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Ronald Perelman

Makeup giant needs a turnaround artist

Revlon's heavy debt makes sale appear to be sole remedy

BY ELISABETH BUTLER

EVEN THE THICKEST pancake makeup can't conceal Revlon Inc.'s haggard look. After losing money and amassing debt for years, the company got more wrinkles this month, when its prized new product line, Vital Radiance, officially flopped in several key big-box chains.

Retail experts say the only way

that Chairman Ronald Perelman can save Revlon now is to sell it to someone who can finance a radical corporate face-lift. The company carries about \$1.3 billion in debt, and its famous flagship brand has been losing momentum in the face of better-financed and more nimble competitors Procter & Gamble and L'Oréal.

Revlon hasn't turned a profit in eight years. The stock dropped to a record low of 98 cents in trading Friday and closed up a penny.

"It's still a major brand," says Michael Appel, a managing director at Quest Turnaround Advisors. "They've got to have the kind of

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Blank-check IPOs rushing to market

Deals make up 20% of all offerings; individuals exposed via mutual funds

BY AARON ELSTEIN

IN TWO STOCK MARKET'S brightest days in the late 1990s, companies with minuscule revenues and no profits were able to raise big money with initial public offerings. All they needed was a business plan that pointed to a glorious future.

Today, IPOs by companies without revenues and profits are again in vogue, raising questions about whether investors are heading for a tumble.

The latest batch of deals, known as blank-check IPOs, do not even have to be backed up by specific business plans. While conventional public offerings provide companies with funding for specific

expansion projects or business lines, blank-check IPOs give executives precisely what the market suggests: pools of money to buy whatever they see fit.

Such deals are proliferating as investors regain their appetite for super-speculative investments. So far this year, blank-check IPOs have accounted for more than 20% of all U.S. public offerings and have raised \$1.8 billion, according to research firm Dealogic. By comparison, in all of 2005, blank-check companies, sometimes known as blind pools, made up only 12% of IPOs and raised \$2 billion.

Once the province of small brokerage houses, blank-check IPOs have in the past few months become popular with Citigroup, Deutsche Bank and Merrill Lynch bankers eager to pocket the 7% underwriter's commission.

Entrepreneurs like Yaron Eran are also riding on the trend to gain quick access to cash. His Vector Internet Security Acquisition Corp. See **BLANK-CHECK** on Page 22



Makeup giant needs turnaround

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management who can fix it." Although the company hasn't indicated an intention to sell, a handful of potential buyers are shopping the market.

"Five or six consumer-oriented private equity groups have to be thinking about a Revlon buyout," says David Deutsch, founder of an eponymous merger-and-acquisition advisory firm. "The stock has fallen off a cliff, but the company does remain one of the leading cosmetic brands, particularly among mass merchants."

Any buyer would have to negotiate with creditors to lighten Revlon's financial load by trading debt for equity, Mr. Appel says. A deal would

require not only deep pockets, but also the patience to reinvigorate all the lines with new products and promotions.

Private equity firms like Sun Capital Partners Inc. and Texas Pacific Group have lately shown interest in consumer-goods companies, and some insiders expect them to make a run at Revlon while its share price is depressed.

Overestimating

CRITICS SAY Mr. Perelman's arrogance is one of Revlon's biggest problems. The billionaire, who bought the company in 1985, is known for overestimating sales and underestimating budgets.

One former Revlon executive

says Mr. Perelman's overconfidence led him to market Vital Radiance, products targeting women over 50, without the Revlon name. Shoppers at big-box stores left the line on the shelves, which prompted Wal-Mart and Target to pull it from some locations. Within six months of its introduction, Vital Radiance had racked up \$40 million in operating losses.

Jack Stahl, Revlon's third chief executive in six years, defends the decision to market the line independently.

"We're going after a very targeted customer who wants a product designed just for her," says Mr. Stahl, who wouldn't comment on the prospect of selling the company. He plans to turn Vital Radiance into

a \$50 million brand by paring down the number of products in the collection and by promoting it in drug stores, where it has achieved as much as a 3% market share.

Underdelivering

ANALYSTS ARE SKEPTICAL. "We remain concerned about Revlon's history of overpromising and underdelivering on unrealistic goals," Goldman Sachs analyst Lori Scherwin wrote in a recent research report. Goldman rates the stock "neutral."

Revlon hasn't always looked so weary. In the 1990s, the breakthrough ColorStay and Age-Defying lines helped make it a leader with mass marketers like Duane Reade and Wal-Mart. The stock hit a high of \$56.38 in April 1998, while ads featuring supermodel Cindy Crawford appeared on television, in magazines and on billboards.

"It was just a strut, and a look and a glamour—Revlon owned it," says Candace Cortlett, principal of consulting firm WSL Strategic Retail. She says the company has failed to ignite significant buzz since then.

Last year, Revlon reported a loss of \$84 million on sales of \$1.3 billion.

In light of Vital Radiance's troubles, the company is trying to turn its relaunched Almay collection into a hot property. The line, which includes hypoallergenic eye shadow, mascara and foundation, boasts convenience for busy women and has caught the attention of several trend-trackers.

"I've been particularly impressed with their relaunch of Almay," says Jean Godfrey-June, beauty director at *Lucky* magazine. "It's iconic."

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