

Announcement: Moody's says Revlon's debt swap offer considered to be a distressed exchange

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New York, August 05, 2020 -- Moody's Investors Service, ("Moody's") commented that Revlon Consumer Products Corporation's ("Revlon") July 27, 2020 announcement to exchange at a discount to par its existing 5.75% \$500 million unsecured notes due February 2021 for new 5.75% unsecured notes due February 2024 will be considered a distressed exchange. The transaction would favorably address the company's significant refinancing needs due to the note maturity and springing credit facility maturities, but would not materially reduce the very high debt burden. Moody's views this proposed transaction as a continuation of the default that occurred in May, when Revlon refinanced its \$1.8 billion term loan, and not a separate default event. The exchange offer is a reflection of Revlon's high refinancing risk and the rating agency's view that the capital structure is unsustainable without a significant operational turnaround that is unlikely in the current economic environment.

The maximum debt reduction is roughly \$97 million but would likely be closer to \$77 million assuming bond holders that elect to tender will take advantage of the early tender cash payment premium discussed below. Because this would not be a material reduction in Revlon's \$3.6 billion debt balance (based on the pro forma March 31, 2020 capitalization in Revlon's offering memorandum) or cash interest burden, the company's Caa3 Corporate Family Rating and negative outlook are not affected. Addressing the maturity would improve liquidity, but Revlon continues to incur a meaningful cash burn and Moody's continues to view leverage and the capital structure as unsustainable.

For any bonds tendered for exchange by August 7, 2020, each \$1,000 offered by bondholders for exchange will receive \$750 in new bonds plus a \$50 participation fee for a total of \$800. Bonds tendered between August 8, 2020 and August 21, 2020, when the exchange offer expires, will receive \$750 of new bonds for each \$1,000 of existing notes. The exchange offer is contingent on 95% participation from bondholders and consent from Revlon's term loan lenders. Consent from the term loan lenders is required because the term loan credit agreements expiring in 2023 and 2025 only consider cash repayments of the February 2021 bonds. Investors who don't participate risk having the bond covenants removed.

If Revlon does not complete this transaction before November 2020, and any part of the \$500 million notes remain outstanding, the 2016 \$441 million asset based lending facility's ("ABL") expiring in September 2021 and the remaining \$925 million of 2016 term loans maturing in September 2023 will spring forward to November 2020 (or 91 days before the maturity of the notes). Given the company's very weak financial performance, Moody's does not believe that Revlon has sufficient liquidity to repay the notes or that it has the ability to refinance the notes at this time.

If the bond exchange is successful, the transaction will provide Revlon additional time to address its operational issues, but execution risk and financial leverage remain high. Moody's estimates that the company's leverage is increasing because of the cash burn and earnings deterioration despite the debt reduction from the exchange offer. Gross leverage has also increased because the May term loan transactions led to additional balance sheet cash. Moody's estimates that pro-forma debt to EBITDA will be 14x based on the post transaction debt structure outlined in the company's offering memorandum - a level that is higher than 12.7x for the twelve month period ended March 31, 2020. Moody's estimates debt to EBITDA will reach a high of 18x over the next 12 months.

In May, Revlon refinanced its 2016 term loan and Moody's viewed the transaction as a distressed exchange. Revlon contributed certain intellectual property ("IP") related to its Elizabeth Arden, American Crew, and certain owned portfolio brands and owned fragrance brands (collectively, the "BrandCo Collateral") into a restricted subsidiary that was used as collateral for its new term loans. The BrandCo collateral, aside from American Crew IP, was originally pledged to the 2016 term loan lenders, but Revlon used its investment baskets in the 2016 term loan to extract the IP and help effectuate the deal. The refinanced term loan expires in 2025, although part of the original 2016 term loan remains outstanding and expires in 2023.

Revlon has struggled to stem meaningful declines to revenue and earnings from large and global established

brands, as well as from smaller independent brands. Preliminary second quarter revenue declined 37% organically (excluding FX) with the company attributing the bulk of the decline to demand reductions related to the coronavirus. Revlon estimates preliminary second quarter adjusted EBITDA declined to \$45.4 million in the second quarter from \$47 million a year ago, but the company's EBITDA calculation is highly adjusted including close to \$50 million of add-backs related to cash charges such as for restructuring and expenses attributed to the coronavirus. Based on the offering memorandum disclosures, cash consumption was meaningful in the second quarter and continued in July.

The company is in the midst of a multi-year restructuring program largely intended to address weak operations in its domestic and international markets. Revlon recently announced a new aggressive restructuring plan to cut about \$200-\$230 million in costs by 2022. Roughly 60% of costs will be generated from staff reductions in 2020. Thus, execution risk is high given that the company continues to address the issues related to its consumer business. In addition, demand for the company's premium Elizabeth Arden products (21% of sales) was hurt by department store closures. The company is now additionally burdened by the prospect of a severe and prolonged decline in the mass and prestige beauty sector precipitated by the coronavirus.

Revlon's credit profile (Caa3 negative) reflects its very high financial leverage at roughly 14x debt-to-EBITDA and Moody's belief that high leverage remaining over the next year elevates risk of a debt restructuring. This very high leverage is in part due to earnings and cash flow weakness reflecting lackluster demand for the company's domestic consumer and professional products. The company recently refinanced its \$1.6 billion term loan due in 2023, which Moody's viewed as a distressed exchange default because the term loan is trading at a significant discount to par and is being exchanged into a term loan with a longer maturity and a weaker collateral position. Moody's recognizes the company's high exposure to acquisition event risk related to the controlling 87% stake held by the Ron Perelman owned investment firm MacAndrews & Forbes Incorporated (M&F). Revlon's credit profile is supported by its strong global brand name recognition, as well as its product and geographic diversification.

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Chedly Louis
VP - Senior Credit Officer
Corporate Finance Group
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

John E. Puchalla, CFA
Associate Managing Director
Corporate Finance Group
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

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