	9.1	13.3	15.9	17.6	10.1	14.2	17.5	27.6	43.3	55.9	69.4	82.6
Gross Margin	32.8%	31.0%	31.6%	34.4%	33.0%	32.8%	32.7%	38.0%	33.4%	32.5%	34.7%	34.4%
Operating expenses:												
Acquisition, severance and transition costs	1.1	1.9	0.1	0.7	0.7	0.9	0.5	0.0	2.0	3.9	2.0	0.0
Amortization and depreciation	1.3	1.6	1.6	1.6	1.9	1.8	1.8	1.8	4.9	6.1	7.3	7.8
Stock-based compensation	0.4	0.6	0.5	0.7	1.1	0.5	1.0	1.0	2.7	2.1	3.6	4.1
Other SG&A	7.6	9.3	10.6	12.0	10.1	10.4	11.7	13.8	32.2	39.4	46.0	53.1
R&D	0.6	0.6	0.7	0.4	0.4	0.7	0.8	0.8	2.5	2.4	2.7	2.9
Total operating expenses	11.1	13.9	13.5	15.4	14.2	14.2	15.8	17.4	44.2	53.9	61.6	67.9
										29%	31%	28%
Operating income:	(2.1)	(0.5)	2.4	2.2	(4.2)	0.0	1.7	10.2	(0.9)	2.0	7.8	14.7
Operating margin	-7.4%	-1.3%	4.7%	4.3%	-13.6%	0.1%	3.2%	14.1%	-0.7%	1.2%	3.9%	6.1%
Other income:												
Interest expense, net	(0.6)	(0.6)	(0.7)	(0.6)	(0.8)	(0.8)	(0.8)	(0.8)	(1.5)	(2.5)	(2.4)	(2.4)
Total other income	(0.6)	(0.6)	(0.7)	(0.6)	(0.8)	(0.8)	(0.8)	(0.8)	(1.5)	(2.5)	(2.4)	(2.4)
Income before income taxes	(2.6)	(1.1)	1.6	1.6	(5.0)	(0.7)	0.9	9.4	(2.4)	(0.5)	5.4	12.2
Pretax Margin	-9.5%	-2.6%	3.2%	3.1%	-16.2%	-1.7%	1.8%	13.0%	-2%	0%	3%	5%
Income tax	-	-	-	-	-	-	-	-	-	-	-	-
Tax rate	0%	0%	0%	0%	0%	0%	0%	0%	0.0%	0.0%	0.0%	0.0%
Net income	(2.6)	(1.1)	1.6	1.6	(5.0)	(0.7)	0.9	9.4	(2.4)	(0.5)	5.4	12.2
Stk based compensation	0.4	0.6	0.5	0.7	1.1	0.5	1.0	1.0	2.7	2.1	3.6	4.1
One-time expenses	1.1	1.9	0.1	0.7	0.7	0.9	0.5	-	2.0	3.9	-	-
Non-GAAP Income from continuing	(1.0)	1.3	2.2	3.0	(3.2)	0.6	2.4	10.4	2.3	5.5	8.9	16.3
Net Margin	-3.8%	3.1%	4.4%	5.8%	-10.4%	1.5%	4.6%	14.4%	1.8%	3.2%	4.5%	6.8%
Yr-to-yr Growth	-14%	-427%	64%	43%	204%	-52%	10%	252%	-126.5%	139.2%	63.6%	82.6%
Net income per share:												
EPS	(0.16)	(0.06)	0.08	0.08	(0.24)	(0.04)	0.04	0.45	(0.16)	(0.03)	0.26	0.58
EPS Diluted	(0.16)	(0.06)	0.08	0.08	(0.24)	(0.04)	0.04	0.44	(0.14)	(0.03)	0.25	0.57
Adjusted Non-GAAP Diluted	**(0.06)**	**0.07**	**0.11**	**0.15**	**(0.15)**	**0.03**	**0.12**	**0.48**	**0.09**	**0.29**	**0.43**	**0.76**
	-26.5%	-342.1%	25.8%	24.8%	138.5%	-55.3%	5.3%	233.3%	-109.3%	228.4%	48%	78%
Shares												
Basic	16.1	18.9	20.5	20.5	20.6	20.8	21.1	21.1	14.9	19.0	20.9	21.0
Diluted	16.7	19.4	20.5	20.5	20.6	20.8	21.1	21.6	16.9	19.1	21.0	21.6
	5.2%	17.7%	16.7%	14.8%	23.7%	7.1%	3.2%	5.5%	63.3%	12.7%	10.2%	2.7%
Adjusted EBITDA	0.8	3.5	4.6	5.2	(0.4)	3.2	5.0	13.0	8.6	14.1	20.7	26.6
EBITDA Margin	3.0%	8.1%	9.2%	10.1%	-1.4%	7.3%	9.3%	17.9%	6.7%	8.2%	10.4%	11.1%
	6800%	212%	52%	16%	-153%	-8%	9%	150%		63%	47%	28%

BALANCE SHEET

	June 30, 2017	Mar. 31, 2017	% Change June-Mar	June 30, 2016	Yr-Yr % Change
Current assets					
Cash and equivalents	**$475**	**$1,169**	-59%	**$5,190**	-91%
Accounts receivable, net	50,664	46,156	10%	43,470	17%
Unbilled contract receivable	6,255	8,326	-25%	5,285	18%
Inventories, net	31,234	30,279	3%	25,177	24%
Other current assets	9,814	8,947	10%	5,399	82%
Total current assets	98,442	94,877	4%	84,521	16%
Property and equipment, net	1,651	1,528	8%	2,769	-40%
Other assets					
Goodwill	72,210	72,074	0%	70,575	2%
Intangible assets, net of accumulated amortization	41,166	42,406	-3%	45,403	-9%
Other assets	1,202	1,318	-9%	504	138%
Total other assets	114,578	115,798	-1%	116,482	-2%
Total assets	214,671	212,203	1%	202,193	6%
Current liabilities					
Accounts payable	26,294	27,273	-4%	21,889	20%
Notes payable	**2,360**	**2,360**	0%	11,360	-79%
Related party payable	0	1,500	-100%	0	0%
Accrued and other current liabilities	11,556	11,836	-2%	7,462	55%
Purchase price obligations, current	**561**	**2,074**	-73%	4,038	-86%
Total current liabilities	40,771	45,043	-9%	48,618	-16%
Long-term liabilities					
Revolving credit facility	**38,741**	**40,812**	-5%	**22,576**	72%
Related party payable	**11,065**	**2,565**	331%	**2,565**	331%
Note payable	**1,886**	**2,006**	-6%	**3,246**	-42%
Purchase price obligations, non-current	**0**	**0**	0%	**2,662**	-100%
Other liabilities	386	314	23%	1,472	-74%
Total Liabilities	92,849	90,740	2%	81,139	14%
Stockholder's equity					
Common stock	21	21	0%	21	0%
Additional paid-in capital	202,678	201,592	1%	199,449	2%
Accumulated deficit	(80,877)	(80,150)	1%	(78,416)	3%
Total stockholders' equity	121,822	121,463	0%	121,054	1%
Total liabilities and stockholders' equity	$214,671	$212,203	1%	$202,193	6%
Current ratio	2.4	2.1	15%	1.7	39%
Quick ratio	1.6	1.4	15%	1.2	35%
Working Capital	57,671	49,834	16%	35,903	61%
Net Cash as % of assets	0%	1%	-60%	3%	-91%
Cash per share	$0.00	$0.00	-60%	$0.00	-92%
Debt % of assets	25%	23%	8%	57%	-56%
Inventory Turnover	3.6	2.3	53%	3.0	18%
Days Sales	97	133	-27%	76	27%

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	3 Months Ended Dec. 31, 2016	3 Months Ended March 31, 2017	3 Months Ended June 30, 2017
Cash Flows from Operating Activities:										
Net loss	$ (2,046)	$ (1,488)	$ (285)	$ 1,437	$ (2,616)	$ (1,127)	$ 1,629	$ 1,592	$ (4,955)	$ (727)
Adjustments to reconcile net loss to net cash used in operating activities:										
Depreciation	143	136	136	135	100	98	109	82	126	135
Amortization of intangibles and other assets	890	1,009	1,077	1,342	1,210	1,467	1,518	1,531	1,813	1,658
Reacquired common stock issued for acquisition	(547)	0	0	547	0	0	0	0	0	0
Change in fair value of contingent consideration	406	79	254	125	377	455	(901)	(2,179)	(785)	(860)
Deferred income tax benefit	$ 0	0	0	0	0	0	0	0	0	0
Stock-based compensation	534	629	919	637	430	593	462	656	1,118	478
Other non-cash items affecting net loss				0	0	0	181	1,168	21	(124)
Cash flow	(620)	365	2,101	4,223	(499)	1,486	2,817	1,682	(2,683)	684
Free cash flow	(780)	285	1,921	4,181	(545)	1,422	2,707	1,347	(2,914)	263
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)	(6,459)	7,161	(4,478)
Increase in unbilled contract receivables	0	0	(2,955)	709	1,064	(154)	(3,836)	(2,298)	1,841	2,071
Increase in inventories, net	(4,604)	(1,325)	239	(1,544)	(3,734)	691	1,321	(2,708)	(3,571)	(985)
Increase in other assets	(142)	(295)	360	(622)	(222)	(1,130)	(1,073)	(2,397)	(1,549)	(445)
Decrease in accounts payable and other liabilities	(4,223)	(88)	1,672	5,171	(1,751)	3,732	2,357	8,878	(5,432)	(947)
Decrease in accrued compensation and benefits	(527)	326	201	0	116	(116)	0	0	0	0
Net cash used in operating activities	(7,200)	(6,717)	(3,887)	(6,085)	93	(1,023)	(3,322)	(3,302)	(4,212)	(4,224)
Cash Flows from Investing Activities:										
Acquisition of businesses, net of cash acquired	(100)	0	(10,148)	(251)	0	(9,464)	(949)	(947)	0	0
Payment of acquisition obligations					0	(1,015)	0	0	0	(284)
Purchase of property and equipment	(160)	(80)	(180)	(42)	(46)	(64)	(110)	(335)	(231)	(421)
Proceeds from the sale of assets					0	0	2	(2)	0	0
Net cash used in investing activities	(260)	(80)	(10,328)	(553)	(46)	(10,543)	(1,103)	(11,827)	(231)	(421)
Cash Flows from Financing Activities:										
Fee pertaining to the issuance of common stock	(287)	68	219	0	(60)	(11)	71	0	0	0
Fee pertaining to the issuance of debt										
Issuance of common stock, net of fees and expenses	0	0	9,525	(565)	0	16,191	1	0	0	0
Repayments of short-term borrowings and notes payable	(120)	120	(300)	(90)	(60)	(120)	(90)	(90)	(10,090)	(90)
Proceeds of loans from related party note payable	0	0	0	0	0	0	0	0	0	7,000
Repayments of loans from affiliates of controlling stockholder	0	(180)	180	0	0	0	0	0	0	0
Proceeds from revolving credit facility, net	3,469	5,637	4,990	(830)	1,144	(594)	2,937	480	14,819	(2,072)
Net cash provided by financing activities	3,062	5,645	14,614	1,577	1,024	15,466	2,919	390	4,729	4,838
(Decrease) increase in Cash and Cash Equivalents	(4,398)	(1,152)	399	(5,061)	(4,398)	3,900	(1,506)	(14,739)	286	193
Cash and Cash Equivalents, beginning of period	6,033	1,635	483	882	219	1,290	5,190	3,911	883	1,169
Cash and Cash Equivalents, end of period	1,635	483	882	219	1,290	5,190	3,911	883	1,169	1,362

HISTORICAL STOCK PRICE



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