



**Elizabeth Arden, Inc.**  
**RDEN - \$20.62– NasdaqGS**

**Recommendation: Sell Short**

**Reasons For Sell Short Recommendation**

- **Sales Declining.**
- **Debt Increasing.**
- **Questionable Restructuring Plan.**
- **No Growth Catalysts.**
- **Perfume is 77% of total sales.**
- **Top selling perfume is a dead lady (Elizabeth Taylor).**
- **Dependent on Christmas sales for bulk of profit.**
- **Selling, General & Administrative expense greater than Gross Profit.**
- **International (43% of sales), Not Profitable.**

**Financials**

52 – Week Low 10-30-20014	\$14.50	Book Value/Shr (mrq)	\$11.32
52 – Week high 4-20-2012	\$37.69	Diluted Earnings/Shr (ttm)	<b>-\$6.50</b>
52- Week Change	-37.81%	Diluted Earnings/Shr mrq)	<b>-\$1.54</b>
Enterprise Value	\$1.0B	Sales/Shr (ttm)	\$36.68
Market Capitalization	\$500M	<b>Cash/Shr (mrq)</b>	<b>\$1.71</b>
Shares Outstanding	29.78M	<b>Price/Book (mrq)</b>	<b>1.5</b>
Float	21.79M	<b>Price/Earnings (ttm)</b>	<b>NA</b>
Profit Margin (mrq)	<b>-15.84%</b>	<b>Price/Sales (ttm)</b>	<b>0.46</b>
Operating Margin (ttm)	<b>-2.36%</b>	Revenue (ttm)	\$1.09B
Return on Assets (ttm)	<b>-1.31%</b>	EBITDA (ttm)	<b>-\$4.813M</b>
<b>Return on Equity (ttm)</b>	<b>-38.19%%</b>	Debt/Equity (mrq)	<b>128.1</b>
Operating Cash Flow (ttm)	<b>-\$15.27M</b>	Shares Short 1-31-13	2.55M
Leveraged Free Cash Flow (ttm)	\$67.67M	% of Float Short	20.9
<b>Total Cash (mrq)</b>	<b>\$50.83M</b>	Short Ratio	10.5

(ttm) = Trailing 12 months, (mrq) = Most recent quarter, M = Millions, B = Billions, m = Thousands



## Business Description

Elizabeth Arden, Inc., a beauty products company, is engaged in the manufacture, distribution, marketing, and sale of fragrances, skin care, and cosmetic products worldwide. The company offers various **fragrance products for men and women**, including perfume, colognes, eau de toilettes, eau de parfums, and gift sets, as well as bath and body products, such as soaps, deodorants, body lotions, gels, creams, body and hair mists, and dusting powders. It also provides **skin care products** comprising serums, moisturizers, and cleansers; and cosmetics consisting of foundations, lipsticks, mascaras, eye shadows, and powders. The company's brand portfolio includes **Elizabeth Arden** branded lipstick, foundation, and other color cosmetics products, such as Visible Difference, Ceramide, PreVage, and Eight Hour Cream; Elizabeth Arden fragrances comprising Red Door, Elizabeth Arden 5th Avenue, Elizabeth Arden Green Tea, and UNTOLD; and celebrity fragrance brands of Britney Spears, Elizabeth Taylor, Mariah Carey, Taylor Swift, Justin Bieber, Nicki Minaj, and Jennifer Aniston. Its lifestyle fragrance brands consists of Curve, Giorgio Beverly Hills, PS Fine Cologne, and White Shoulders; and designer fragrance brands comprising Juicy Couture, Alfred Sung, BCBGMAXAZRIA, Ed Hardy, Geoffrey Beene, Halston, John Varvatos, Lucky, Rocawear, and Wildfox Couture. The company sells its products primarily to department and specialty stores, mass retailers, perfumeries, boutiques, distributors, and travel retail outlets, as well as to independent fragrance, cosmetic, gift, and other stores. It also markets and sells its products through its e-commerce site at elizabetharden.com. The company was founded in 1960 and is headquartered in Miramar, Florida.

The company has two operating segments: **North America, 57%** and **International, 43%**.

The company has four business lines:

1. **Elizabeth Arden Brand, (37%)**: The Elizabeth Arden skin care brands: Visible Difference, Ceramide, PreVage, and Eight Hour Cream, Elizabeth Arden Rx and Elizabeth Arden Pro, Elizabeth Arden branded lipstick, foundation and other color cosmetics products, and the Elizabeth Arden fragrances: Red Door, Elizabeth Arden 5th Avenue, Elizabeth Arden Green Tea and UNTOLD.



Badger  
Research

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2. **Celebrity Fragrances:** The fragrance brands of Britney Spears, **Elizabeth Taylor**, Mariah Carey, Taylor Swift, Justin Bieber, Nicki Minaj, and Jennifer Aniston.
  
3. **Lifestyle Fragrances:** Curve, Giorgio Beverly Hills, PS Fine Cologne and White Shoulders.
  
4. **Designer Fragrances:** Juicy Couture, Alfred Sung, BCBGMAXAZRIA, Ed Hardy, Geoffrey Beene, Halston, John Varvatos, Lucky, Rocawear and Wildfox Couture.

	Year Ended June 30,					
	2014		2013		2012	
	<u>Sales</u>	<u>%</u>	<u>Sales</u>	<u>%</u>	<u>Sales</u>	<u>%</u>
Fragrance	\$ 901.6	77%	\$ 1,052.9	78%	\$ 941.9	76%
Skin Care	203.8	18%	226.0	17%	226.4	18%
Cosmetics	<u>58.9</u>	<u>5%</u>	<u>65.6</u>	<u>5%</u>	<u>70.0</u>	<u>6%</u>
Total	<u>\$ 1,164.3</u>	<u>100%</u>	<u>\$ 1,344.5</u>	<u>100%</u>	<u>\$ 1,238.3</u>	<u>100%</u>

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ELIZABETH ARDEN, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

**(Amounts in thousands, except per share data)**

	Three Months Ended	
	September 30, 2014	September 30,
2013		
Net sales	\$ 270,378	\$ 343,609
Cost of goods sold:		
Cost of sales	161,326	193,674
Depreciation related to cost of goods sold	1,999	1,830
Total cost of goods sold	<u>163,325</u>	<u>195,504</u>
Gross profit	107,053	148,105
Operating expenses:		
<b>Selling, general and administrative</b>	<b>113,865</b>	129,372
Depreciation and amortization	<u>10,713</u>	<u>10,699</u>
Total operating expenses	124,578	140,071
(Loss) income from operations	(17,525 )	8,034
Interest expense, net	7,756	6,032
(Loss) income before income taxes	(25,281 )	2,002
Provision for income taxes	<u>224</u>	<u>414</u>
Net (loss) income	25,505 )	1,588
Net loss attributable to noncontrolling interests (See Note 5)	(155 )	(109 )
Net (loss) income attributable to Elizabeth Arden shareholders	(25,350 )	1,697
Less: Accretion and dividends on preferred stock (See Note 12)	20,446 --	
Net (loss) income attributable to Elizabeth Arden common shareholders \$	(45,796 )	\$ 1,697
Net (loss) income per common share attributable to Elizabeth Arden common shareholders:		
Basic	\$ (1.54 )	\$ 0.06
Diluted	\$ (1.54 )	\$ 0.06
Weighted average number of common shares:		
Basic	29,781	29,679
Diluted	29,781	30,288
<b>Segment Net Sales:</b>		
North America	\$ 172,359	\$ 224,659
International	<u>100,698</u>	<u>118,950</u>
Total	\$ 273,057	\$ 343,609
Reconciliation:		
Segment Net Sales	\$ 273,057	\$ 343,609
Less:		
Unallocated sales returns and markdowns	2,679 (1) --	

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Net Sales \$ 270,378 \$ 343,609

**(Amounts in thousands)**

Three Months Ended  
September 30, 2014    September 30, 2013

**Segment Profit (Loss):**

North America	\$ 12,821	\$ 28,887
International	(11,463)	(7,942)
Less:		
Depreciation and Amortization	12,712	12,529
Interest Expense, net	7,756	6,032
Consolidation and Elimination Adjustments	79	(1,993)
Unallocated Corporate Expenses 6,092 (2)	2,375	(3)
(Loss) Income Before Income Taxes	\$ (25,281)	\$ 2,002

(1) Amount represents \$2.7 million of returns and markdowns under our 2014 Performance Improvement Plan.

(2) In addition to the returns and markdowns described above in Note 1, amounts for the three months ended September 30, 2014, include \$3.4 million in expenses under the 2014 Performance Improvement Plan, primarily comprised of severance and other employee related expenses and related transition costs associated with the reduction in global headcount positions.

(3) Amounts for the three months ended September 30, 2013, include \$2.4 million of severance and other employee-related expenses and related transition costs incurred with respect to the elimination of certain sales positions and other staff positions announced in the fall of 2013.

**(Amounts in thousands)**

Three Months Ended

September 30, 2014    September 30, 2013

Net Sales:				
Elizabeth Arden Brand	\$ 100,051	<b>37%</b>	\$ 120,524	35%
Celebrity, Lifestyle, Designer and Other Fragrances	<u>170,327</u>	<u>63%</u>	<u>223,085</u>	<u>65%</u>
Total	\$ 270,378	100%	\$ 343,609	100%



### First Quarter 2015

Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2013.

#### Net Sales.

**Net sales decreased by 21.3%, or \$73.2 million**, for the three months ended September 30, 2014, compared to the three months ended September 30, 2013, primarily due to our efforts to tighten product distribution and **declines in sales of celebrity fragrances**. Excluding the favorable impact of foreign currency, net sales decreased by 21.9%, or \$75.2 million. Net sales reflect \$2.7 million of returns and markdowns recorded as a result of our 2014 Performance Improvement Plan. Pricing changes had an immaterial effect on net sales. The following is a discussion of net sales by segments and product categories.

#### Segment Net Sales:

##### North America:

**Net sales decreased by 23.3%, or \$52.3 million**. Excluding the unfavorable impact of foreign currency, net sales decreased by 23.1%, or \$51.9 million. Net sales of licensed and non **Elizabeth Arden branded, owned products decreased an aggregate of \$38.4 million due to lower net sales for most fragrance brands, including Justin Bieber, Nicki Minaj, Taylor Swift, Juicy Couture and Ed Hardy fragrances. Net sales of Elizabeth Arden branded products decreased by \$3.8 million**, primarily due to lower sales of color cosmetics and fragrances. **Net sales of distributed brands were \$10.0 million lower** than the prior year period, primarily due to the prior year launch of the One Direction Our Moment fragrance in department stores.

##### International:

**Net sales decreased by 15.3%, or \$18.3 million** primarily due to our efforts to tighten product distribution. Excluding the favorable impact of foreign currency, net sales decreased by 17.4%, or \$20.6 million. **Net sales of Elizabeth Arden branded products decreased by \$14.3 million**, due to lower sales of skin care and fragrance products. **Net sales of licensed and non-Elizabeth Arden-branded, owned products decreased an aggregate of \$4.0 million** from the prior year period, primarily due to **lower net sales of**



**Justin Bieber fragrances.** Partially offsetting these decreases were higher sales of John Varvatos and Juicy Couture fragrances. **Net sales in the Greater China region and in Europe were \$12.6 million and \$10.3 million lower, respectively**, as compared to the prior year.

### Product Category Net Sales:

#### Elizabeth Arden Brand:

**Net sales decreased by 17.0%, or \$20.5 million, due to lower sales in ALL product categories.** Excluding the favorable impact of foreign currency, net sales decreased by 18.0%, or \$21.7 million. **Net sales of skin care products decreased by 17.2%, or \$9.2 million**, due to lower sales of Visible Difference and PreVage, as well as weaker overall skincare sales in China, and **net sales of color cosmetic products decreased by 12.8%, or \$2.1 million. Net sales of fragrances decreased 18.1%, or \$9.2 million, primarily due to lower sales of 5th Avenue and the prior year launch of UNTOLD.**

#### Celebrity, Lifestyle, Designer and Other Fragrances:

**Net sales decreased by 23.6% or \$52.8 million.** Excluding the favorable impact of foreign currency, net sales decreased by 24.0% or \$53.5 million. **The decrease includes lower net sales for most fragrance brands** including Justin Bieber, Nicki Minaj, Taylor Swift, Britney Spears, Ed Hardy and Juicy Couture, though net sales for John Varvatos were modestly higher. **Sales of distributed brands were \$9.9 million lower** primarily due to the prior year launch of the One Direction Our Moment fragrance in North American department stores.

#### Gross Margin:

For the three months ended September 30, 2014 and 2013, **gross margins were 39.6% and 43.1%**, respectively. Gross margin in the current year period was negatively impacted by \$2.7 million, or 60 basis points, of returns and markdowns under our 2014 Performance Improvement Plan. In addition, the current year **gross margin was negatively impacted by a lower proportion of sales of higher margin products including both Elizabeth Arden branded products and licensed fragrances.** We also made a



strategic decision during the quarter ended September 30, 2014, to reduce our levels of certain inventories at reduced margins, which caused these lower margin sales to represent a higher proportion of our overall lower net sales in the current period. Returns, sales allowances and distribution costs also had a greater negative proportionate impact on gross margin in the current period due to the overall decline in net sales in the current year. Gross margin in the prior year period was negatively impacted by \$3.8 million, or 110 basis points, of product changeover costs associated with the Elizabeth Arden brand repositioning.

### Segment Profit (Loss)

#### North America:

**Segment profit decreased 55.6%, or \$16.1 million**, as compared to the prior year. The decrease in segment profit was **due to lower sales and gross profit**, partially offset by lower selling, general and administrative expenses.

#### International:

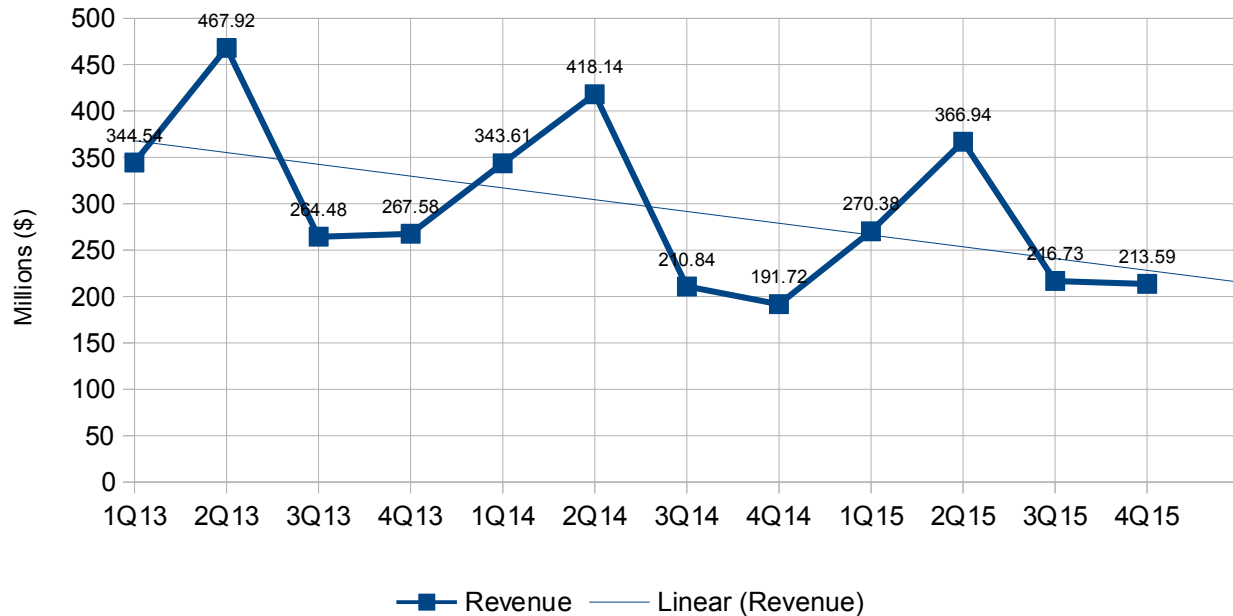
**Segment loss increased by 44.3%, or \$3.5 million** as compared to the prior year. The increase in segment loss was **primarily due to lower sales and gross profit**, partially offset by lower selling, general and administrative expenses.





### RDEN Revenue

September 2013 To June 2015 Est.



Elizabeth Arden sales have been declining for several years. The second quarter ending in December is their most important quarter, accounting for over a third of yearly sales. Their top selling product is Elizabeth Taylor White Diamonds perfume. This is an old lady perfume. Elizabeth Taylor is dead, many millennial barely know who she is anymore. This is a perfume you buy as a gift for your mother or grandmother. This is a declining market going forward.

To offset the inevitable decline in Elizabeth Taylor, RDEN has perfume agreements with “Hot” celebrities like Justin Bieber, or Nicky Minaj and Britney Spears. These are questionable talents who have not had a hit in years. Justin Bieber's 15 minutes of fame are just about up.

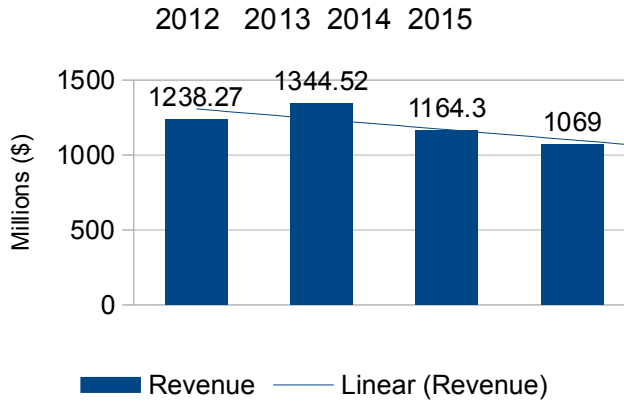
There also appears to be a generational shift away from daily perfume wearing among the younger crowd. A bottle of perfume lasts a long time when you don't use it every day.

We believe this sales decline will continue for 2015 and beyond.

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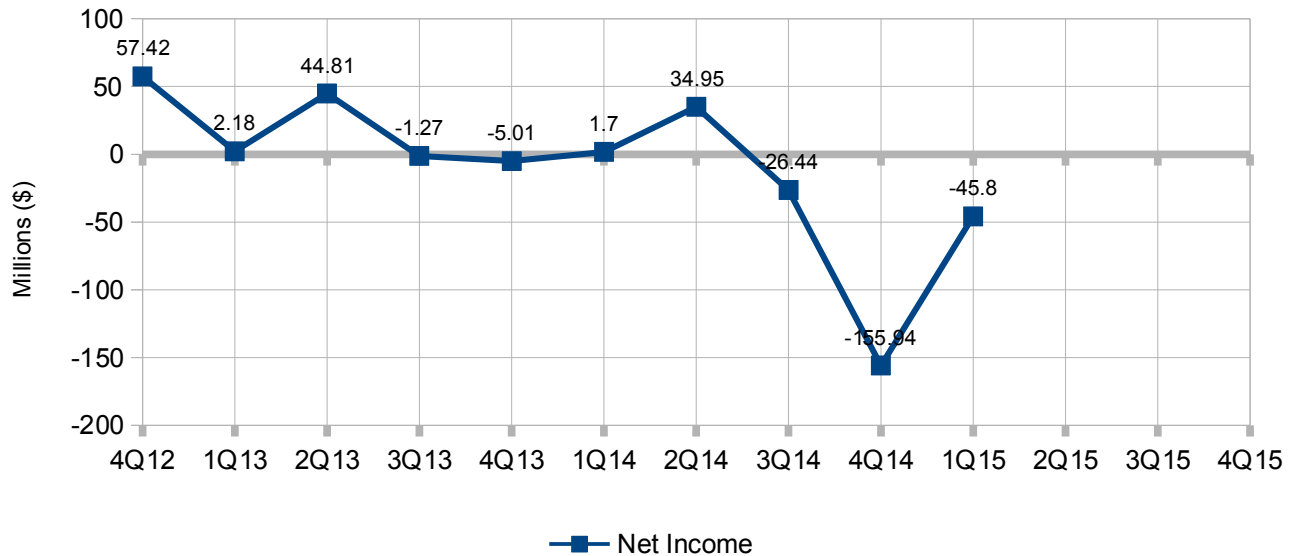


### RDEN Revenue



### RDEN Net Income

June 2012 To September 2015

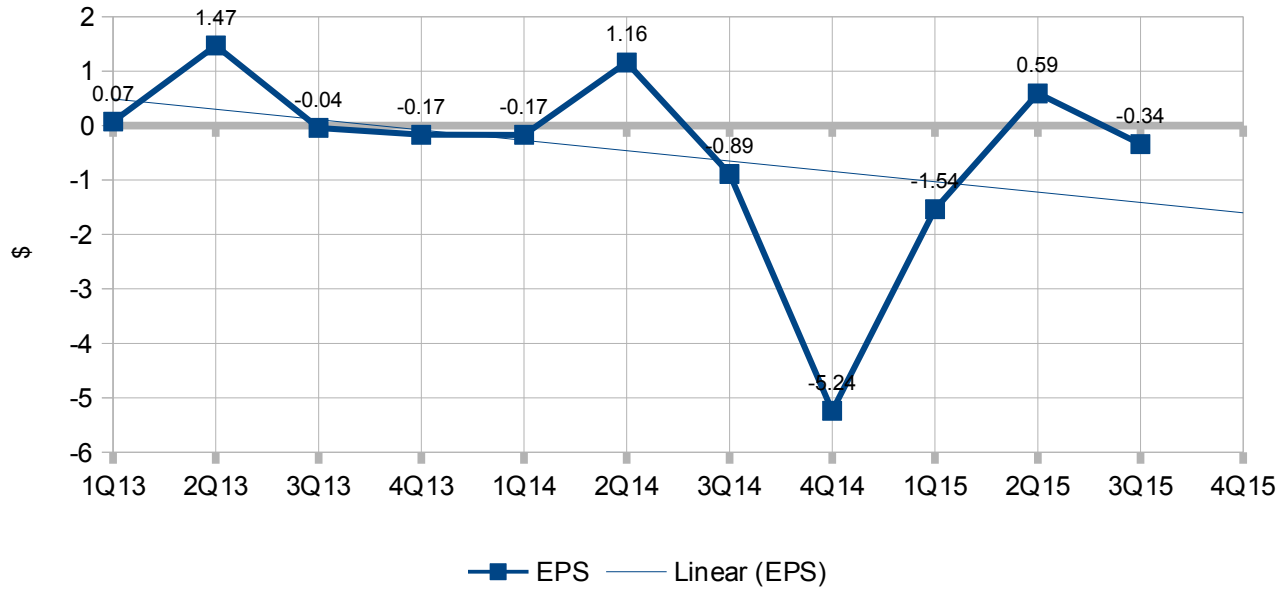


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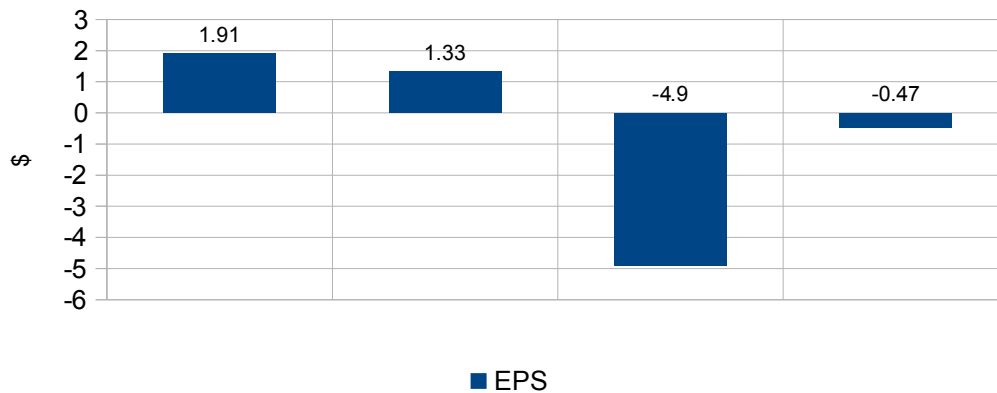
### RDEN Earnings Per Share

September 2012 To March 2015 Est.



### RDEN Earnings Per Share

2012 2013 2014 2015Est

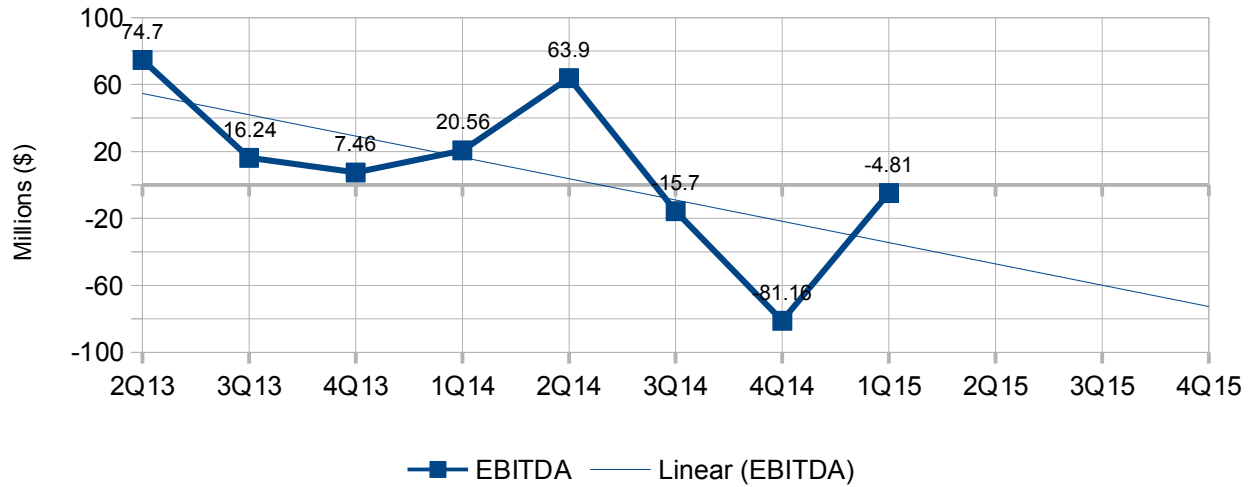


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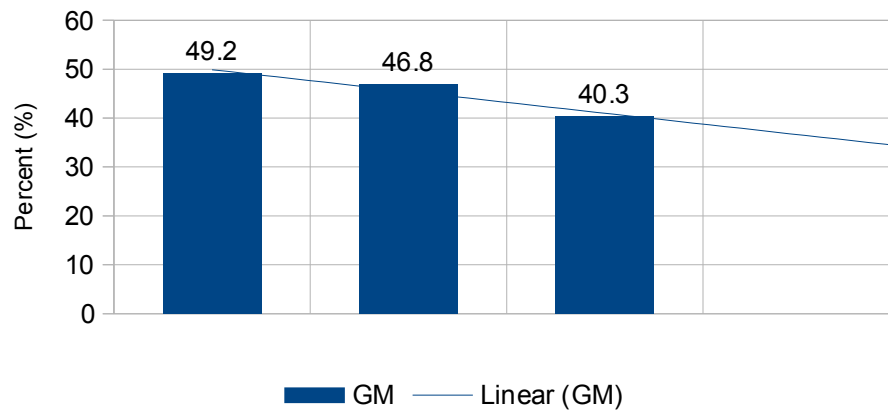
### RDEN EBITDA

December 2012 To September 2014



### RDEN

Gross Margin 2012 2013 2014

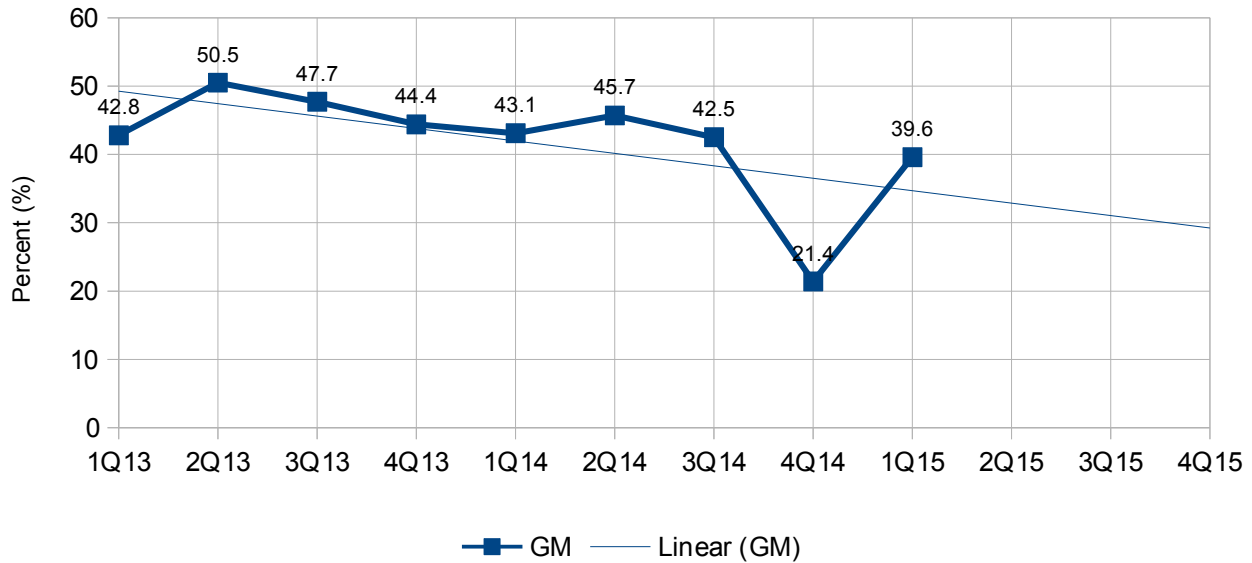


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### RDEN Gross Margin

September 2012 To September 2014



### Debt Increasing

While sales have been decreasing, debt has been increasing. Total debt has more than doubled since 2012, from \$250 million to \$502.9 million now. RDEN had to enter into an agreement to raise cash.

### Recent Investment by Rhône Capital L.L.C. Affiliates -10K

On August 19, 2014, we entered into a securities purchase agreement with Nightingale Onshore Holdings L.P. and Nightingale Offshore Holding L.P. (referred to here as Purchasers), investment funds affiliated with Rhône Capital L.L.C. Pursuant to the securities purchase agreement, **for aggregate cash consideration of \$50 million**, we issued to the Purchasers an aggregate of 50,000 shares of our newly designated Series A Serial Preferred Stock, par value \$0.01 per share, with detachable warrants to purchase up to 2,452,267 shares of our common stock at an exercise price of \$20.39 per share.

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## Restructuring

### Business Strategy

**“Our business strategy during the fiscal year ended June 30, 2014 was to focus on two important initiatives: the global repositioning of the Elizabeth Arden brand and expanding the market penetration of our prestige fragrance portfolio in international markets,** especially in the large European fragrance market as well as growing markets such as Brazil and the Middle East. We believe that improving the commercial execution capabilities of our business is important to the success of each of these initiatives and that better leveraging of our overall overhead structure and improving operating efficiencies and distribution quality will also help to expand gross margins, operating margins and earnings.

For fiscal 2015, we will continue to prioritize these initiatives, with a renewed focus on priority markets, channels and brands. In North America, we intend to target brand investment, accelerate the pace of our product innovation, and seek new brand opportunities to drive long-term growth in fragrance sales in the U.S. market.

**Internationally,** in addition to continuing our efforts to expand growth of our prestige fragrance portfolio, we plan to **capitalize on the global repositioning of the Elizabeth Arden brand to expand our market share in priority markets.** In particular, **we believe the largest opportunity to grow the Elizabeth Arden brand is in the Asian markets, including China where the Elizabeth Arden brand is well recognized, but currently has low market penetration.** In conjunction with these efforts, we are also evaluating a shift in the focus of our international business to potentially rely more heavily on regional joint ventures in certain markets, as opposed to distributors, particularly as we enter new markets. This should allow us to cost-effectively leverage established commercial infrastructures with strong retail market share and expertise to help us grow both the Elizabeth Arden brand and our prestige fragrance portfolio internationally.”

**-Note that sales of Elizabeth Arden in China declined \$12.6 million** in the first quarter ended September 30, 2014, (see page 7). And, this was from a low market penetration?



“ In addition, we continue to engage in a **fundamental reexamination of how we commercially execute our business**. As part of this process, during the fourth quarter of fiscal 2014, our board of directors approved a **broad restructuring and cost savings program** that is intended to reduce the size and cost of our overhead structure and **exit low-return businesses, customers and brands and to improve gross margins and profitability in fiscal 2015 and in the long term (the “2014 Performance Improvement Plan”)**. The 2014 Performance Improvement Plan includes the exiting of certain unprofitable retail doors and fragrance license agreements, changes in customer, distribution and supply chain relationships, the discontinuation of certain products, the elimination of approximately 175 employee positions globally, and the closing of our affiliate in Puerto Rico.

We currently estimate that **the 2014 Performance Improvement Plan will result in pre-tax charges beginning in the fourth fiscal quarter of 2014 and through fiscal 2015 of \$65 million to \$72 million, of which an estimated \$32 million to \$36 million is comprised of cash expenditures**. During the fourth quarter of fiscal 2014, we incurred approximately \$55.9 million of pre-tax charges in connection with the 2014 Performance Improvement Plan. We anticipate annualized savings resulting from the 2014 Performance Improvement Plan activities of approximately \$27 million to \$35 million.

The 2014 Performance Improvement Plan is only part of our ongoing broad restructuring and cost savings program, and we are continuing to target annual savings in the range of \$40 million to \$50 million upon full implementation of our cost-reduction efforts. **These efforts are expected to result in additional decisions that are likely to impact net sales, operating margins and/or earnings in future periods.**

#### September 30, 2014 10Q

-- we understand that we must **focus on improving our commercial execution** in order to return to consistent and reliable sales and earnings growth. Our key areas of focus in fiscal 2015 for improving performance are (i) **improving gross margin through improved product pricing, reduced price discounting** and improved basic versus promotional product sales mix, (ii) improving our distribution quality by tightening product distribution to protect pricing



and gross margins, (iii) simplifying and streamlining our organization to reduce overhead costs, and (iv) improving the pace and effectiveness of our innovation program, all with renewed emphasis on priority markets, channels and brands.”

So, **sales are going down and their plan is basically to RAISE prices?** While this may increase gross margins which have been dropping sharply. It may exacerbate the trend of declining sales. **Sales are going down because people don't want your products. Raising the price, or eliminating sales and promotions could be disastrous, as JC Penney found out.**

### Conclusion

Sales are declining, gross margins are dropping sharply, debt is increasing. Top product is dated and endorsed by a dead celebrity. New products are with trendy celebrities that can cool off fast (Justin Bieber). There are no growth catalysts, except cutting costs, and trying to raise prices. International is 43% of sales and not profitable. China was supposed to be their growth area, but sales declined \$12.6 million in the quarter just ended. This stock appears to be in a slow death spiral. Note that from time to time a phony buy-out rumor appears and the stock will rally, only to give it all back. **We believe investors should sell all rallies, if any, with a price target of \$10-\$12 per share within 12 months.**