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Zacks Small-Cap Research

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Revolution Lighting Technologies, Inc. (RVLT-NASDAQ)

RVLT: Management Seeks to Take Company Private

Management has proposed a buyout price of $2.00 per share, which would value the company at an enterprise value of $98.3 million based on the June 30, 2018 balance sheet.

OUTLOOK

Revolution Lighting is a pure play in commercial, industrial, and government LED end-user lighting products and services. Management just announced plans to purchase the 53% of the outstanding stock it does not own at $2 per share and take itself private. It is awaiting board approval.

Current Price (10/17/18)	$1.65
Valuation	**$2.00**

SUMMARY DATA

52-Week High	**$6.05**
52-Week Low	**$2.20**
One-Year Return (%)	**-57.9**
Beta	**0.1**
Average Daily Volume (sh)	**62,158**
Shares Outstanding (mil)	**22.5**
Market Capitalization ($mil)	**$37.1**
Short Interest Ratio (days)	**27.6**
Institutional Ownership (%)	**38**
Insider Ownership (%)	**47**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**54.1**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/M**
P/E using 2018 Estimate	**N/M**
P/E using 2019 Estimate	**N/M**
Zacks Rank	**N/A**

Risk Level	**High**
Type of Stock	**Small Value**
Industry	**Bldg Prod-Ltg Fixtur**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2016	27.6 A	43.1 A	50.2 A	51.2 A	172.1 A
2017	30.6 A	43.4 A	43.1 A	35.3 A	152.3 A
2018	33.7 A	36.4 A	33.0 E	35.0 E	138.2 E
2019					149.2 E

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2016	-$0.06 A	$0.07 A	$0.11 A	$0.14 A	$0.29 A
2017	-$0.15 A	-$0.03 A	-$0.03 A	-$0.15 A	-$0.34 A
2018	-$0.06 A	-$0.04 A	-$0.06 E	-$0.03 E	-$0.24 E
2019					-$0.01 E

Zacks Projected EPS Growth Rate - Next 5 Years % **N/A**

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WHAT'S NEW

This morning Revolution Lighting announced management's **plan to take itself private by purchasing the remaining outstanding stock it does not own at $2 per share.** In addition, it announced that it had missed its revenue guidance of $40 million to $45 million for the third quarter ending September 30, and expects to report revenues of $33 million. Due to this shortfall and lowered expectations for Q4 it now expects 2018 annual revenues to be between $140 million and $145 million. In its letter to the independent directors of the board, the company cites the cost and distraction of being a public company as well as its liquidity needs, as reasons to leave the public markets. The letter is as follows:

Gentlemen:

We write to you in connection with your roles as independent, disinterested members of the Board of Directors of Revolution Lighting Technologies, Inc. (the "Company") and on behalf of RVL 1, LLC (together with its affiliates and certain related persons, "we" or "us"). As you are aware, we beneficially own approximately 46% of the Company's outstanding common stock and have provided various capital support to the Company in the form of letters of support, guarantees under the Company's Revolving Credit Facility and promissory notes. We are constantly evaluating our investment in the Company and the Company's business, financial performance and liquidity situation. The Company's recent financial performance has made clear to us that, in our opinion, the Company can no longer continue to operate in the way it historically has operated. The Company's ongoing liquidity needs, which we do not believe can be addressed through third party funding, are likely to require us to provide additional funding, which we are reluctant to do at this time given the Company's current operations and cost structure. Without additional funding, we believe that the Company may be forced to consider various restructuring alternatives in the near term. Simply put, we do not believe that it is in the best interests of the Company and its stockholders to continue as a publicly traded enterprise, as we believe it currently lacks sufficient scale and the ongoing costs of maintaining the reporting and related infrastructure necessary for public reporting are a significant financial burden on the Company. In addition, we believe the constant pressure to meet quarterly earnings targets has been a significant distraction to the Company's management and has prevented management from appropriately focusing on the long term growth and the development of the Company's business.

As a result of the above factors, ***we propose to acquire all of the common stock of the Company that we do not currently own for a price of $2.00 per share****. Given our familiarity with the Company, we would not need to conduct any further due diligence on the Company and would be in a position to sign a definitive transaction agreement quickly. Our proposal is conditioned on the Board of Directors forming a fully empowered and properly constituted special committee of independent directors, which is empowered to select its own advisors, to consider the fairness to the Company's stockholders of our proposal (or any other strategic alternatives) and negotiate the terms of any definitive documentation with respect to any resulting transaction. Our proposal is further conditioned on the approval of holders of a majority of the Company's disinterested stockholders. We have sufficient cash and liquid assets on hand to fund the transaction consideration and satisfy the related fees and expenses in connection therewith. While we recognize that our offer represents a discount to the current trading price of the Company's common stock, we do not believe that the current trading price accurately reflects the Company's current financial performance or liquidity situation. We believe that our offer represents the best value that the Company's stockholders could reasonably expect given the current circumstances. However,* ***we are supportive, and in favor, of the Company exploring and potentially pursuing other strategic alternatives*** *that maximize stockholder value. We are available at your convenience to discuss our proposal and look forward to constructively working with you to determine the best path for the Company to realize value for all of its shareholders.*

Very truly yours,
RVL 1, LLC

Forecast Guidance Cut

Management announced **Q3 2018 revenue of $33 million versus its guidance of $40 - $42 million and our estimate of $39 million**. It reduced again its full year 2018 revenue guidance to $140 - $145 million from $160 - $170 million, versus $152 million in 2017.

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.**

- 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 often 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 potentially has **big upsides to sales** to the US Navy and other navies around the world. After a year and a half gaining compliance the company has shipped its first order and looks to bid on bid on more. Since this has just started and traction could provide big upside as contracts are large and at higher than average margins. In addition it has just begun to pursue sales to airports via approval from the FAA, which could also add huge revenues. Being able to meet Made In America and Trade Agreement Act compliance also positions the company for success selling to government.

- The company's management has proposed to take the company private at a $2.00 per share and the proposal is awaiting board approval.

OVERVIEW

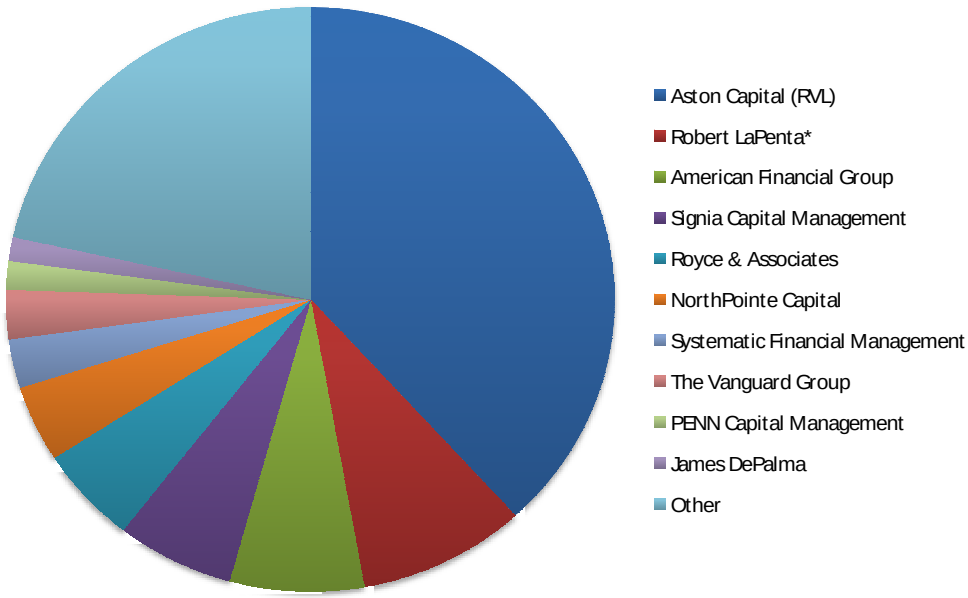
RVL LLC acquired Revolution Lighting Technologies in September of 2012. RVL LLC is an investment company created by Ashton Capital and is owned primarily by Robert LaPenta and principals of Aston Capital. Since 2012, the company has acquired eight more companies in LED lighting products, full service 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. It has 250 employees.

RISKS

- LED lighting products had experienced rapid declines in price due to extraordinary competition here and in China. While prices are currently more stable, 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 consolidation.
- 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.
- The company has liquidity issues and has proposed a take private transaction to remove it from the public markets. It may need to raise cash to fund operations regardless of this transaction and we believe it has reached its third party borrowing capacity.

OWNERSHIP

Aston Capital owns RVL 1 LLC and together with management owns 47% of RVLT. Certain management and directors of Revolution Lighting including Robert LaPenta and James DePalma are also owners of Aston Capital. Robert LaPenta's position shown below is shares owned by him in addition to shares owned by RVL 1 LLC. As of July 27, 2018 the company had 22.5 million shares outstanding.



INCOME STATEMENT

	Q1 2017 31-Mar	Q2 2017 30-Jun	Q3 2017 30-Sep	Q4 2017 31-Dec	Q1 2018 31-Mar	Q2 2018 30-Jun	Q3 2018E 30-Sep	Q4 2018E 31-Dec	2016	2017	2018E	2019E
Total revenue	**30.6**	**43.4**	**43.1**	**35.3**	**33.7**	**36.4**	**33.0**	**35.0**	**172.1**	**152.3**	**138.2**	**149.4**
Yr-to-yr Growth	11%	1%	-14%	-31%	10%	-16%	-23%	-1%	32.8%	-11.5%	-9.3%	8.1%
Cost of services	20.5	29.1	29.2	22.6	22.2	24.7	22.3	23.5	116.3	101.4	92.7	98.9
Restructuring costs	0.0	0.0	0.0	9.3	0.0	0.0	0.0	0.0	0.0	9.3	0.0	0.0
Gross profit	10.1	14.2	13.9	3.5	11.5	11.8	10.7	11.5	55.9	41.7	45.5	50.5
Gross Margin	33.0%	32.8%	32.2%	9.8%	34.1%	32.3%	32.4%	32.9%	32.5%	27.4%	32.9%	33.8%
Operating expenses:												
Acquisition, severance and transition costs	0.7	0.9	1.2	3.3	0.2	0.8	0.0	0.0	3.9	6.1	1.0	0.0
Amortization and depreciation	1.9	1.8	1.5	0.8	1.0	1.0	1.0	1.0	6.1	6.1	4.1	4.2
Stock-based compensation	1.1	0.5	0.6	0.8	0.7	0.5	0.5	0.5	2.1	3.0	2.3	2.5
Other SG&A	10.1	10.4	11.0	12.6	10.1	9.6	9.0	9.1	39.4	44.0	37.8	38.0
R&D	0.4	0.7	1.1	1.5	0.8	1.0	1.0	1.0	2.4	3.7	3.8	4.2
Total operating expenses	14.2	14.2	15.5	19.0	12.8	12.9	11.6	11.7	53.9	62.9	49.0	48.9
Operating income:	(4.2)	0.0	(1.6)	(15.5)	(1.3)	(1.2)	(0.9)	(0.2)	2.0	(21.2)	(3.5)	1.6
Operating margin	-13.6%	0.1%	-3.7%	-44.0%	-3.8%	-3.2%	-2.6%	-0.5%	1.2%	-13.9%	-2.5%	1.1%
Other income:												
Interest expense, net	(0.8)	(0.8)	(0.9)	(1.3)	(0.9)	(1.1)	(1.1)	(1.1)	(2.5)	(3.9)	(4.2)	(4.4)
Write off of intangibles, goodwill, restructuring	-	-	-	(28.8)	-	-	-	-	-	(28.8)	0.0	-
Total other income	(0.8)	(0.8)	(0.9)	(30.2)	(0.9)	(1.1)	(1.1)	(1.1)	(2.5)	(32.7)	(4.2)	(4.4)
Income before income taxes	(5.0)	(0.7)	(2.5)	(45.7)	(2.2)	(2.3)	(2.0)	(1.3)	(0.5)	(53.9)	(7.7)	(2.8)
Pretax Margin	-16.2%	-1.7%	-5.8%	-129.5%	-6.5%	-6.2%	-6.0%	-3.6%	0%	-35%	-6%	-2%
Income tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax rate	0%	0%	0%	0%	0%	0%	0%	0%	0.0%	0.0%	0.0%	0.0%
Net income	(5.0)	(0.7)	(2.5)	(45.7)	(2.2)	(2.3)	(2.0)	(1.3)	(0.5)	(53.9)	(7.7)	(2.8)
Stk based compensation	1.1	0.5	0.6	0.8	0.7	0.5	0.5	0.5	2.1	3.0	2.3	2.5
One-time expenses	0.7	0.9	1.2	41.5	0.2	0.8	-	-	3.9	44.2	-	-
Non-GAAP Income from continuing	(3.2)	0.6	(0.7)	(3.5)	(1.3)	(1.0)	(1.4)	(0.7)	5.5	(6.7)	(5.4)	(0.3)
Net Margin	-10.4%	1.5%	-1.6%	-9.8%	-4.0%	-2.6%	-4.4%	-2.1%	3.2%	-4.4%	-3.9%	-0.2%
Yr-to-yr Growth	204%	-52%	-131%	-217%	-58%	-250%	110%	-79%	139.2%	-222.5%	-18.9%	-94.9%
Net income per share:												
EPS	(0.24)	(0.04)	(0.12)	(2.17)	(0.10)	(0.10)	(0.09)	(0.06)	(0.03)	(2.59)	(0.35)	(0.12)
EPS Diluted	(0.24)	(0.04)	(0.12)	(2.17)	(0.10)	(0.10)	(0.09)	(0.06)	(0.03)	(2.59)	(0.35)	(0.12)
Adjusted Non-GAAP Diluted	**(0.15)**	**0.03**	**(0.03)**	**(0.16)**	**(0.06)**	**(0.04)**	**(0.06)**	**(0.03)**	**0.29**	**(0.32)**	**(0.24)**	**(0.01)**
	138.5%	-55.3%	-129.8%	-217.4%	-60.3%	-240.2%	95.8%	-79.9%	229.3%	-212%	-24%	-95%
Shares												
Basic	20.6	20.8	20.9	21.1	21.8	22.2	22.5	22.5	19.0	20.8	22.3	23.4
Diluted	20.6	20.8	20.9	21.1	21.9	22.2	22.5	22.5	19.0	20.8	22.3	23.4
	23.7%	7.1%	2.2%	-0.5%	5.9%	7.1%	7.4%	6.6%	12.4%	9.5%	6.7%	5.0%
Adjusted EBITDA	(0.4)	3.2	2.3	0.4	1.0	1.7	1.1	1.8	14.1	4.7	3.9	8.3
EBITDA Margin	-1.4%	7.3%	5.3%	1.1%	2.8%	4.7%	3.2%	5.0%	8.2%	3.1%	2.8%	5.5%

BALANCE SHEET

	June 30, 2018	Mar. 31, 2018	% Change Jun-Mar	June 30, 2017	% Change Yr-Yr
Current assets					
Cash and equivalents	**$457**	**$1,439**	-68%	**$475**	-4%
Accounts receivable, net	34,963	29,746	18%	50,664	-31%
Unbilled contract receivable	6,813	6,557	4%	6,255	9%
Inventories, net	26,706	27,276	-2%	31,234	-14%
Other current assets	9,554	10,416	-8%	9,814	-3%
Total current assets	78,493	75,434	4%	98,442	-20%
Property and equipment, net	2,051	2,125	-3%	1,651	24%
Other assets					
Goodwill	61,508	61,508	0%	72,210	-15%
Intangible assets, net of accumulated amortization	27,164	27,518	-1%	41,166	-34%
Other assets	999	1,051	-5%	1,202	-17%
Total other assets	89,671	90,077	0%	114,578	-22%
Total assets	170,215	167,636	2%	214,671	-21%
Current liabilities					
Accounts payable	23,476	24,605	-5%	26,294	-11%
Acquisition payable	**510**	**1,886**	-73%	**2,360**	-78%
Related party payable	1,000	1,200	-17%	0	#DIV/0!
Accrued and other current liabilities	7,990	9,822	-19%	11,556	-31%
Purchase price obligations, current	**0**	**130**	-100%	**561**	-100%
Total current liabilities	32,976	37,643	-12%	40,771	-19%
Long-term liabilities					
Revolving credit facility	**42,107**	**40,060**	5%	**38,741**	9%
Related party payable	**17,728**	**11,720**	51%	**11,065**	60%
Acquisition payable	**1,326**	**180**	637%	**1,886**	-30%
Other liabilities	244	375	-35%	386	-37%
Total Liabilities	94,381	89,978	5%	92,849	2%
Stockholder's equity					
Common stock	22	22	0%	21	5%
Additional paid-in capital	209,302	208,928	0%	202,678	3%
Accumulated deficit	(133,490)	(131,292)	2%	(80,877)	65%
Total stockholders' equity	75,834	77,658	-2%	121,822	-38%
Total liabilities and stockholders' equity	$170,215	$167,636	2%	$214,671	-21%
Current ratio	2.4	2.0	19%	2.4	-1%
Quick ratio	1.6	1.3	23%	1.6	-5%
Working Capital	45,517	37,791	20%	57,671	-21%
Net Cash as % of assets	0%	1%	-69%	0%	21%
Cash per share	$0.00	$0.00	-66%	$0.00	-3%
Debt % of assets	36%	33%	10%	25%	42%
Inventory Turnover	2.7	2.4	12%	3.6	-26%
Days Sales	129	110	17%	159	-19%

CASH FLOWS

$ in Thousands	3 Months Ended March 31, 2017	3 Months Ended June 30, 2017	3 Months Ended Sept 30, 2017	3 Months Ended Dec 31, 2017	Year Ended Dec 31, 2017	3 Months Ended March 31, 2018	3 Months Ended June 30, 2018
Cash Flows from Operating Activities:							
Net loss	$ (4,955)	$ (727)	$ (2,520)	$ (45,705)	$ (53,907)	$ (2,190)	$ (2,198)
Adjustments to reconcile net loss to net cash used in operating activities:							
Amortization and depreciation	1,939	(1,678)	5,549	1,739	7,549	1,367	1,458
Amortization of intangibles and other assets	0	3,471	2,080	(5,812)	0	0	0
Reacquired common stock issued for acquisition	0	0	0	0	0	0	0
Change in fair value of contingent consideration	(785)	(860)	43	169	(1,433)	0	0
Deferred income tax benefit	0	0	0	0	0	0	0
Stock-based compensation	1,118	478	601	779	2,976	673	522
Impairment of goodwill	0	0	0	10,702	10,702	0	0
Impairment of intangible assets	0	0	0	10,480	10,480	0	0
Restructuring expense	0	0	0	16,908	16,908	0	0
Other non-cash items affecting net loss	21	(124)	41	(123)	(185)	86	100
Changes in operating assets and liabilities, net of the effect of acquisitions (Note 2):							
Increase in trade accounts receivable, net	7,161	(4,478)	2,694	8,236	13,613	5,226	(5,217)
Increase in unbilled contract receivables	1,841	2,071	744	(572)	4,084	(474)	(256)
Increase in inventories, net	(3,571)	(985)	(2,404)	(411)	(7,371)	(1,112)	570
Increase in other assets	(1,549)	(445)	(3,270)	407	(4,857)	(1,709)	195
Decrease in accounts payable and other liabilities	(5,432)	(947)	810	10	(5,559)	(6,308)	(1,945)
Decrease in accrued compensation and benefits	0	0	0	0	0	0	0
Net cash used in operating activities	(4,212)	(4,224)	(1,181)	2,617	(7,000)	(4,441)	(6,771)
Cash Flows from Investing Activities:							
Acquisition of businesses, net of cash acquired	0	0	0	(530)	(530)	0	0
Payment of acquisition obligations	0	(284)	0	0	(284)	0	(137)
Purchase of property and equipment	(231)	(421)	(309)	(98)	(1,059)	(292)	(1,111)
Proceeds from the sale of assets	0	0	0	0	0	0	0
Net cash used in investing activities	(231)	(421)	(309)	(628)	(1,873)	(292)	(1,111)
Cash Flows from Financing Activities:							
Fee pertaining to the issuance of common stock	0	0	0	0	0	0	0
Fee pertaining to the issuance of debt	0	0	603	0	0	0	0
Issuance of common stock, net of fees and expenses	0	0	0	0	0	3,600	0
Repayments of short-term borrowings and notes payable	(10,090)	(90)	(90)	(2,090)	(12,360)	0	(90)
Proceeds of loans from related party note payable	0	7,000	0	3,655	10,655	200	5,080
Repayments of loans from affiliates of controlling stockholder	0	0	(500)	(1,500)	(2,000)	0	0
Proceeds from revolving credit facility, net	14,819	(2,072)	1,919	(2,026)	12,640	1,427	2,047
Net cash provided by financing activities	4,729	4,838	1,932	(1,961)	8,935	5,227	7,037
(Decrease) increase in Cash and Cash Equivalents	286	193	442	28	62	494	(845)
Cash and Cash Equivalents, beginning of period	883	1,169	475	917	883	945	1,439
Cash and Cash Equivalents, end of period	1,169	1,362	917	945	945	1,439	594

HISTORICAL STOCK PRICE



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