Zacks Small-Cap Research

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Revolution Lighting Technologies, Inc.

(RVLT-NASDAQ)

RVLT: Hurricanes Dim Revolution Lighting's Near Term Forecast

Using a blended valuation of PE and multiple of EBITDA versus its peers, we come up with an average price target of $15.22 by next year should our estimates prove accurate.

Current Price (09/21/17)	$7.58
2018 Valuation	**$15.22**

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 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	**$5.29**
One-Year Return (%)	**0.9**
Beta	**3.9**
Average Daily Volume (sh)	**79,525**
Shares Outstanding (mil)	**21.1**
Market Capitalization ($mil)	**$160**
Short Interest Ratio (days)	**43.5**
Institutional Ownership (%)	**32**
Insider Ownership (%)	**42**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**119**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**58.3**
P/E using 2017 Estimate	**68.9**
P/E using 2018 Estimate	**13.8**

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	43.0 E	60.0 E	176.9 E
2018					221.0 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	$0.00 E	$0.29 E	$0.11 E
2018					$0.55 E

Zacks Projected EPS Growth Rate - Next 5 Years 15%

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Company Lowers Guidance Due to Impact of Hurricanes

Today management revised Q3 and Q4 guidance primarily due to the impact of the recent hurricanes on business activities. The hurricanes primarily affected the multi-family lighting business at Value. This entity at Revolution gets as much as 70% of its sales in the last two weeks of the quarter. It was unable to ship product due to the disruption in distribution and travel, as well as the inability for customers to take delivery. In addition, its Georgia and Texas offices were closed for a number of days. Revolution believes this reduced quarterly sales by about $7 million. Additionally a number of large deals at Energy Source slipped into Q4. In an abundance of caution, the company also took down Q4 guidance. As affected areas move to rebuild, new opportunities may arise for LED lighting and fixtures as owners and municipalities take the opportunity to modernize and cut costs by replacing lighting with LED when they otherwise might not have.

Update on Current Business

Backlog has increased $10 million since the end of Q2 when it was $35 to $45 million and the company still anticipates that 80-90% of this backlog will be shipped by the end of Q4.

Since the end of Q2 the company won its first Navy contract. This small order of 2300 tubes is now shipping and Revolution expects to bid on a much larger contract in November for what it expects to be 30,000 – 40,000 tubes. In addition, it won its first bid from the US National Guard.

In a novel approach to financing for municipalities, the company has created what it is calling “Energy as a Service.” Working with the local utility and banks, the company is now executing LED replacement projects that are being paid for through the payment of an electric bill. Much like when a customer could pay off a new smartphone by signing a contract to pay a higher monthly phone service rate, the government will keep paying a higher electricity bill until it has paid off its project cost for LED replacements. Revolution is enabling a state government (name of state withheld) to switch to LED in 10-15 state owned buildings, with the potential of another 30-40 buildings using this financing technique. Revolution anticipates the state could save as much as $50-$60 million per year on electricity if all the buildings are converted. This contract is expected to start in Q4 could lead to as much as $100 million in sales over the next two years.

Business continues steady at retail stores and more chains are presenting opportunities. The work with the large retailer the company talks about is now onto phase two and this customer is now considering replacing fixtures as well as tubes throughout it stores.

Q3 2017

The company is now guiding to **Q3 2017 revenue in the range of $42 million to $44 million, flat with** Q3 2016. It also projects adjusted EBITDA in the 5-6% range. At midpoint this yields $2.4 million in EBITDA for Q3. We are now using breakeven for Q3 2017 versus EPS of $0.11 per share. In Q3 2017 the company has 7% more shares than last year.

Full Year 2017 Estimate Drops to $177 million

Revenue guidance for the 2017 year was dropped to **$171 to $178 million,** and EBITDA margin guidance was dropped to 8% from 10%. This leads us to a new non-GAAP EPS estimate of $0.11 for the year down from $0.29 last year. Needless to say, while the hurricanes caused short term disruption to business then should provide even more opportunity in Q4 and beyond as Texas, Florida and Puerto Rico rebuild.

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 $0.11 per share in earnings this year to $0.55 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: increasing sales to 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 just won its first very first Navy contract and expects a second larger contract in Q4. It also won its first with the US National Guard.

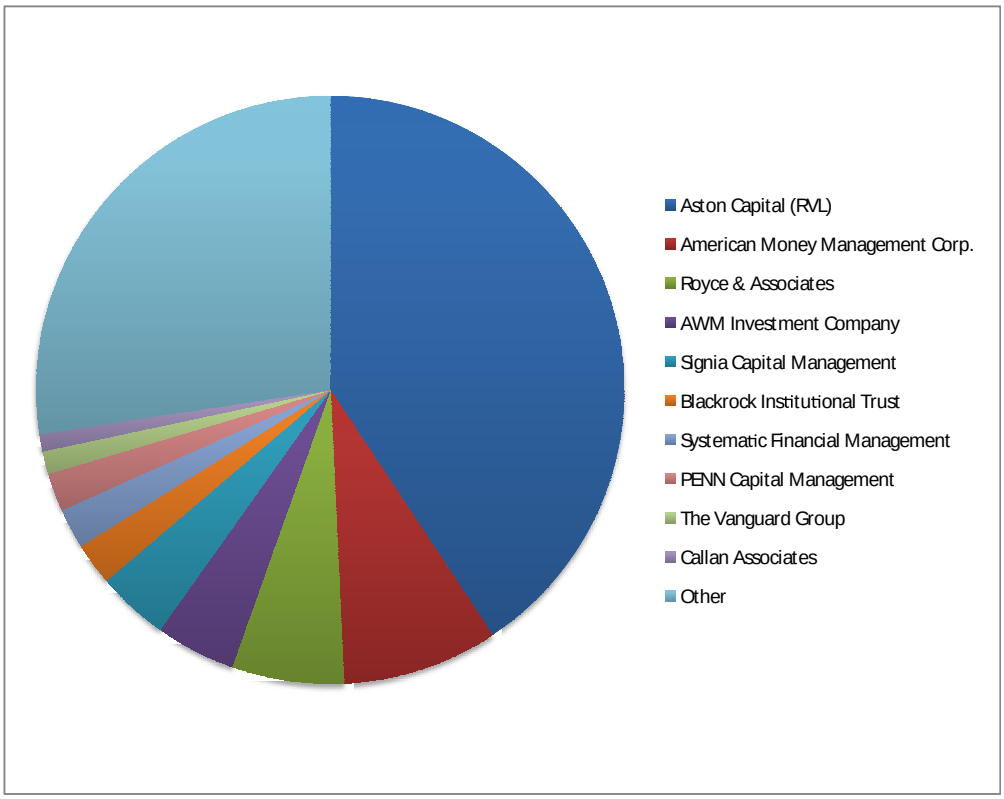
- The company grew 33% in 2016. And while hurricanes stunted Revolution's growth in 2017, we believe opportunities will be even more than before due to rebuilding. We predict sales growth of 25% to $220 million in sales in 2018 and fully diluted adjusted non-GAAP EPS of $0.55 versus $0.11 in 2017. Adjusted EBITDA in 2018 should be about $22 million or 10%.

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

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 52.7 times calendar year 2017 EPS. CREE (CREE) trades at 89xs, Acuity Brands (AYI) trades at 18.3xs, and LSI Industries trades at 51xs. Revolution Lighting should at least be worth a 25 PE in line with its forward 5-year earnings growth. With a **2018 EPS estimate of $0.55 RVLT would be worth $16.11** at a 25 multiple or even higher in line with its comps.

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 7.9 times EV/EBITDA. But if we eliminate the EBITDA negative companies, that rises to 19.2 times. Using RVLT's 2017 adjusted EBITDA of $14 million would value the company at an enterprise value of $268 million. **This equates to a stock price of $10.33 right now and $14.32 per share by 2018.**

Using a blended valuation of $16.11 and $14.32, RVLT stock is estimated to be worth $15.22 **by next year.**

Calendar years

Company	Ticker	EPS 17	EPS 18	Price	PE 2017	PE 2018	Gr Rate	EBITDA	EV	EV/EBITDA
Acuity Brands	AYI	8.85	NA	162.08	18.3	NA	NA	585	8,867	15.2
Capstone Companies	CAPC	NA	NA	0.47	NA	NA	NA	4	29	7.2
Cree	CREE	0.28	0.58	24.95	89.1	43.02	107%	101	2,105	20.8
Energy Focus	EFOI	-0.99	-0.28	2.48	-2.5	-8.9	-72%	-15	13	-0.8
Lighting Science Group Corp.	LSCG	NA	NA	0.02	NA	NA	NA	-16	56	-3.4
LSI Industries	LYTS	0.13	NA	6.60	50.8	NA	NA	15	275	18.5
Orion Energy Systems	OESX	-0.59	NA	1.11	-1.9	NA	NA	-12	24	-2.0
Average					52.7	NA	NA		All	7.9
									Profitable	19.2

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**	**43.0**	**60.0**	**129.7**	**172.1**	**176.9**	**221.2**
Yr-to-yr Growth	36%	58%	33%	16%	11%	1%	-14%	17%	68.7%	32.8%	2.8%	25.0%
Cost of services	18.5	29.8	34.3	33.6	20.5	29.1	28.8	38.0	86.4	116.3	116.4	145.1
Gross profit	9.1	13.3	15.9	17.6	10.1	14.2	14.2	22.0	43.3	55.9	60.5	76.1
Gross Margin	32.8%	31.0%	31.6%	34.4%	33.0%	32.8%	33.0%	36.7%	33.4%	32.5%	34.2%	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	0.5	1.0	2.7	2.1	3.1	4.1
Other SG&A	7.6	9.3	10.6	12.0	10.1	10.4	10.9	12.3	32.2	39.4	43.7	51.0
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	14.5	15.9	44.2	53.9	58.8	65.8
										29%	33%	30%
Operating income:	(2.1)	(0.5)	2.4	2.2	(4.2)	0.0	-0.3	6.1	(0.9)	2.0	1.7	10.3
Operating margin	-7.4%	-1.3%	4.7%	4.3%	-13.6%	0.1%	-0.7%	10.2%	-0.7%	1.2%	1.0%	4.7%
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)	(1.1)	5.3	(2.4)	(0.5)	(0.7)	7.8
Pretax Margin	-9.5%	-2.6%	3.2%	3.1%	-16.2%	-1.7%	-2.4%	8.9%	-2%	0%	0%	4%
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)	(1.1)	5.3	(2.4)	(0.5)	(0.7)	7.8
Stk based compensation	0.4	0.6	0.5	0.7	1.1	0.5	0.5	1.0	2.7	2.1	3.1	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	(0.1)	6.3	2.3	5.5	2.3	11.9
Net Margin	-3.8%	3.1%	4.4%	5.8%	-10.4%	1.5%	-0.1%	10.6%	1.8%	3.2%	1.3%	5.4%
Yr-to-yr Growth	-14%	-427%	64%	43%	204%	-52%	-102%	114%	-126.5%	139.2%	-57.1%	408.6%
Net income per share:												
EPS	(0.16)	(0.06)	0.08	0.08	(0.24)	(0.04)	(0.05)	0.25	(0.16)	(0.03)	(0.04)	0.37
EPS Diluted	(0.16)	(0.06)	0.08	0.08	(0.24)	(0.04)	(0.05)	0.25	(0.14)	(0.03)	(0.04)	0.36
Adjusted Non-GAAP Diluted	**(0.06)**	**0.07**	**0.11**	**0.15**	**(0.15)**	**0.03**	**(0.00)**	**0.29**	**0.09**	**0.29**	**0.11**	**0.55**
	-26.5%	-342.1%	25.8%	24.8%	138.5%	-55.3%	-102.2%	102.5%	-109.3%	228.4%	-61%	395%
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	2.5	8.9	8.6	14.1	14.1	22.2
EBITDA Margin	3.0%	8.1%	9.2%	10.1%	-1.4%	7.3%	5.8%	14.8%	6.7%	8.2%	8.0%	10.0%
	6800%	212%	52%	16%	-153%	-8%	-46%	71%		63%	0%	57%

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



DISCLOSURES

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