



Elizabeth Arden, Inc.
RDEN - \$15.38– NasdaqGS
Update 2015 Second Quarter Ended December 31, 2014

Recommendation: Sell Short

Reasons For Sell Recommendation

- **Second Quarter Revenue of \$333.6 million, \$33 million below estimates.**
- **Second Quarter Revenue down 20.2% vs year earlier.**
- **EPS loss of \$1.90 per share.**
- **EPS of \$0.28 excluding items, below \$0.59 estimate.**
- **Increased pre-tax restructuring charges in current year from \$65-\$72 million, of which \$32-\$36 million is cash, to \$92-\$99 million, of which \$42-\$44 million is cash.**
- **Net sales of fragrances, almost 70% of net sales, fell 18% in second quarter.**
- **Sales of Celebrity fragrances to continue to decline in second half of current year in North America.**
- **Gross margin declined almost 300 basis points, to 42.8% from 45.7% a year earlier.**



Elizabeth Arden Inc reported a bigger-than-expected 20 percent drop in quarterly revenue, citing lower sales of its celebrity fragrances and changes to the way its beauty products are distributed in China.

Elizabeth Arden said **a decline in sales of its celebrity fragrances**, which include the Taylor Swift, Justin Bieber and Nicki Minaj brands, **would continue to hurt the results of its North American business in the second half of the year to June.**

Net sales in its fragrance business, which accounted for nearly 70 percent of the company's net sales, fell 18 percent in the second quarter ended Dec. 31.

The company also **raised its forecast for pre-tax restructuring charges** in its current financial year to June 30 **to \$92 million-\$99 million** from \$65 million-\$72 million.

Some of these charges relate to changes to the company's distribution strategy in China. In its results statement, the company did not give details of these changes.

Net loss attributable to Elizabeth Arden's shareholders was \$56.8 million, or \$1.90 per share, for the second quarter ended Dec. 31, versus a profit of \$35.0 million, or \$1.16 per share, a year earlier.

Excluding items, the company reported a profit of 28 cents per share - its first after four straight loss-making quarters.

Net sales fell to \$333.6 million from \$418.1 million a year earlier.

Analysts on average had expected earnings of 59 cents per share on revenue of \$366.5 million, according to Thomson Reuters I/B/E/S.



OUTLOOK

The Company currently expects the following for the second half of fiscal 2015:

- Net sales increases in the International segment versus the prior year period at constant currency rates with **continued declines in celebrity fragrances impacting the North American segment;**
- Gross margin expansion due to improved pricing, better sales mix, lower discounts and realization of reduced supply chain and product costs;
- Lower overall selling, general and administrative expenses, with some reinvestment of 2014 Improvement Plan savings to drive future growth;
- Improved EBITDA margins from gross margin expansion and lower selling, general and administrative expenses;
- Stronger cash flow from operations from improved working capital;
- Consistent with prior expectations, sequential improvement weighted towards the fourth fiscal quarter;

The second quarter, which includes Christmas, is the company's best quarter. This quarter was way below expectations. There is no reason to believe that the second half of the year will be any better. We expect it to be worse.



ELIZABETH ARDEN, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)
(In thousands, except percentages and per share data)

	Three Months Ended		Six Months Ended	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Net Sales	\$ 333,607	\$ 418,137	\$ 603,985	\$ 761,746
Cost of Goods Sold:				
Cost of Sales	188,762	225,236	350,088	418,910
Depreciation Related to Cost of Goods Sold	1,960	1,987	3,959	3,817
Total Cost of Goods Sold	190,722	227,223	354,047	422,727
Gross Profit	142,885	190,914	249,938	339,019
Gross Profit Percentage	42.8 %	45.7 %	41.4 %	44.5 %
Selling, General and Administrative Expenses	180,205	129,003	294,070	258,375
Depreciation and Amortization	10,795	11,137	21,508	21,836
Total Operating Expenses	191,000	140,140	315,578	280,211
Interest Expense, Net	7,712	5,734	15,468	11,766
Debt Extinguishment Charges	239	--	239	--
(Loss) Income Before Income Taxes	(56,066)	45,040	(81,347)	47,042
Provision for Income Taxes	833	10,384	1,057	10,798
Net (Loss) Income	(56,899)	34,656	(82,404)	36,244
Net Loss Attributable to Noncontrolling Interests	(760)	(297)	(915)	(406)
Net (Loss) Income Attributable to Elizabeth Arden Shareholders	(56,139)	34,953	(81,489)	36,650
Less: Accretion and Dividends on Preferred Stock	639	--	21,085	--
Net (Loss) Income Attributable to Elizabeth Arden Common Shareholders	\$ (56,778)	\$ 34,953	\$ (102,574)	\$ 36,650

As reported:



**Badger
Research**

**Report Date:
February 5, 2015**

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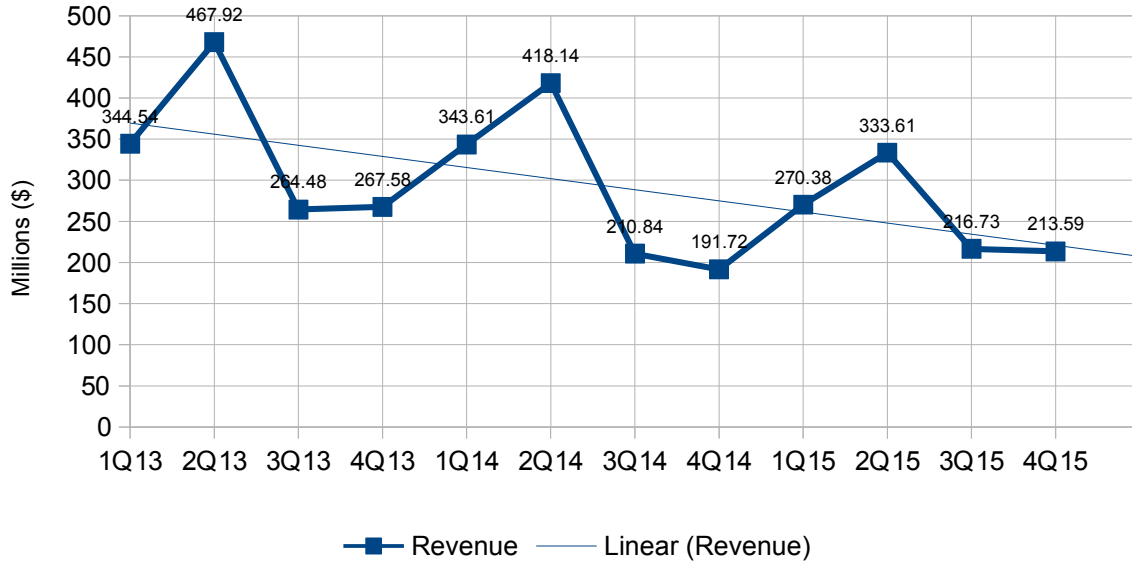
Net (Loss) Income Per Basic Share Attributable to Elizabeth Arden Common Shareholders	\$ (1.90)	\$ 1.18	\$ (3.44)	\$ 1.24
Net (Loss) Income Per Diluted Share Attributable to Elizabeth Arden Common Shareholders	\$ (1.90)	\$ 1.16	\$ (3.44)	\$ 1.21
Basic Shares	29,812	29,649	29,796	29,648
Diluted Shares	29,812	30,129	29,796	30,182
EBITDA (a)	\$ (35,599)	\$ 63,898	\$ (40,412)	\$ 84,461
EBITDA margin (a)	(10.7)%	15.3 %	(6.7)%	11.1 %
Adjusted to exclude non-recurring costs, net of taxes (1):				
Gross Profit	\$ 160,009	\$ 200,048	\$ 269,779	\$ 351,925
Gross Profit Percentage	46.2 %	47.8 %	43.6 %	46.2 %
Net Income (Loss) Attributable to Elizabeth Arden Common Shareholders	\$ 8,517	\$ 32,650	\$ (4,423)	\$ 39,402
Net Income (Loss) Per Basic Share Attributable to Elizabeth Arden Common Shareholders	\$ 0.29	\$ 1.10	\$ (0.15)	\$ 1.33
Net Income (Loss) Per Diluted Share Attributable to Elizabeth Arden Common Shareholders	\$ 0.28	\$ 1.08	\$ (0.15)	\$ 1.30
EBITDA (a)	\$ 31,047	\$ 57,415	\$ 32,326	\$ 84,547
EBITDA margin (a)	9.0 %	13.7 %	5.2 %	11.1

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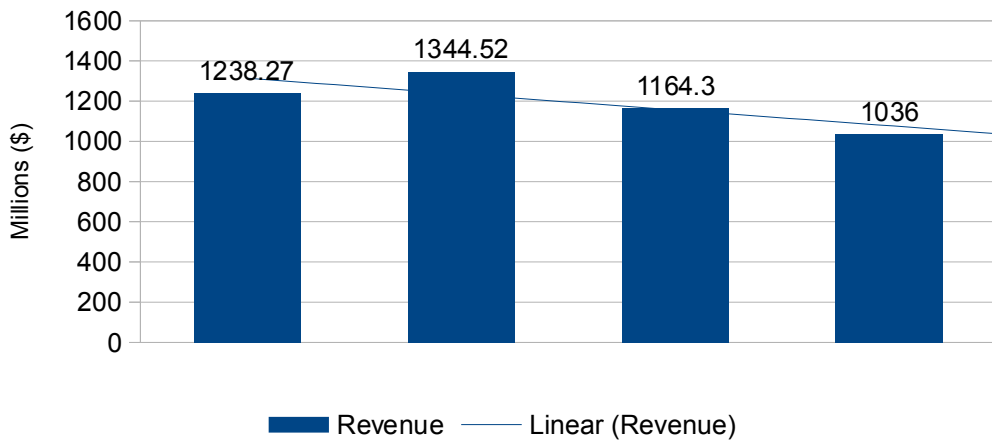
RDEN Revenue

September 2013 To June 2015 Est.



RDEN Revenue

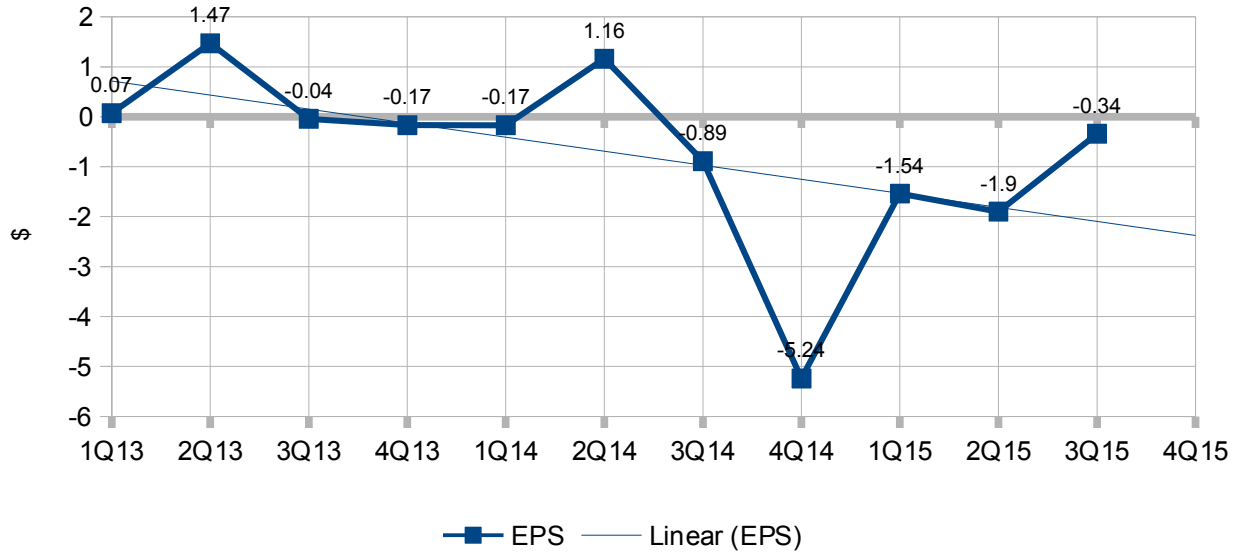
2012 2013 2014 & 2015Est.





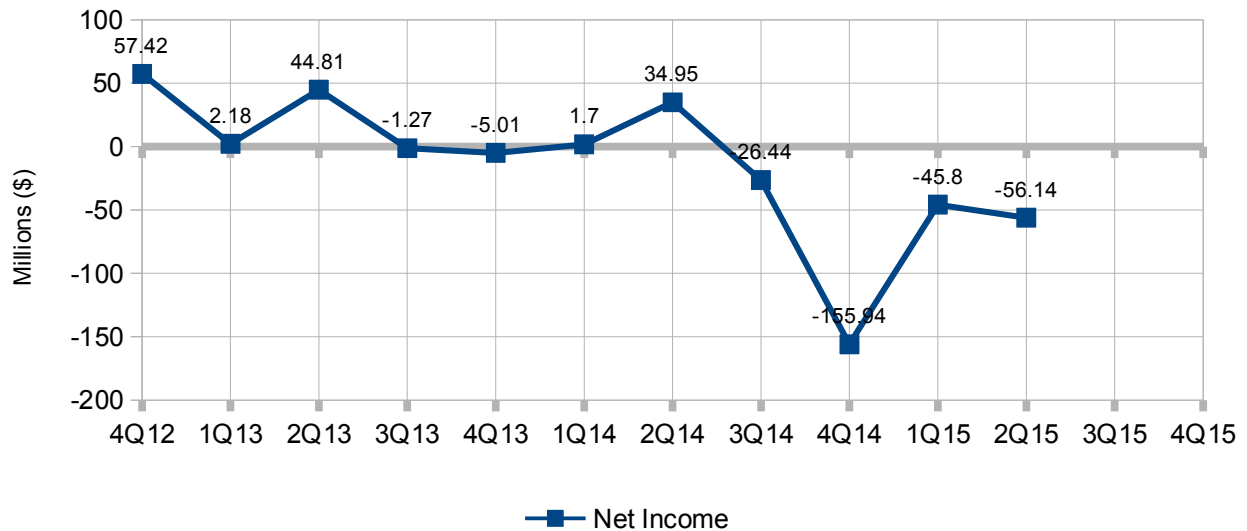
RDEN Earnings Per Share

September 2012 To March 2015 Est.



RDEN Net Income

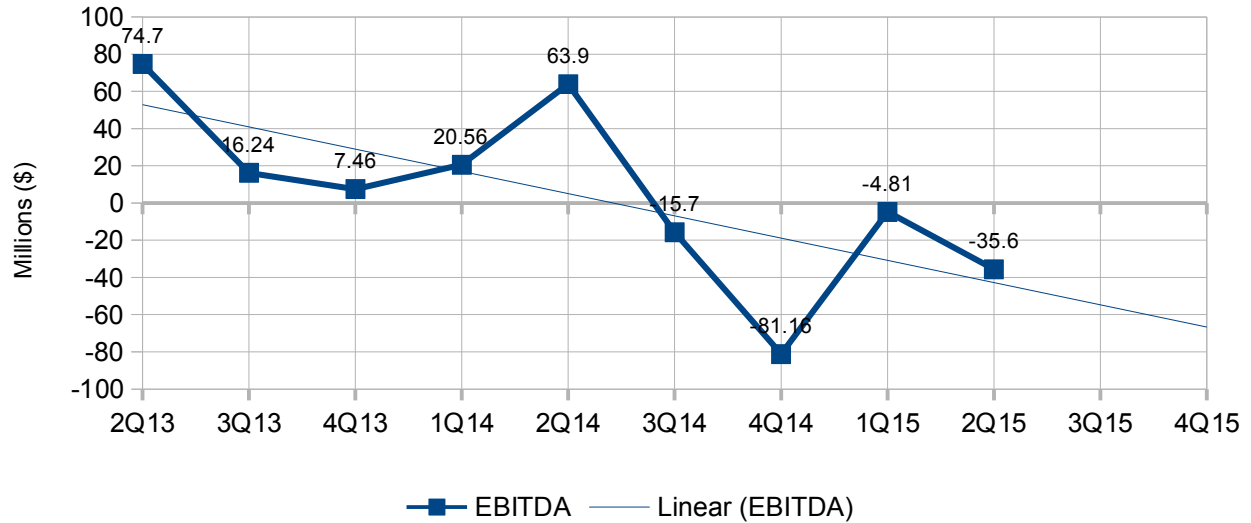
June 2012 To December 2015





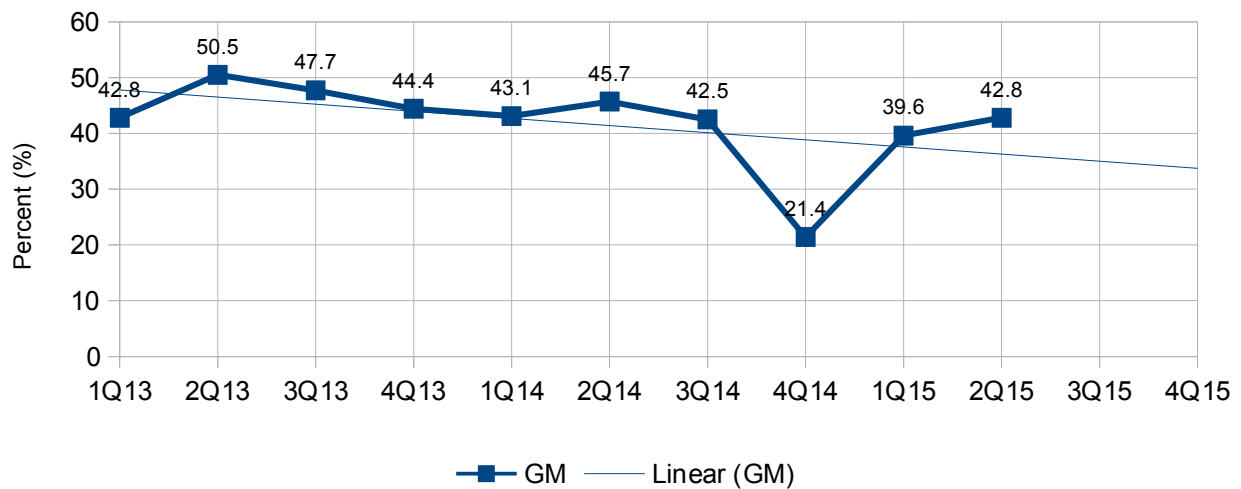
RDEN EBITDA

December 2012 To December 2015



RDEN Gross Margin

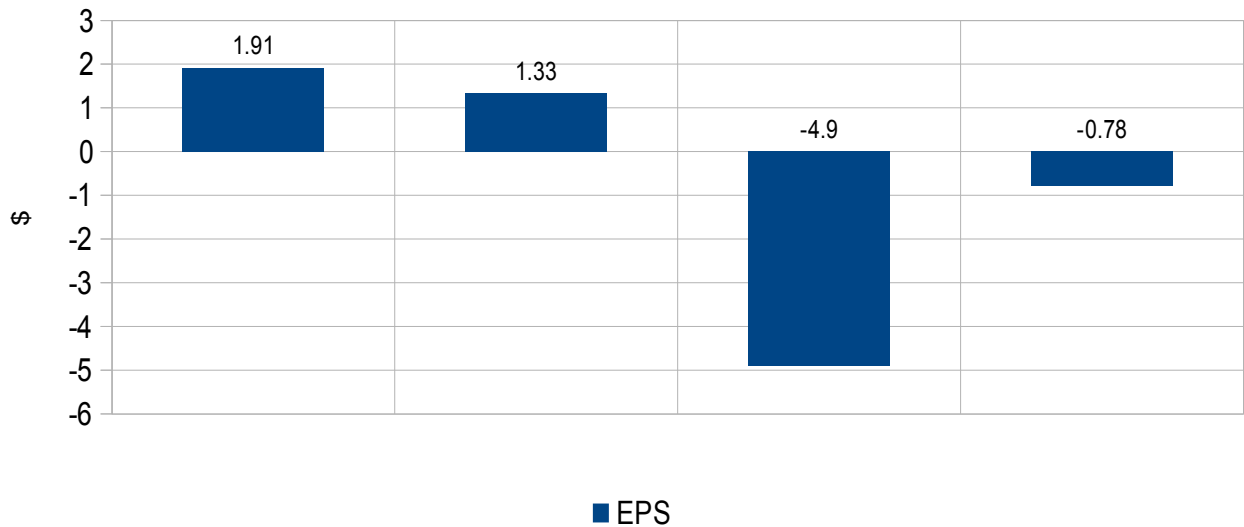
September 2012 To December 2015





RDEN Earnings Per Share

2012 2013 20134 & 2015 Est.





SEGMENT NET SALES

The table below is a comparative summary of net sales by reportable segment for the three and six months ended December 31, 2014 and 2013:

(In thousands)	Three Months Ended		% Decrease	Six Months Ended		% Decrease		
	December 31, 2014	December 31, 2013		December 31, 2014	December 31, 2013			
Segment Net Sales								
			GAAP	Constant	GAAP	Constant		
North America	\$ 227,275	\$ 269,647	(15.7)%	(15.3)%	\$ 399,634	\$ 494,306	(19.2)%	(18.9)%
International	118,914	148,490	(19.9)%	(17.1)%	219,612	267,440	(17.9)%	(17.2)%
Total	\$ 346,189	\$ 418,137	(17.2)%	(16.0)%	\$ 619,246	\$ 761,746	(18.7)%	(18.3)%
Reconciliation:								
Segment Net Sales	\$ 346,189	\$ 418,137	--	--	\$ 619,246	\$ 761,746	--	--
Less:								
Unallocated sales returns and markdowns (2)	(12,582)	--	--	--	(15,261)	--	--	--
Net Sales	\$ 333,607	\$ 418,137	(20.2)%	(19.0)%	\$ 603,985	\$ 761,746	(20.7)%	(20.3)%

Product Category Net Sales

(In thousands)	Three Months Ended		% Decrease	Six Months Ended		% Decrease
	December 31, 2014	December 31, 2013		December 31, 2014	December 31, 2013	
Elizabeth Arden Brand	\$ 107,140	\$ 142,158	(24.6)%	\$ 207,191	\$ 262,682	(21.1)%
Celebrity & Other	226,467	275,979	(17.9)%	396,794	499,064	(20.5)%
Total	\$ 333,607	\$ 418,137	(19.0)%	\$ 603,985	\$ 761,746	(20.7)%

All product net sales were down in All segments! And this is their good quarter. Remain short, price target \$10-\$12 within 12 months.