Sidoti & Company, LLC
Member FINRA & SIPC

Mountain Crest Acquisition Corp(MCAC)

Initiating Coverage of Mountain Crest Acquisition Corp./Playboy Enterprises, Inc. With A $17 Price Target

	2019	2020E	2021E	2022E
Mar.	NA	NA	$0.04	$0.09
June	NA	NA	0.05	0.11
Sep.	(0.88)	$0.32A	0.09	0.16
Dec.	(1.52)	$0.12	0.10	0.16
EPS	($6.12)	($1.09)	$0.28	$0.52
P/E		NM	39.3x	21.2x
EBITDA (mil) *	**$13.2**	**$28.3**	**$40.0**	**$49.7**
EV / EBITDA **		14.6x	10.3x	**8.3x**

Note: *EBITDA is based on company-adjusted metrics that exclude stock-based compensation expense and non-recurring charges. **EV /EBITDA multiple is based on a projected post deal enterprise value of $413 million. ***FCF excludes the add-back of stock compensation expense. F2019-F2022E include $0.21 per year of respective stock-based compensation expense. Sum of quarterly EPS may not equal full year total due to rounding and/or change in share count. NC=Not covered by Sidoti & Company, LLC

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021E	2022E
Rev.(Mil.)	NA	NA	NA	NA	NA	$100.9	$78.1	$137.1	$167.2	$200.1
GAAP EPS	NA	NA	NA	NA	NA	$0.33	($6.12)	($1.09)	$0.28	$0.52

* In December 2019, Playboy Enterprise Inc purchased Yandy.com

Description: Playboy Enterprise Inc is a global consumer lifestyle platform with three business segments; Licensing, Direct to Consumer and Digital Subscriptions and Services. The company was founded in 1953 and is headquartered in Los Angeles, CA.

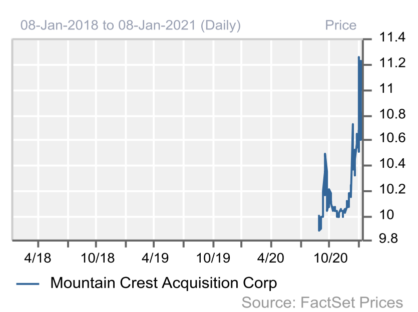
NR

Price Target: $17
Price: $11.00
Risk Rating: M

Gregory Pendy
(212) 894-3344
(gpendy@sidoti.com)

Key Statistics

Analysts Covering	1
Market Cap (Mil)	$80
Enterprise Value	$83
52-Week Range (NASDAQ)	13-10
5-Year EPS CAGR	26%
Avg. Daily Trading Volume	191,000
Shares Out (Mil)	7.542
Float Shares (Mil)	5.461
Insider Ownership	28%
Institutional Holdings	28%
Annualized Dividend	Nil
Dividend Yield	N/A
FCF Per Share (2022E) ***	$0.42
FCF Yield (2022E)	3.8%
Net Cash Per Share (2022E)	($0.33)
Price to Book Value	1.5x
Return on Equity (2022E)	8.3%
Total Debt to Capital	NM
Interest Coverage Ratio	NM
Short Interest %	1.3%
Short Interest Days To Cover	0.2
Russell 2000	2,092
Russell 2000 - Last 12 Months	25.7%
MCAC - Last 12 Months	N/A



Mountain Crest Acquisition Corp. has a entered into a merger agreement with Playboy Enterprises, Inc. Mountain Crest Acquisition Corp. (NASDAQ; MCAC) is a publicly listed special purpose acquisition company (also referred to as a SPAC) with about $58.5M cash in a trust. MCAC plans to combine with privately held Playboy Enterprises, Inc. (PLBY). Both MCAC and PLBY have unanimously approved the transaction, which now requires the approval of stockholders and targets a 1Q:21 close. For our analysis, we assume shareholder approval and no redemptions from MCAC holders. Hence, we view MCAC shares as an attractive opportunity to invest in PLBY. PLBY is no longer involved in magazine publishing and instead is focused on harnessing the brand recognition cultivated over the last 67 years. PLBY is led by Ben Kohn (formerly with Rizvi Traverse Management LLC) whose former firm, along with PLBY founder Hugh Hefner, helped take Playboy private in 2011. The PLBY brand generates more than $3 billion in global consumer spending and holds over $400 million in existing contacted minimum licensing booked out to 2029. PLBY will focus on further growth in licensing and owned consumer products.

If the proposed merger is approved, MCAC holders will own 17.5% of Playboy. The terms of the deal value Playboy at a pre-money equity value of $239.2 million (plus $142.1 million of debt) for an enterprise value of $381.3 million. Playboy is rolling 100% of its equity into MCAC. The transaction also includes a $50 million common stock PIPE (private investment in a public company) at $10.00 per share. Playboy has agreed to purchase 700k sponsor promoted shares at $6.35 per share. Unlike many SPAC mergers, there are no warrants associated with this transaction. All in, these terms, with no imputed redemptions, indicate a pro forma market capitalization of $373 million ($413 million enterprise value) on 37.3 million shares. Playboy will own 66% (24.6 million shares) of the combined entity with a one year lock up, subject to a partial release, if after six months the stock trades at $14.00 for 20 out of 30 consecutive trading days. The remaining ownership will be split among MCAC investors 17.5% (6.5 million shares), PIPE investors 13.4% (5.0 million shares) and MCAC sponsor 3.0% (1.1 million shares). Following the close, Playboy will change the name to PLBY Group, Inc., and the shares will trade under the ticker "PLBY" on the Nasdaq Exchange.

In our view, the sexual-wellness category offers the most promising near-term growth

1177 Avenue of the Americas • 5th Floor
New York, NY 10036
Phone: 212-297-0001
www.sidoti.com

upside. PLBY is targeting four consumer categories. We think the sexual-wellness vertical has the most growth potential. The division is estimated at about 40% or $55 million of 2020 estimated revenue; PLBY management projects this will grow to about $140 million by 2025. The category includes condoms, lubricants, lingerie and CBD-based products. In September 2020, PLBY rolled out sexual wellness merchandise at over 10,000 physical points of sale, including big box retailers and drug stores across the U.S. The style and apparel division is estimated at about 50% or $74 million of 2020 revenue; PLBY projects this will grow to about $125 million by 2025. The division includes sales in China, where the company is a leader in men's apparel, as well as high-end U.S. fashion collaborations with brands including Missguided (private) and PacSun (private). The Gaming and Lifestyle division is estimated at about $3.5 million of 2020 revenue; the company projects $16.6 million by 2025. This division includes casino-style partnerships with Scientific Games (NASDAQ; SGMS, NC) and Microgaming (private). Finally, the Beauty and Grooming segment is estimated at about $2.9 million of 2020 revenue; the company expects this to grow to $16.2 million by 2025. This division includes men's fragrance and there are plans to launch a women's cosmetics line in 2021.

Momentum has been strong in 2020 despite COVID-19 and is expected to continue into year end. Through 3Q:20, net revenues for 2020 were $101.3 million, representing growth of 78% year over year, primarily attributable to a $40 million increase in direct-to-consumer revenue from the acquisition of Yandy.com (an online women's intimates apparel retailer) in late 2019 and increased sales of sexual wellness products. Additionally, licensing revenue increased $7.0 million from the year ago period. The net loss of $4.8 million through the first three quarters of 2020 marked a year-over-year improvement of $12.8 million. Management expects to meet or exceed increased 2020 financial projections of $137 million (from $131.2 million) in revenue and $28 million in adjusted (excludes stock-based compensation and non-recurring expenses) EBITDA (from $24.1 million), citing a strong Halloween and early holiday shopping season.

We forecast a 21% revenue CAGR in 2021-2022 will lead to adjusted EBITDA margins of just under 25%. We project annual revenue growth of 22% in 2021 to $167.2 million (versus guidance of $166.8 million), led by direct-to-consumer product launches, followed by 20% revenue growth in 2022 to $200.1 million. All in, this indicates a revenue CAGR of 21%, using 2020 projected revenue of $137.1 million (versus company guidance of $137.0 million) as our base year. Given the increases in sales mix from direct-to-consumer over licensing, we forecast cost of revenues will grow to 49.4% of sales in 2021, followed by 50.4% in 2022, compared to a projected 48.7% in 2020. More than offsetting this, we expect selling and administrative expenses will be positively leveraged off the higher revenue base, falling to 33.9% of revenue in 2021, followed by 30.0% in 2022, compared to 41.2% estimated for 2020. All in, we estimate the adjusted EBITDA margin to increase to 23.9% (GAAP EBITDA of 17.3%) leading to EPS of $0.28 in 2021 followed by 24.8% (GAAP EBITDA of 20.0%) and EPS of $0.52 in 2022.

We think the balance sheet has ample liquidity for acquisitions and potentially leverage the existing NOL. For 2022, we project Playboy will hold $136.9 million in gross debt and $124.6 million in cash, for net debt per share of $0.33. Despite a large presence in the apparel industry, we expect inventory levels to remain lean, as PLBY does not manufacture products and typically holds product for only about 30 days. On estimated annual capital spending of $2.0 million per year, we model free cash flow (excluding the add back of stock-based compensation expense) of $9.2 million ($0.25 per share) in 2021 and $15.5 million ($0.42) in 2022. For 2022, we estimate a total debt-to-total capital ratio of 37%. Overall, we expect Playboy will use free cash flow for acquisitions. PLBY currently holds just over $180 million in net operating loss (NOL) carry forwards that can be used to offset future tax obligations in the U.S.

We initiate coverage of Mountain Crest Acquisition Corp. shares with a $17 price target. We compare PLBY's multiple business lines to apparel brand peers such as Nike, Inc. (NYSE; NKE, NC) and Ralph Lauren Corporation (NYSE; RL, NC) and to beauty and grooming companies such as L'Oréal S.A. (PAR; OR.PA, NC). Playboy would also be in competition for sales of sexual wellness products with telemedicine companies including Hims, Inc. which recently announced plans to go public via a SPAC combination with Oaktree Acquisition Corp (NYSE; OAK, NC) pending shareholder approval. We also consider Playboy's unique $400 million ($250 million present value at 5.5% discount rate) in existing contracted minimum licensing, as creating a highly visible subscription revenue stream that investors will likely appreciate as they become more familiar with the core licensing business. All in, we anticipate investors will gravitate towards adjusted EBITDA, given management has used this for guidance. Given our forecast indicates a two-year adjusted EBITDA CAGR of about 33%, we think it is reasonable to apply 33x our projected 2022 EPS of $0.52 to derive a $17 price target, which implies 13x our 2022 EV/adjusted EBITDA. Our Moderately Risky rating is based on the lack of trading history and potentially soft consumer spending environment due to COVID-19.

Company Overview

Mountain Crest Acquisition (NASDAQ: MCAC) is a blank check or special purpose acquisition company (SPAC) headed by Chinese national Suying Liu. The SPAC units began trading under the ticker symbol "MCACU" on June 5, 2020. Currently, the common stock trades under MCAC and rights under MCACR (each right entitles the holder to receive one-tenth of one share of common stock upon the consummation of a business combination). The total aggregate issuance by the company of 5,749,800 units (which includes underwriting over-allotment option of 749,800 units) at a price of $10.00 per unit resulted in proceeds of $57,498,000. There are no warrants outstanding, which creates a less complicated and less dilutive entity for MCAC shareholders.

On September 30, 2020, MCAC entered into a business combination agreement with Playboy Enterprises, Inc., which had been operating as a private company since 2011, following a buyout from an affiliate of Rizvi Traverse Management LLC) and founder Hugh Hefner.

As a privately held company, Playboy completed a full strategic review in 2017, that included exiting advertising and off-brand partnerships. In 2018, Playboy purchased all of the remaining shares of its common stock owned by the Hefner Trust. In late 2019, the company acquired Yandy.com for $13.1 million. Yandy is an online retailer focused on lingerie, swimwear and costumes. By March 2020, Playboy completely exited the magazine publishing business. In September 2020, Playboy began selling owned sexual wellness products in big box retailers, including Wal-Mart (NYSE; WMT, NC) and CVS (NYSE; CVS, NC).

As part of the SPAC conversion transaction, Mountain Crest also signed definitive purchase agreements in November 2020 for the additional sale of $50 million of its common stock to institutional and accredited investors via a PIPE offering.

The strategic rationale of the deal is to enable Playboy to accelerate existing organic growth plans for product development, go-to-market strategies and direct-to-consumer capabilities. The additional capital will also allow management to consider potential acquisitions in areas including sexual wellness, which is a highly fragmented market. PLBY will also potentially be able to leverage part or all of its over $180 million in NOLs towards future tax obligations.

Transaction details: The terms of the deal value Playboy at a pre-money equity value of $239.2 million (plus $142.1 million of debt) or an enterprise value of $381.3 million. The terms indicate a pro forma market capitalization of $373 million and enterprise value of $413 million. Based on current 2021 EBITDA guidance of $40.3 million, the deal is valued at an indicated EV/EBITDA multiple of 10.2x. Post the transaction, Playboy will own 66% (24.6 million shares) of the combined entity and will have agreed to a one year lock up subject to a partial release if, after six months, the stock trades at $14.00 for 20 out of 30 consecutive trading days. The remaining ownership will be split among MCAC investors 17.5% (6.5 million shares), PIPE investors 13.4% (5.0 million shares) and MCAC sponsors 3.0% (1.1 million shares).

The boards of directors of Mountain Crest and Playboy have unanimously approved the transaction. The transaction will require the approval of the stockholders of both Mountain Crest and Playboy, and is subject to other customary closing conditions, including the receipt of certain regulatory approvals. The transaction is expected to close in 1Q:21.

Upon closing the transaction, Mountain Crest will be renamed and is expected to remain listed on the Nasdaq Stock Market under the ticker “PLBY”.

Market Overview

Playboy currently reaches millions of consumers around the world with products and services across four major categories:

- Sexual Wellness (about $55 million in 2020 revenue): includes condoms, CBD products, and lingerie.
- Style & Apparel (about $74 million); includes clothing for men and women globally, often with the iconic Rabbit Head logo.
- Gaming & Lifestyle (about $3.5 million); includes digital gaming, hospitality, furniture and spirits.
- Beauty & Grooming (about $2.9 million); includes men’s fragrance, skincare, grooming and women’s cosmetics.

PLBY has over $400 million in cash flows contracted through 2029, representing existing licensing agreements consisting of about 150 total contracts. In our view, the $400 million is conservatively valued, as it assumes no renewals versus a historical renewal rate of 95%. The number is also based on a percentage of sales against the minimum guarantee.

PLBY also sells products directly to consumers as the company seeks to capture a greater share of the $3 billion in global consumer spend for the brand. PLBY currently has over 1 million active digital commerce consumers and over 50 million social media fans. In November 2020, PLBY began selling licensed product on its own website for the first time.

We project PLBY will report net revenues under four lines of business that we estimate will end 2020 at:

- Licensing (about $58.8 million in 2020 revenue)
- Direct to Consumer (about $54.6 million)
- Digital subscriptions & services (about $20.9 million)
- All other (about $2.9 million)

In terms of geographic footprint, PLBY commands a proven global presence, with sales in 2019 coming from over 180 countries. In 2019, the company generated revenues of $36.4 million (40% of total revenues) in China, $18.2 million (24%) in the U.S. and $28.6 million in other countries. Near term, PLBY is focused on growth in India following its first product launch in December 2020.

Competitive Landscape

In the men’s apparel space in China, PLBY competes with a mass market price point, but may position the starting price above those levels. Hence, we view the competition in China to often include apparel companies such as Uniqlo (subsidiary of Fast Retailing Co., Ltd.: TKS; 9983, NC) and Levi Strauss & Co. (NYSE; LEVI, NC). The apparel is sold through 1,000 online websites that account for about 75% of total sales, as well as 2,500 brick and mortar stores. In the U.S. and U.K., PLBY apparel collaborations compete primarily with other streetwear offerings such as Vans (subsidiary of V.F. Corporation; NYSE; VFC, NC).

In the sexual wellness industry, which is highly fragmented, we view PLBY primarily positioned as competing with brands such as Hims Inc. while the lingerie ecommerce businesses compete with companies such as AdoreMe (private).

In terms of Beauty & Grooming, PLBY recently re-launched its fragrance business that had generated $180 million in annual wholesale revenues under Coty Inc. (NASDAQ; COTY, NC). In our view, the company is more likely to move towards a higher price point now than in the past. While the new line has only thus far been introduced in the U.K. and Germany, we anticipate the brand will ultimately compete more with cologne brands often sold online at about $50 for 100 ml, such as Paco Rabanne (private).

In Gaming and Lifestyle, PLBY currently has a licensing agreement with Caesars Entertainment, Inc. (NASDAQ: CZR, NC) for the Playboy Club London, which saw diminished revenue in 2020 due to COVID-19 shutdowns and has delayed the opening of a poker room in Houston Texas, which is now expected to open sometime in 2021.

M&A Acceleration Opportunity

PLBY management has set long-term targets out to 2025 for revenue of $296 million and adjusted EBITDA of $104 million. These targets are based on organic growth assumptions and do not include potential acquisitions that may accelerate the current targets and allow PLBY to scale its owned brands. We note that over $180 million in NOLs could provide a significant tax shield against acquired income. In terms of acquisitions, we view PLBY as off to a solid start, after acquiring substantially all the assets and liabilities (excluding outstanding borrowings) of Yandy, for cash consideration of $13.1 million at the end of 2019. Yandy operates as an online retailer of women's lingerie, costumes, swimwear, other apparel, and bedroom accessories. The deal has provided PLBY with significant warehouse and fulfillment infrastructure, a comprehensive e-commerce software platform and strong customer base of over 750,000 active customers. The valuation paid for the deal is projected to round out 2020 at about 4x EBITDA.

Recent Results

Playboy has released year-to-date results for the first nine months of 2020 through 3Q:20; net revenues were $101.3 million, representing growth of 78% over the same period in 2019, primarily driven by a $40 million increase in direct-to-consumer revenue, following the launch of owned sexual wellness products, as well as the contribution from Yandy.

Cost of sales increased year over year by $25.2 million, almost doubling to $50.5 million. The cost of sales increase primarily reflects higher revenue growth of 78%, and increased direct-to-consumer revenue in the mix, versus Licensing revenue. Selling and administrative expenses increased year over year by $8.3 million, or 25.3% to $41.3 million. Excluding Yandy's selling and administrative expenses that we estimate at $9.1 million, selling and administrative expenses actually decreased by $800,000, fueled by $4.1 million in reduced stock-based compensation.

GAAP EBITDA of $10.5 million (10.3% margin) through the first nine months of 2020 was well ahead of the $256,000 in the comparable period for 2019. Adjusted EBITDA was $21.8 million (21.5% margin); this excludes $2.8 million in workforce reduction expenses, $3.2 million in non-recurring items and $2.5 million in stock-based compensation. This compares to the prior year ago period GAAP EBITDA loss of $1.9 million and Adjusted EBITDA of $9.5 million (16.7%); this excludes $1.1 million in workforce reduction expenses and adds back $6.6 million in stock-based compensation.

The 2020 nine-month net loss improved to $4.8 million versus a loss of $17.6 million in the prior year period. We note that the net loss per share should transform significantly following the transaction, given the share count changes, which is not highly relevant, in our view.

Earnings Outlook

For 2020, management expects to meet or exceed already raised 2020 financial projections (citing a strong Halloween and early holiday shopping season). The company guided for $137 million (prior $131.2 million) in revenue versus our estimate of $137.1 million. Adjusted EBITDA guidance is currently at $28 million (prior $24.1 million), versus our estimate at $28.3 million or 115% year over year growth.

In 2021, PLBY's revenues will continue to include highly visible existing booked licensing revenue; we estimate $46.4 million. Further drivers include a full year of revenue from sexual wellness products that began selling at 10,000 retail locations in September 2020, a new $1 million per year licensing contract in China with a children's apparel line, a return towards a normalized licensing fee from a London casino as well as a new poker room in Texas, further expansion in men's fragrances launching in more countries and a new women's cosmetics line. All in, we estimate net revenue of $167.2 million (nearly in line with guidance of $167.0 million) or 22% ($30.1 million) in annual growth.

In terms of cost of sales for 2021, we are modeling an increase to 49.4% or up 70 basis points year over year. This reflects owned and operated product launches that typically carry lower margins relative to licensing. We forecast selling and administrative expense gross dollars will grow $171,000 year over year but leverage against the higher sales base to $56.7 million or 33.9% of revenue (versus 41.2% in the prior year). Our assumptions project efforts towards reduction in force expenses will bear fruit while total corporate expenses at about $39 million per year can stay relatively level.

All in, the 22% annual revenue growth coupled with expense assumptions lead to our adjusted 2021 EBITDA estimate of $40.0 million (about in line with guidance of $40.3 million). Optically, we think the weaker cost of sales should be more than offset by the positive SG&A leverage that leads to our adjusted EBITDA margin of 23.9% (versus guidance of 24.0%) for 2021.

In terms of earnings, we model 2021 EPS of $0.28 on total shares outstanding of 37.3 million; we acknowledge this is not comparable relative to our 2020 estimate for a loss per share of $1.09 on 3.9 million shares.

In 2022, we estimate net revenue of $200.1 million or 20% annual growth, which includes $46.4 million in currently booked licensing. Our estimates do not include any acquisitions, but we anticipate PLBY will explore strategic opportunities. We project further cost of revenue pressure to 50.4% of revenue or 100 basis points year over year on mix of direct to consumer versus licensing. However, consistent with the trend in 2021, we project SG&A gross dollars to grow to $3.5 million, which should leverage against sales growth and drive SG&A margins down to 30.0% or a decline of 390 basis points year over year.

These projections lead to adjusted EBITDA of $49.7 million or 24.8% of revenue and EPS of $0.52 or almost double the prior year on a flat share count of 37.7 million. We note these compares to management's long-term 2025 goal for EBITDA of $104 million on a 35% margin.

Balance Sheet and Cash Flow

At the close of 2022, we project Playboy will hold $136.9 million in gross debt and $124.6 in cash, for net debt per share of $0.33. Despite a large presence in the apparel industry and growth in owned and operated consumer products, we expect inventory levels to remain lean as PLBY typically a print on demand type model.

On an estimated annual capital spending of $2.0 million per year in 2021-2022, we model free cash flow (excluding the add back of stock-based compensation expense) of $9.2 million ($0.25 per share) in 2021 and $15.5 million ($0.42) in 2022. Including stock-based compensation, we forecast free cash flow of $14.4 million ($0.39 per share) in 2021 and $20.7 million ($0.56) in 2022. By the close of 2022, we estimate a total debt-to-total capital ratio of 37%. Overall, we expect Playboy will use free cash flow for acquisitions. PLBY also currently holds just over $180 million in net operating loss (NOL) carry forwards that can be used to offset future tax obligations in the U.S. Management has stated a view that the sexual wellness category is currently fragmented and the name change to PLBY Group, Inc. and concomitant brand affiliation, should position the company to pursue complementary brands.

Risks

Intellectual property protection. Despite the actions Playboy is taking to defend and protect its intellectual property, the company may not be able to adequately protect or enforce its intellectual property rights. Specifically, the trademarks in the Playboy name and Rabbit Head Design are valuable assets of the business that are prone to counterfeit risk from other merchandise companies.

Negative publicity. Playboy's business involves the provision of sexually explicit content, which can create negative publicity. Opposition groups can often file lawsuits against providers of adult entertainment, encourage boycotts and mount negative publicity campaigns that can negatively impact distribution outlets and advertising.

Impairment charges. Playboy has a significant amount of intangible assets, including trademarks, recorded on the balance sheet. As a result of changes in market conditions and declines in the estimated fair value of these assets, the company may be required to record impairments of intangible assets in the future, which could adversely affect operating results.

Due diligence. Even though MCAC conducted a due diligence investigation of Playboy, it cannot be sure that this diligence uncovered all material issues that may be present inside Playboy or its business.

Deal closing and redemptions. The merger is still subject to a shareholder vote for approval. Additionally, the closing conditions under the Merger Agreement requires a minimum Trust Account balance of $15,000,000. Should the maximum number of MCAC holders choose to redeem, the targeted pro forma cash upon the closing of the deal would be $43.7 million lower in cash.

Valuation

In terms of valuation, Playboy's 67-year history that includes a critical role in the sexual revolution and as a campaigner for civil rights has built one of the world's best-known brands that would be difficult to replicate today; PLBY was ranked 17^{th} in 2020 by brand licensing firm Global Licensing, Inc. The brand has demonstrated an ability to connect with the Gen-Z demographic as well as younger Millennials given the company's successful partnerships with retailers such as PacSun and Misguided. Globally, the brand is a leader in men's apparel in China while also garnering licensing opportunities in U.K. gaming. The iconic Rabbit Head and Playboy trademarks are valued at $336.4 million under GAAP accounting on the balance sheet and they have also held substantial economic value through the $400 million in existing contacted licensing out to 2029, which assumes no renewals and only minimum contract agreements. In addition to the trademarks, Playboy also holds potentially valuable net operating losses of $183 million.

In terms of peer valuation, we acknowledge that Playboy's multiple business lines augur for peer comparables ranging from apparel brands such as Nike, Inc. and Ralph Lauren Corporation to beauty and grooming companies such as L'Oréal S.A. Playboy would also be in competition for sexual wellness product sales with telemedicine companies including Hims, Inc. which recently announced plans to go public via a SPAC combination with Oaktree Acquisition Corp (NYSE; OAK, NC), pending shareholder approval.

All in, we anticipate PLBY investors will gravitate towards adjusted EBITDA as one of the key metrics in terms of valuation. Management has used this metric in annual and long-term guidance. We estimate adjusted EBITDA will grow to $40.0 million in 2021 and $49.7 million by 2022, compared to our estimate of $28.3 million in 2020. Our forecast indicates a two-year EBITDA CAGR of about 33%. We apply 33x to our 2022 EPS estimate of $0.52 to derive a $17 price target; this indicates 13x our projected enterprise value of $646.4 million ($634.1 million market capitalization, based on 37.3 million shares outstanding plus $136.9 million debt less, $124.6 million cash) to adjusted EBITDA of $49.6 million. Our Moderately Risky rating is based on the lack of trading history and potentially soft consumer spending environment due to COVID-19.

Table 1: Playboy Group Income Statement

(in thousands, except share and per share data)

	1H:19	3Q:19	4Q:19	2019	1H:20 A	3Q:20 A	4Q:20 E	2020 E	1Q:21 E	2Q:21 E	3Q:21 A	4Q:21 E	2021 E	1Q:22 E	2Q:22 E	3Q:22 A	4Q:22 E	2022 E
Net revenues	$38,089	$18,782	$21,239	$78,110	$66,331	$35,004	$35,807	$137,142	$39,000	$41,857	$42,648	$43,700	$167,205	$46,611	$49,966	$51,078	$52,438	$200,093
Costs and expenses:																		
Cost of sales	(16,825)	(8,565)	(12,352)	(37,742)	(34,853)	(15,695)	(16,292)	(66,840)	(20,319)	(21,808)	(20,002)	(20,495)	(82,624)	(24,611)	(26,332)	(24,568)	(25,275)	(100,786)
Selling and administrative expenses	(23,815)	(9,186)	(12,327)	(45,328)	(26,522)	(14,827)	(15,146)	(56,495)	(13,026)	(13,980)	(14,671)	(14,989)	(56,666)	(14,030)	(14,990)	(15,374)	(15,731)	(60,125)
Related-party expenses	(500)	(250)	(255)	(1,005)	(500)	(257)	(358)	(1,115)	(390)	(419)	(426)	(437)	(1,672)	(466)	(500)	(511)	(524)	(2,001)
Total costs and expenses	(41,140)	(18,001)	(24,934)	(84,075)	(61,875)	(30,779)	(31,796)	(124,450)	(33,735)	(36,206)	(35,100)	(35,922)	(140,962)	(39,107)	(41,821)	(40,453)	(41,531)	(162,912)
Operating (loss) income	(3,051)	781	(3,695)	(5,965)	4,456	4,225	4,010	12,691	5,265	5,651	7,549	7,779	26,243	7,504	8,144	10,624	10,907	37,180
Nonoperating (expense) income:																		
Interest income (expense)	(7,256)	(3,446)	(3,298)	(14,000)	(6,628)	(3,415)	(3,415)	(13,458)	(3,251)	(3,155)	(3,061)	(2,971)	(12,439)	(2,922)	(2,893)	(2,864)	(2,836)	(11,514)
Loss on disposals of assets	0	0	(71)	(71)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Extinguishment of debt	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gain from bargain purchase	0	0	1,483	1,483	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other, net	(41)	(46)	(86)	(173)	1	72	0	73	0	0	0	0	0	0	0	0	0	0
Total nonoperating expense	(7,297)	(3,492)	(1,972)	(12,761)	(6,627)	(3,343)	(3,415)	(13,385)	(3,251)	(3,155)	(3,061)	(2,971)	(12,439)	(2,922)	(2,893)	(2,864)	(2,836)	(11,514)
(Loss) income before income taxes	(10,348)	(2,711)	(5,667)	(18,726)	(2,171)	882	595	(694)	2,014	2,496	4,487	4,808	13,805	4,583	5,252	7,760	8,072	25,667
Provision for income taxes	(3,849)	(650)	(351)	(4,850)	(3,854)	384	119	(3,351)	(503)	(624)	(1,122)	(1,202)	(3,451)	(1,146)	(1,313)	(1,940)	(2,018)	(6,417)
Net (loss) income and comprehensive (loss) income	(14,197)	(3,361)	(6,018)	(23,576)	(6,025)	1,266	476	(4,283)	1,510	1,872	3,366	3,606	10,353	3,437	3,939	5,820	6,054	19,250
Net (loss) income noncontrolling interest	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net (loss) income a attributable to Playboy	(14,197)	(3,361)	(6,018)	(23,576)	(6,025)	1,266	476	(4,283)	1,510	1,872	3,366	3,606	10,353	3,437	3,939	5,820	6,054	19,250
GAAP EBITDA	(1,626)	1,882	(1,664)	(1,408)	5,659	4,829	4,407	14,895	5,947	6,333	8,231	8,461	28,971	8,196	8,836	11,316	11,599	39,948
Adjusted EBITDA	6,277	3,235	3,656	13,168	14,347	7,434	6,566	28,347	9,837	9,051	10,957	10,198	40,043	10,963	11,136	13,627	13,923	49,649
Net (loss) income per share, diluted	($3.72)	($0.88)	($1.52)	($6.12)	($1.53)	$0.32	$0.12	($1.09)	$0.04	$0.05	$0.09	$0.10	$0.28	$0.09	$0.11	$0.16	$0.16	$0.52
Weighted-average shares diluted	3,819,036	3,819,036	3,854,256	3,854,256	3,939,046	3,939,046	3,939,046	3,939,046	37,300,000	37,300,000	37,300,000	37,300,000	37,300,000	37,300,000	37,300,000	37,300,000	37,300,000	37,300,000
Margin analysis:																		
Cost of sales	44.2%	45.6%	58.2%	48.3%	52.5%	44.8%	45.5%	48.7%	52.1%	52.1%	46.9%	46.9%	49.4%	52.8%	52.7%	48.1%	48.2%	50.4%
Selling and administrative expenses	62.5%	48.9%	58.0%	58.0%	40.0%	42.4%	42.3%	41.2%	33.4%	33.4%	34.4%	34.3%	33.9%	30.1%	30.0%	30.1%	30.0%	30.0%
Related-party expenses	1.3%	1.3%	1.2%	1.3%	0.8%	0.7%	1.0%	0.8%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Total costs and expenses	108.0%	95.8%	117.4%	107.6%	93.3%	87.9%	88.8%	90.7%	86.5%	86.5%	82.3%	82.2%	84.3%	83.9%	83.7%	79.2%	79.2%	81.4%
Tax	37.2%	24.0%	6.2%	25.9%	177.5%	43.5%	20.0%	483.1%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
GAAP EBITDA	-4.3%	10.0%	-7.8%	-1.8%	8.5%	13.8%	12.3%	10.9%	15.2%	15.1%	19.3%	19.4%	17.3%	17.6%	17.7%	22.2%	22.1%	20.0%
Adjusted EBITDA	16.5%	17.2%	17.2%	16.9%	21.6%	21.2%	18.3%	20.7%	25.2%	21.6%	25.7%	23.3%	23.9%	23.5%	22.3%	26.7%	26.6%	24.8%
Net (loss) income a attributable to Playboy	-37.3%	-17.9%	-28.3%	-30.2%	-9.1%	3.6%	1.3%	-3.1%	3.9%	4.5%	7.9%	8.3%	6.2%	7.4%	7.9%	11.4%	11.5%	9.6%
Year over Year Growth:																		
Net revenues	NA	NA	NA	-22.6%	74.1%	86.4%	68.6%	75.6%	22.5%	21.4%	21.8%	22.0%	21.9%	19.5%	19.4%	19.8%	20.0%	19.7%
Cost of sales	NA	NA	NA	-25.4%	107.2%	83.2%	31.9%	77.1%	21.5%	20.3%	27.4%	25.8%	23.6%	21.1%	20.7%	22.8%	23.3%	22.0%
Selling and administrative expenses	NA	NA	NA	68.9%	11.4%	61.4%	22.9%	24.6%	2.3%	1.4%	-1.1%	-1.0%	0.3%	7.7%	7.2%	4.8%	5.0%	6.1%
Related-party expenses	NA	NA	NA	-23.3%	0.0%	2.8%	40.4%	11.0%	62.5%	61.0%	65.9%	22.0%	50.0%	19.5%	19.4%	19.8%	20.0%	19.7%
Total costs and expenses	NA	NA	NA	6.8%	50.4%	71.0%	27.5%	48.0%	13.6%	12.5%	14.0%	13.0%	13.3%	15.9%	15.5%	15.3%	15.6%	15.6%
GAAP EBITDA	NA	NA	NA	-8.2%	-348.0%	256.6%	-264.9%	-1057.9%	218.9%	215.2%	170.4%	192.0%	194.5%	137.8%	139.5%	137.5%	137.1%	137.9%
Adjusted EBITDA	NA	NA	NA	17.8%	128.6%	129.8%	79.6%	115.3%	44.0%	22.3%	47.4%	55.3%	41.3%	11.4%	23.0%	24.4%	36.5%	24.0%
Net (loss) income per share, basic	NA	NA	NA	-1754.1%	-58.9%	-136.5%	-108.0%	-82.2%	-105.5%	-106.3%	-71.9%	-20.0%	-125.5%	127.6%	110.4%	72.9%	67.9%	85.9%

* 1Q:21 and 2Q:21 year over year growth is based on Sdiot estimates

Sources: Company reports and Sidoti & Company, LLC estimates.

Table 2: Playboy Group Cash Flow Statement

(in thousands, except share and per share data)

	1H:19 (6M)	3Q:19 (9M)	2019	1H:20 A (6M)	3Q:20 (9M) A	2020 E	2021 E	2022 E
Cash flow from operating activities:								
Net (loss) income	($14,197)	($17,558)	($23,576)	($6,025)	($4,759)	($4,283)	$10,353	$19,250
Adjustments								
Depreciation of property and equipment	817	1,602	1,989	781	1,169	1,600	1,800	1,800
Stock-based compensation	6,028	6,655	7,368	2,094	2,496	3,496	5,200	5,200
Gain on bargain purchase	0	0	(1,483)	0	0	0	0	0
Amortization of other intangible assets	552	828	1,104	393	534	714	720	720
Amortization of deferred financing fees	10	15	31	57	89	111	88	88
Amortization of original issue discount	0	0	0	0	0	0	0	0
Loss on disposals of assets	0	(20)	71	2	8	8	0	0
Extinguishment of debt	0	0	0	0	0	0	0	0
Write-off of related party loan, net	0	0	0	0	0	0	0	0
(Decrease) increase in deferred income taxes	323	485	(438)	151	2,181	2,181	0	0
Increase in trademarks and trade name	(250)	(408)	(556)	(271)	(452)	(452)	0	0
(Increase) decrease in licensed programming costs	72	(124)	(411)	(30)	22	(50)	(55)	(61)
Changes in operating assets and liabilities:								
Receivables, net	2,360	2,246	2,251	(40)	(428)	(4,742)	(2,342)	(2,604)
Inventories, net	(87)	(18)	31	2,239	(209)	(3,336)	(3,307)	(3,618)
Contract assets	(375)	271	357	(412)	(200)	(651)	0	0
Prepaid expenses and other assets	1,332	(694)	(3,394)	2,029	(2,310)	(4,860)	(2,405)	(2,631)
Accounts payable	(107)	(524)	290	(686)	1,321	3,549	1,514	2,012
Payable to related party	(3,261)	(3,261)	(3,256)	(5)	2	2	0	0
Accrued salaries, wages, and employee benefits	(1,385)	(582)	(108)	(1,307)	(605)	1,160	17	353
Deferred revenues	1,022	8,967	22,299	(3,822)	(663)	6,600	(4,685)	3,521
Other liabilities and accrued expenses	1,049	(916)	2,519	597	(4,279)	(3,475)	9,525	(1,312)
Net cash provided by operating activities	(6,097)	(3,036)	5,088	(4,255)	(6,083)	(2,429)	16,423	22,719
Cash flow from investing activities								
Purchases of property and equipment	(2,570)	(3,915)	(4,225)	(465)	(474)	(2,000)	(2,000)	(2,000)
Proceeds from disposals of property and equipment	0	21	24	2	7	0	0	0
Acquisition of Yandy, LLC, net of cash acquired	0	0	(12,786)	0	0	0	0	0
Stock receivable	0	0	0	0	(4,445)	(4,445)	0	0
Net cash used in investing activities	(2,570)	(3,894)	(16,987)	(463)	(4,912)	(6,445)	(2,000)	(2,000)
Cash flow from financing activities:								
Repayment of long-term debt	(2,269)	(3,044)	(5,627)	(775)	(775)	(5,575)	(5,500)	(5,500)
Fortress shares	0	0	0	0	0	0	(7,500)	0
Net proceeds from issuance of long-term debt	0	0	11,760	0	0	0	0	0
Proceeds from Trust and PIPE	0	0	0	0	0	0	108,500	0
Proceeds (payments) from convertible notes	0	0	0	0	0	0	(13,500)	0
Note issued for purchase of treasury stock	0	0	0	0	0	0	0	0
Purchase of treasury stock	0	0	0	0	0	0	0	0
Repayment of note issued for purchase of treasury stock	0	0	0	0	0	0	0	0
Payment of financing costs	0	0	(72)	(97)	(97)	(100)	(100)	(100)
Net cash provided by financing activities	(2,269)	(3,044)	6,061	(872)	(872)	(5,675)	81,900	(5,600)
Net (decrease) increase in cash, cash equivalents & restricted cash	(10,936)	(9,974)	(5,838)	(5,590)	(11,867)	(14,549)	96,323	15,119
Balance, beginning of year	34,545	34,545	34,545	28,707	28,707	28,707	14,158	110,481
Balance, end of year	23,609	24,571	28,707	23,117	16,840	14,158	110,481	125,600
Cash and cash equivalents and restricted cash consist of:								
Cash and cash equivalents	22,649	23,610	27,744	22,151	15,872	13,195	109,518	124,637
Restricted cash	960	961	963	966	968	963	963	963
Total	23,609	24,571	28,707	23,117	16,840	14,158	110,481	125,600
Free Cash Flow (Operating Cash Flow -Capex)	(8,667)	(6,951)	863	(4,720)	(6,557)	(4,429)	14,423	20,719
Free Cash Flow/ Share	($2.27)	($1.82)	$0.22	($1.20)	($1.66)	($1.12)	$0.39	$0.56
Stock Based Compensation	6,028	6,655	7,368	2,094	2,496	3,496	5,200	5,200
Free Cash Flow (Operating Cash Flow -Capex-stock comp)	(14,695)	(13,606)	(6,505)	(6,814)	(9,053)	(7,925)	9,223	15,519
Free Cash Flow/ Share Less Share Based Compensation	($3.85)	($3.56)	($1.69)	($1.73)	($2.30)	($2.01)	$0.25	$0.42

Sources: Company reports and Sidoti & Company, LLC estimates.

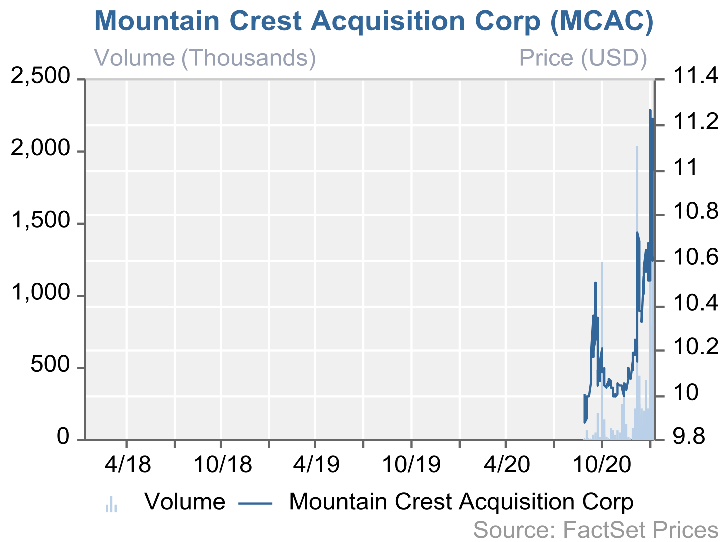
Table 3: Playboy Group Balance Sheet
(in thousands, except share and per share data)

	2019	2Q:20 A	3Q:20 A	2020 E	2021 E	2022 E
Assets:						
Cash and cash equivalents	$27,744	$22,151	$15,872	13,195	109,518	124,637
Restricted cash	963	966	968	963	963	963
Receivables, net of allowance for doubtful accounts	6,153	6,193	6,581	10,895	13,237	15,841
Inventories, net	11,750	9,511	11,959	15,086	18,393	22,010
Contract assets, current portion	611	1,325	1,262	1,262	1,262	1,262
Licensed programming costs	502	532	480	552	607	668
Stock receivable	0	0	4,445	4,445	4,445	4,445
Prepaid expenses and other current assets	6,111	4,082	8,272	10,971	13,376	16,007
Total current assets	53,834	44,760	49,839	57,370	161,802	185,833
Property and equipment, net	5,932	5,612	5,222	6,332	6,532	6,732
Trademarks and trade name	335,934	336,205	336,386	336,386	336,386	336,386
Goodwill	504	504	504	504	504	504
Other intangible assets, net	3,052	2,660	2,518	2,227	1,419	611
Contract assets, net of current portion	7,391	7,089	6,940	7,391	7,391	7,391
Other noncurrent assets	12,004	12,003	12,153	12,004	12,004	12,004
Total assets	418,651	408,833	413,562	422,213	526,037	549,461
Liabilities and shareholder equity:						
Accounts payable	7,859	7,173	9,180	11,408	12,922	14,934
Payables to related parties	5	0	7	7	7	7
Accrued salaries, wages, and employee benefits	4,603	3,296	3,998	5,763	5,780	6,133
Deferred revenues, current portion	9,857	6,871	15,931	16,457	20,065	24,011
Long-term debt, current portion	3,182	2,798	4,052	3,182	3,182	3,182
Convertible promissory notes, current portion	13,500	13,500	13,500	13,500	0	0
Other current liabilities and accrued expenses	22,143	22,640	16,872	18,668	28,192	26,881
Total current liabilities	61,149	56,278	63,540	68,984	70,148	75,147
Deferred revenues, net of current portion	41,734	40,898	34,997	41,734	33,441	33,015
Long-term debt, net of current portion	157,810	157,379	156,157	152,235	139,235	133,735
Convertible promissory notes, net of current portion	0	0	0	0	0	0
Deferred tax liabilities, net	72,288	72,439	74,469	74,469	74,469	74,469
Other noncurrent liabilities	576	676	1,568	576	576	576
Total liabilities	333,557	327,670	330,731	337,998	317,869	316,942
Redeemable noncontrolling interest	(208)	(208)	(208)	(208)	(208)	(208)
Common stock	36	36	36	36	36	36
Treasury stock	(38,455)	(38,455)	(38,455)	(38,455)	(38,455)	(38,455)
Additional paid-in capital	196,466	198,560	198,962	199,870	313,470	318,570
Accumulated deficit	(72,745)	(78,770)	(77,504)	(77,028)	(66,674)	(47,424)
Total stockholders' equity	85,302	81,371	83,039	84,423	208,377	232,727
Total liabilities,and stockholders' equity	418,651	408,833	413,562	422,213	526,037	549,461
Balance Sheet Analysis						
Return on Equity %	-27.6%	-7.4%	1.5%	-5.1%	5.0%	8.3%
Book Value per Share	$22.13	$20.66	$21.08	$21.43	$5.59	$6.24
Total Debt to Total Capital	65.4%	66.3%	65.9%	64.8%	40.6%	37.0%
Net Cash (Debt) per Share	($34.57)	($35.04)	($36.64)	($36.11)	($0.88)	($0.33)
Debt / LTM Adjusted EBITDA	12.2	NA	NA	5.5	3.6	2.8
Net Debt/ LTM Adjusted EBITDA	NM	NA	NA	(5.0)	(0.8)	(0.2)

Sources: Company reports and Sidoti & Company, LLC estimates.

Required Disclosures

Mountain Crest Acquisition Corp (MCAC-$11.00) NR Price Target: $17 Risk Rating: M



Risks

Intellectual property protection. Despite the actions Playboy is taking to defend and protect its intellectual property, the company may not be able to adequately protect or enforce its intellectual property rights. Specifically, the trademarks in the Playboy name and Rabbit Head Design are valuable assets of the business that are prone to counterfeit risk from other merchandise companies.
Negative publicity. Playboy's business involves the provision of sexually explicit content, which can create negative publicity. Opposition groups can often file lawsuits against providers of adult entertainment, encourage boycotts and mount negative publicity campaigns that can negatively impact distribution outlets and advertising.
Impairment charges. Playboy has a significant amount of intangible assets, including trademarks, recorded on the balance sheet. As a result of changes in market conditions and declines in the estimated fair value of these assets, the company may be required to record impairments of intangible assets in the future, which could adversely affect operating results.
Due diligence. Even though MCAC conducted a due diligence investigation of Playboy, it cannot be sure that this diligence uncovered all material issues that may be present inside Playboy or its business.
Deal closing and redemptions. The merger is still subject to a shareholder vote for approval. Additionally, the closing conditions under the Merger Agreement requires a minimum Trust Account balance of $15,000,000. Should the maximum number of MCAC holders choose to redeem, the targeted pro forma cash upon the closing of the deal would be $43.7 million lower in cash.

Valuation

In terms of valuation, Playboy's 67-year history that includes a critical role in the sexual revolution and as a campaigner for civil rights has built one of the world's best-known brands that would be difficult to replicate today; PLBY was ranked 17th in 2020 by brand licensing firm Global Licensing, Inc. The brand has demonstrated an ability to connect with the Gen-Z demographic as well as younger Millennials given the company's successful partnerships with retailers such as PacSun and Misguided. Globally, the brand is a leader in men's apparel in China while also garnering licensing opportunities in U.K. gaming. The iconic Rabbit Head and Playboy trademarks are valued at $336.4 million under GAAP accounting on the balance sheet and they have also held substantial economic value through the $400 million in existing contacted licensing out to 2029, which assumes no renewals and only minimum contract agreements. In addition to the trademarks, Playboy also holds potentially valuable net operating losses of $183 million.

In terms of peer valuation, we acknowledge that Playboy's multiple business lines augur for peer comparables ranging from apparel brands such as Nike, Inc. and Ralph Lauren Corporation to beauty and grooming companies such as L'Oréal S.A.

Appendix
Required Disclosures

Playboy would also be in competition for sexual wellness product sales with telemedicine companies including Hims, Inc. which recently announced plans to go public via a SPAC combination with Oaktree Acquisition Corp (NYSE; OAK, NC), pending shareholder approval.
All in, we anticipate PLBY investors will gravitate towards adjusted EBITDA as one of the key metrics in terms of valuation. Management has used this metric in annual and long-term guidance. We estimate adjusted EBITDA will grow to $40.0 million in 2021 and $49.7 million by 2022, compared to our estimate of $28.3 million in 2020. Our forecast indicates a two-year EBITDA CAGR of about 33%. We apply 33x to our 2022 EPS estimate of $0.52 to derive a $17 price target; this indicates 13x our projected enterprise value of $646.4 million ($634.1 million market capitalization, based on 37.3 million shares outstanding plus $136.9 million debt less, $124.6 million cash) to adjusted EBITDA of $49.6 million. Our Moderately Risky rating is based on the lack of trading history and potentially soft consumer spending environment due to COVID-19.

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