The Henry Fund
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Sports Entertainment

February 7, 2024

Consumer Discretionary Sector

Industry Rating **OVERWEIGHT**

Investment Thesis

The sports entertainment industry has thrived since the end of the COVID-19 pandemic, witnessing heightened demand, a diversifying customer base, and notable revenue growth despite inflationary pressures. Key trends include increased participation rates and younger demographics. Management teams have adapted swiftly, forging unconventional partnerships with content creators, most notably within the golf industry. Macro trends, including rising consumer confidence and real disposable income, bolster the industry's outlook, with impending rate cuts by the Federal Reserve enhancing prospects for a soft landing. Thus, we recommend an **OVERWEIGHT** rating for this industry.

Drivers of Thesis

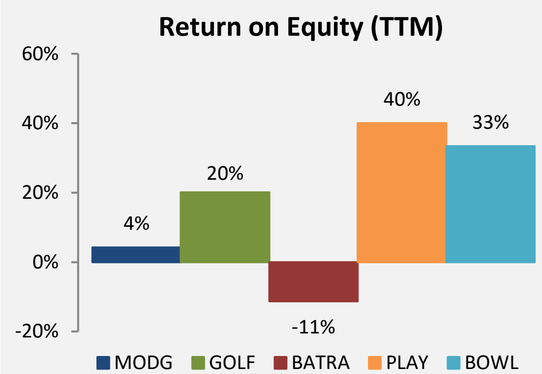
- Consumer confidence and disposable incomes are forecasted to remain elevated, helping consumers push through economic uncertainty.
- 30-year mortgage rates are expected to fall over 100 basis points (bps) in 2024, allowing for cheaper financing on capital expenditure projects.
- Growth in the 18- to 34-year-old market segment will help companies leverage new sponsorships to help reach high single-digit revenue growth targets.

Risks to Thesis

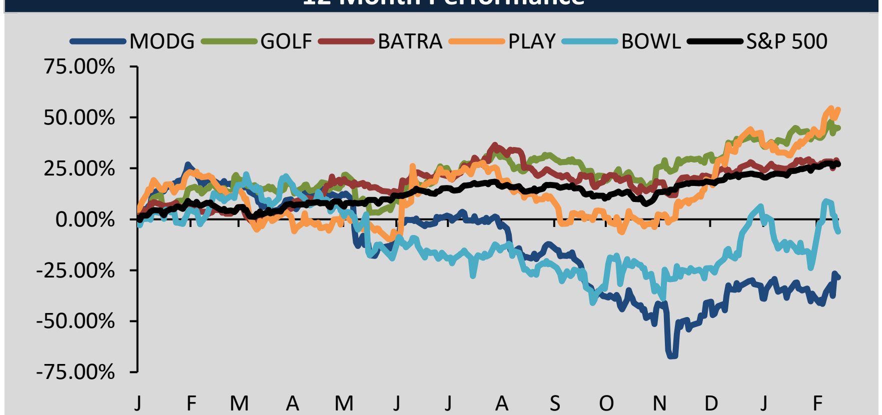
- Inflation within the service industry remains sticky above 5%, requiring companies to balance higher margins and affordability to their customers. Higher-for-longer interest rates could discourage consumers from purchasing discretionary items.
- Geopolitical risks adversely impacting supply chains, resulting in delays, price pressures, and shortages. Investments with foreign entities could be costly and damage a company's reputation.
- The seasonality of customer demand could result in volatile performance, stemming from factors outside of management's control (weather, political tensions, team/player performance, etc.).

Key Industry Statistics *(Source: FactSet)*

Main Competitors	Market Cap ($M)
Topgolf Callaway Brands	$2,735
Dave & Buster's	$2,443
Bowlero Corporation	$1,934
Atlanta Braves Holdings	$2,514
Acushnet Holdings Corp.	$4,379
	Forward EPS
Topgolf Callaway Brands	$0.28
Dave & Buster's	$3.21
Bowlero Corporation	-$0.06
Atlanta Braves Holdings	-$1.50
Acushnet Holdings Corp.	$2.97
	Forward P/E
Topgolf Callaway Brands	52.1x
Dave & Buster's	16.7x
Bowlero Corporation	--
Atlanta Braves Holdings	--
Acushnet Holdings Corp.	21.3x



12 Month Performance



Industry Description

The sports entertainment industry is rapidly evolving. Product and service offerings exude significant variety, with intense competition among rivals. The threat of new entrants continuously threatens more mature companies, yet evidence suggests customers remain generally loyal to these companies despite macroeconomic head-winds or more cost-effective alternatives.

INDUSTRY OVERVIEW

Executive Summary:

The sports entertainment industry is broadly defined as sporting events conducted for the audience's benefit. More concretely, however, companies in this industry typically specialize in one sport and divide their operations into two components – one focused on the competitive/professional aspect, and the other on the recreational/amateur aspect. As a result, company profitability can vary significantly depending on their specialty. This report focuses on the recreational aspect of these options to analyze how consumer preferences can greatly impact financial performance. Unfortunately, most companies in this industry are privately held since they primarily consist of professional sports teams, entertainment venues, and equipment manufacturers. The peer group selected looks to provide a representative sample of companies in this industry and to highlight their operational similarities and differences. These companies include Topgolf Callaway Brands (MODG), Acushnet Holdings Corp. (GOLF), Atlanta Braves Holdings (BATRA), Dave and Buster's (PLAY), and Bowlero Corporation (BOWL).

The sports entertainment industry has seen significant changes since the end of the COVID-19 pandemic, highlighted by stronger demand, a shifting customer base, and rising inflation. In general, these effects have been positive for the industry, resulting in near-record levels of customers and allowing companies to experience rapid revenue growth. Most customers fall within the 18-34 age group with an increasing percentage of non-white and female participants, but sticky inflation could potentially drive out lower-income individuals. Management teams have been quick to recognize new industry trends, with several branching out to create nontraditional partnerships with content creators, particularly within the golf industry.

Macroeconomic trends have been favorable, with rising consumer confidence, high disposable income, and low unemployment. As the Federal Reserve positions itself to begin making rate cuts this year, there exists a stronger likelihood of a soft landing. Thus, we recommend an **OVERWEIGHT** position for this industry supported by favorable economic forecasts and resilient customer demand.

RECENT DEVELOPMENTS

COVID-19 Impact

The COVID-19 pandemic significantly impacted international supply chains and the availability of experiences to customers. Several locations were required to suspend operations in 2020, with Topgolf closing 45% of its venues,[1] the NBA suspending its regular season for four months,[2] and the MLB delaying the start of its season until July.[3] Dave and Buster's was forced to temporarily close 137 of its locations, pause its quarterly dividend, and saw revenues decline by 56% in the first quarter and 68% on the year.[4] Several other professional leagues and privately held entertainment venues were required to follow similar procedures, damaging the value of these experiences once reopened and reducing revenues for the year. These disruptions were especially felt throughout each company's supply chain as it made it more difficult to move materials across and within borders.

This was particularly emphasized within the golf industry, as it experienced a boom in popularity due to its natural ability for individuals to exhibit spatial distancing. Total rounds played increased by 14% to 502 million in the United States in 2020 as more individuals turned to golf as a new form of recreation.[5] Topgolf Callaway rode this wave of demand with relatively stronger topline performance, but operational inefficiencies damaged the company's profitability. Topgolf Callaway saw revenues from golf clubs grow by 2% and only finished the year down 7% across all segments. Unfortunately, international supply chain disruptions delayed shipments of products to customers around the world, reducing inventory levels by 23% and lowering sales in China by $25 million.[6] Acushnet faced similar difficulties, needing to shut down its manufacturing plants from March to June before facing an influx of heightened demand. Overall, Acushnet saw revenues fall by 4%, driven by a 17% decline in Japanese markets and inventory levels falling over 10%.[7] Going forward, it will be imperative for companies in this industry to safeguard their supply chains and offer greater availability to their customers. Maintaining strong relationships with international suppliers should continue to be improved to streamline operations and maintain consistent inventory levels.

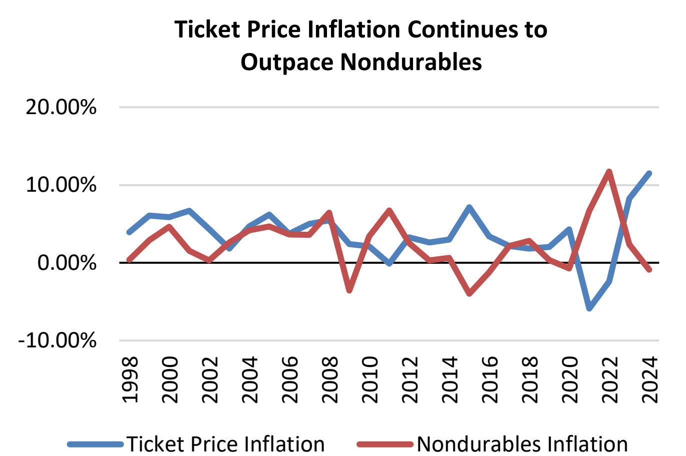
Ticket Price Inflation

The world of sports has significantly changed over the last few decades. Technological advancements, record-breaking player contracts, and media rights have turned the world of sports into an extremely lucrative industry. To finance these expansions, ticket prices have grown by 135% since 1997, compared to only 88% for consumer price index (CPI) levels.[8,9] These increases pose the potential to reduce demand, potentially resulting in more individuals streaming these events from home. Below is a summary of the average cost for a family of four to experience the following sports entertainment options as well as ticket price inflation compared to overall nondurables since 1997:

Activity	Expected Total Cost for Family of 4*
NFL Game	$574
NBA Game	$288
Topgolf	$152
MLB Game	$149
Dave and Buster's	$103
Bowling	$99

Source: Statista, Bookies, SGB

**Prices for professional games include four tickets (cheapest available), a parking spot, two 16 oz. beers, two 20 oz. sodas, and four hot dogs.*

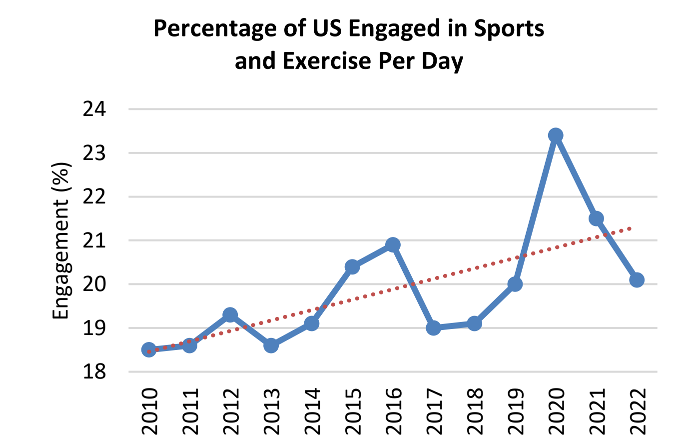


Source: U.S. Bureau of Labor Statistics

Outside of Topgolf, the traditional golf industry has also experienced significant price inflation, largely due to increased demand from the COVID-19 pandemic. More golfers than ever are taking their games seriously by investing time and money to get custom-fit equipment and regular lessons. Since 2010, the average "serious golfer" spends 55% more on golf equipment per annum, at roughly $1,100 per year. New drivers commonly retail at roughly $600 per club and tour-level golf balls sell for $55/dozen across all major retailers.[10] Green fees are no different. From 2020-2021, more than one-third of golf courses in the United States raised their peak season green fees by 11%. Across all upper-echelon courses in the world, green fees can often exceed well over $500 per person, and occasionally over $1000.[10] The golf industry has greatly benefited from increased demand to boost top-line performance, both via on- and off-course locations. However, this could become unsustainable, as the industry threatens to marginalize lower-income communities. Higher inflation within the overall economy could make it more difficult for these families to afford these experiences and may create stronger headwinds for more specialized and expensive sports such as golf. Keeping a close eye on demand at a micro- and macroeconomic scale will be key for these major retailers and professional leagues to maintain their fanbases.

Sports Popularity

Driven by the dreariness of the pandemic, sports participation across all ages has greatly increased over the last ten years. Today, more people than ever are active, exercising, or participating in daily sports-related act-ivities. The following time series chart describes this change over the last decade:



Source: Statista

Although participation has declined over the last two years due to return-to-office mandates, these figures still sit above pre-pandemic levels. Reduced leisure time coupled with the reopening of other entertainment options have pushed many Americans away from recreational activities. Nevertheless, the golf industry is still showing signs of strength with the number of golfers eclipsing 45 million people in 2023. This is up 9% from 2022 and up 32% since 2019. Off-course participants have been a major catalyst for this growth, totaling 18.5 million people in 2023.[11]

Evidence suggests that overall sports participation is expected to increase again soon, driven by high school sports, which saw 7.86 million students compete last year for a 3% year-over-year (YOY) increase. This mark fell just shy of the 7.98 million student record in 2017-2018, and administrators report that they expect this to be broken within the next few years.[12] Football remains the most popular sport for boys and outdoor track and field for girls, but wrestling across both sexes has been gaining significant traction. Boys wrestling saw a 10% increase last school year to 256,000 participants, just shy of the record of 258,208 in 2014-15. Girl's wrestling was even stronger with a 55% YOY growth to 49,127 participants. Thirty-six states now offer separate state wrestling championships for girls and is positioned to be one of the fastest-growing sports in America.[12]

At the professional level, attendance rose in the most recent season for all major leagues on a YOY basis (NBA, NFL, MLB, NHL)[13], but this difference was most notable in the MLB, where per-game attendance rose 9.1% to 29,295 fans in 2023. This seasonal increase was the largest in 30 years, with 17 teams recording a total attendance of over 2.5 million, tied for the most in a season in MLB history.[14] Overall, this will be a major driver for the success of the sports entertainment industry in the coming years. Sports analytics and marketing tactics for professional sports are as sophisticated as ever, creating a more invigorating fan experience. This historical growth has also been shown across all facets of the industry, with increased demand across several sports and most age ranges.

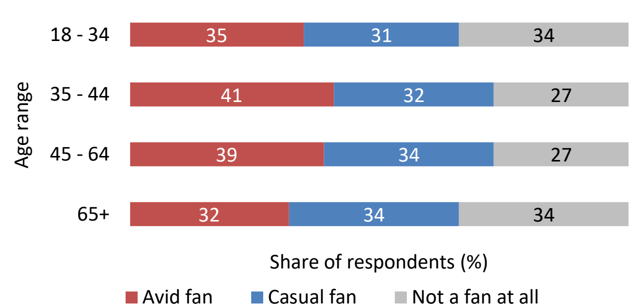
Since expanding to over 200 stores in 2022, Dave and Buster's eyes to ride this wave of popularity by opening 48 stores over the next three years. Long-term the company is hoping to reach a fully saturated model with 550 stores by targeting smaller markets, launching international franchise locations, and acquiring smaller competitors.[4] As of their last fiscal year, Dave and Buster's has already reached agreements with 31 franchisees across Australia, India, and the Middle East and plans to begin opening these locations over the next decade.[4] Furthermore, the company has begun opening "mini" stores in smaller markets to help diversify its business model.[4] Leveraging the company's loyalty program and marketing tactics will be essential in continuing to drive customer demand, especially from November to February when the NFL, NBA, NCAA football, and NCAA basketball hit the heart of their seasons.

INDUSTRY TRENDS

Diverse Demographics

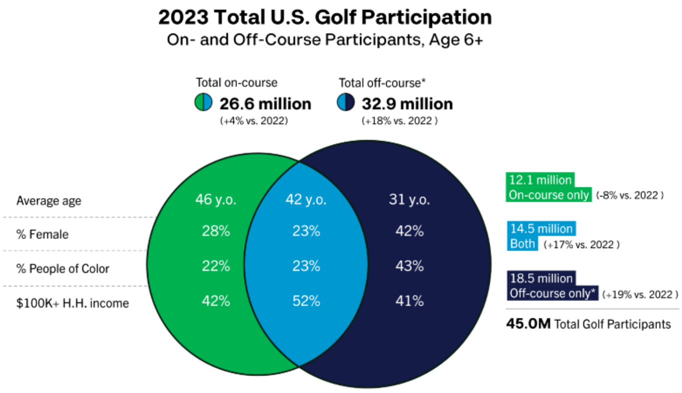
A major key to the sports entertainment industry's success over the long term will be its ability to connect with a younger, more diverse customer base. As several adults from the baby-boomer generation begin to transition towards a more sedentary lifestyle, connecting with those from a younger generation will help companies achieve future growth targets. This is particularly important for companies like the Atlanta Braves (BATRA) that operate in the professional sports industry, looking to build a younger fanbase through season ticket offerings. Evidence suggests this is already occurring in the NFL, with over 40% of Americans between the ages of 35 and 44 considering themselves an "avid" fan. While a majority of season ticket holders are over the age of 50, overall popularity resides with fans from younger segments. This is likely driven by the meteoric rise in ticket prices as older individuals can more easily afford these tickets. Organizations will need to consider this going forward as they will soon be forced to push these offerings onto younger consumers.

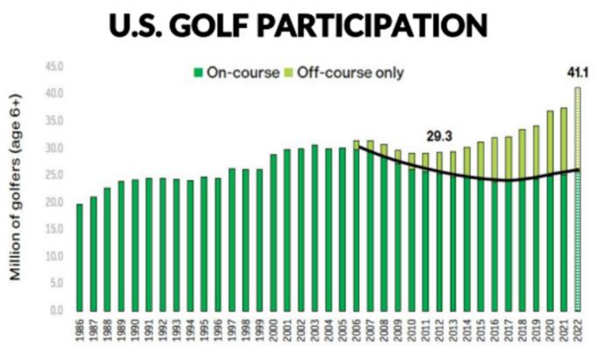
NFL Interest in the United States (April 2023)



Source: Statista

A rejuvenating customer base is also being seen in the golf industry, especially after the pandemic. 2022 was a monumental year for the golf industry, where the number of golfers in off-course locations surpassed on-course (traditional) golfers for the first time in history.[11] This trend continued into 2023 when the gap widened to roughly 6 million golfers. 2023 also saw the number of on-course golfers increase by 3.4 million players, which was the largest increase in 2001.[15] A summary of these statistics, as well as other key metrics, are summarized below.





Source: National Golf Foundation

The most notable statistic from this graphic is the popularity of off-course golf among females and people of color. This information will play a major role in the success of Topgolf and its competitors and help remove stereotypes that have negatively impacted the golf industry for decades. Customers in this market are far younger, more diverse, and culturally impactful than ever before, and will continue to bring in more customers from similar backgrounds.

Sponsorships with Content Creators

For years, companies within the sports entertainment industry have leveraged high-profile professional athletes to build brand awareness and credibility. However, a major shift has begun to occur in recent years, with several of these same organizations creating partnerships with content creators and internet personalities. One of the first examples of this occurred in October 2023 when the Charlotte Hornets partnered with Jimmy Donaldson, otherwise known as MrBeast.[16] Donaldson is currently the #1 YouTuber in the world with 236 million subscribers and is known for allowing subscribers to win large amounts of money through various challenges. The agreement with the Hornets is technically with Donaldson's subsidiary brand, Feastables, a snack company that includes an assortment of all-natural and all-organic chocolate bars. The agreement will allow Donaldson's Feastables brand to be stitched on the team's primary jerseys, as well as the team's developmental G League team, the Greensboro Swarm. Partnerships such as this are extremely rare within the sports industry but will only become more popular as teams look to attract a younger and more diverse fan base.

Source: Charlotte Hornets

A similar agreement occurred in January 2023 when Topgolf Callaway partnered with Niall Horan, one of the most popular musicians in the world, for a multi-year agreement.[17] Horan will serve as a brand ambassador by using and promoting Callaway's equipment and apparel lines. Later that year, Topgolf Callaway made a similar agreement with GoodGood Golf, another YouTube channel that consists of six young men who compete against each other in recreational matches and do challenges with various professional golfers.[18] While GoodGood has a much smaller presence on YouTube with only 1.42 million subscribers, the channel has seen some of the fastest growth of anyone on the platform. Since being founded in 2020, the company surpassed the 1 million subscriber threshold within two years and has since developed its own line of merchandise, golf clubs, and golf balls. Now serving under Topgolf Callaway's umbrella, GoodGood has recently released a new line of equipment using Callaway's branding, furthering developing stronger brand recognition.

Source: GoodGood Golf, Callaway

Overall, the sports entertainment industry is well-positioned to grow through younger, more diverse individuals who are willing to modernize a rather traditional industry. Popularity among similar companies is as strong as ever, with those in leadership positions showing a willingness to be creative and challenge the status quo. The recent shift in market segmentation is only the beginning and will provide a new methodology for the way several companies do business.

MARKETS AND COMPETITION

Threat of New Entrants

Similar to how new content creators have infiltrated social media to create alternative forms of sports entertainment, new companies and teams have greatly expanded sports' influence on society. For example, the National Hockey League (NHL) recently added two new expansion teams in 2017 and 2018 to expand the league to 32 teams. These teams were the Las Vegas Golden Knights in 2017 and the Seattle Kraken in 2018.[19,20] A similar and more controversial event took place with the PGA Tour in 2022, where a new tour named LIV Golf began offering the game's best players multi-million-dollar contracts, something never before seen in the history of competitive golf.[21] And most notably, Topgolf's emergence as an alternative form of golf, allowing groups of people to experience the game in a new light through state-of-the-art driving ranges. However, Topgolf is not the only player in this niche sub-industry. Several other competitors, of which all are privately held, have adopted Topgolf's groundbreaking methodology to compete against the industry leader. Some of these competitors include Drive Shack, Pinseekers, and GolfSuites.[22]

Competitor	Venues
Topgolf	93
Drive Shack	4
Pinseekers	2
GolfSuites	3

Source: Business Strategy Hub

Recognizing Topgolf's success and the overall growth of the golf industry, several of these "gamified" driving ranges have attempted to establish first mover advantages in locations where Topgolf has not expanded. Furthermore, several of these companies have tried to lure customers with more affordable prices, sometimes at half the cost of Topgolf.[22] For example, GolfSuites aims to target cities in the south-central part of the country (Oklahoma, Texas, Louisiana) while Pinseekers only has locations in the heart of the Midwest (Iowa, Wisconsin). With Topgolf being present in 35 states, it can be difficult to construct a business model that adapts to these specific subregions. The market for off-course golf will likely become saturated at roughly 150 venues across the United States, making it imperative for Topgolf to find other competitive advantages besides size alone.

Related sports, such as pickleball, have also taken the sports world by storm and are trending to poach several of Topgolf's customers. With an average growth rate of 159% over the last three years, pickleball is no longer just a game played by those in retirement communities. There now exist over 10,000 locations across the United States for individuals to play pickleball, with 29% of its market coming from individuals between the ages of 18 to 34.[23] In total, there are an estimated 36.5 million pickleball players in the US, and the sport is expected to achieve a compound annual growth rate of 7.7% over the next five years.[23] Across professional and recreational offerings, there is no shortage of opportunities for individuals to get involved. Sports entertainment is as popular as ever, and there are few signs to indicate it will be slowing down soon.

Supply Chain Efficiency

For large, multinational, and well-diversified companies, maintaining supply chain efficiency is critical to their success. This was put under extreme stress during the pandemic, particularly for Topgolf Callaway and Acushnet who were challenged with moving and managing significant amounts of inventory. Given each company's international exposure to European and Asian markets, it became extremely difficult to meet the demands of customers back in the United States. Stricter mandates caused significant production delays, creating a massive shortage in the market. Furthermore, a shortage of workers across the United States made last-mile delivery even more challenging, often resulting in product delivery times of 8-12 weeks.[24] As a result, inventory levels for all golf companies have been extremely volatile with trying to complete existing orders and anticipate new ones. Operating results have begun to stabilize within the last two fiscal years, but given the resilient demand across the industry, companies may need to make significant investments in their supply chain. Stronger inventory management systems, enhanced communication with international suppliers, and large, yet flexible, production facilities will be essential to aligning with demand, especially in the event of unforeseen circumstances.

Substitute Products

Customers within the sports entertainment industry have often held the upper hand. Depending on a wide array of factors – price, performance, the economic environment, etc. – they can spend their disposable income however they choose. There is no shortage of entertainment opportunities, with dozens of professional teams across several major sports, and a litany of recreational activities such as bowling, pickleball, or Topgolf. If enough customers are not satisfied with one team's or one company's performance, they are free to choose another equally qualified substitute. As mentioned previously with the appearance of new professional teams, older teams may be forced to relocate to larger or more enticing markets. Las Vegas has been a great beneficiary of this in recent years, not only with the legalization of sports betting in several states but with earning three new professional sports teams. These teams are the Las Vegas Golden Knights in 2017 (NHL expansion team), the Las Vegas Raiders in 2020 (NFL relocation team), and soon to be the Las Vegas Athletics in 2024 (MLB relocation team).[25]

While some may argue these moves were more management-driven, the root cause for any of these decisions comes back to the customer, who frequently displayed interest in other entertainment options in the area. The same can be said for the golf industry, where four major brands regularly vie for every customer's attention – Titleist (Acushnet), TaylorMade, Callaway, and Ping. Over the years, several smaller, or less successful, companies have been acquired by one of these brands to help expand their influence. Each company offers arguably identical products in terms of quality, performance, and price, so their success is largely dependent on one factor – customer demand. Earning and maintaining brand loyalty is essential for succeeding in such a competitive industry, which ultimately boils down to utilizing a strong management team, anticipating the latest trends, and making innovative products.

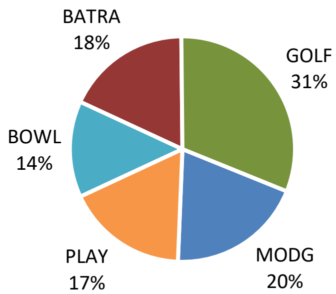
Inelasticity of Consumers

Since the increased demand for recreational activities during the pandemic, customers have remained resilient despite strong price increases across all sports. As mentioned previously, at the professional level, attendance rose in the most recent season for all major leagues on a YOY basis (NBA, NFL, MLB, NHL),[13] and recent results indicate the same is occurring at the amateur level. Within the golf industry, total rounds played continue to remain elevated after COVID-19, reaching 531 million rounds played in 2023.[26] Topgolf remains equally bullish, projecting to add 10 to 11 venues per year through 2025 and to bring in 3 to 4 million new off-course golfers per year across all locations.[11] The difficulty for organizations with this rapid growth is maintaining service quality and customer satisfaction throughout the entire supply chain. However, customers are generally willing to overlook these higher prices as long as wait times stay low, tee times remain available, and orders are fulfilled without undue delay.

Peer Comparisons

Given the diversity that exists within the sports entertainment industry, it can be difficult to compare companies on an equitable basis. Furthermore, most of each company's direct competitors are often privately owned, making it hard to benchmark results. The following peer group attempts to sample a variety of companies within this industry to demonstrate how financially different these companies can be despite targeting the same type of customer. The following pie chart shows each company's market ownership based on market capitalization ($millions):

Ownership by Market Capitalization

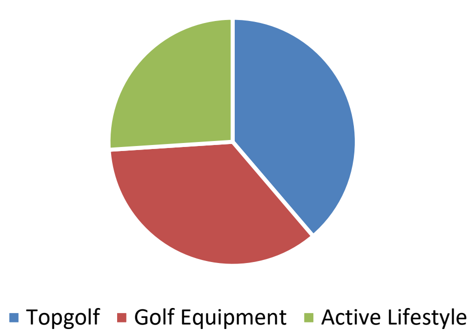


Source: FactSet

Topgolf Callaway Brands (MODG)

Topgolf Callaway Brands divides its operations into three unique segments – golf equipment, Topgolf, and active lifestyle apparel. Its revenues are fairly equitable across all segments, with Topgolf taking the lion's share at 39% of annual sales and 93 venues around the world.[11] Its golf equipment segment primarily targets devout golfers and has the leading dollar market share for total clubs, drivers, fairway woods, hybrids, and irons in the United States, and sits in second for golf balls. The company was also voted as the number one overall brand for innovation and technology within its golf equipment manufacturing in 2022.[11] The active lifestyle segment consists of Callaway-branded apparel, and products from Jack Wolfskin, Travis Mathew, and OGIO. Last fiscal year, this segment generated over $1 billion in revenue for the first time in the company's history, with Jack Wolfskin being voted as the number one outdoor clothing company in Germany.[11] The company's stock has faced significant volatility over the last year, especially after cutting annual earnings and revenue targets for FY2023, but has quickly recovered and is up 40.1% since its trough in November.[27]

Topgolf Callaway Revenue Decomposition

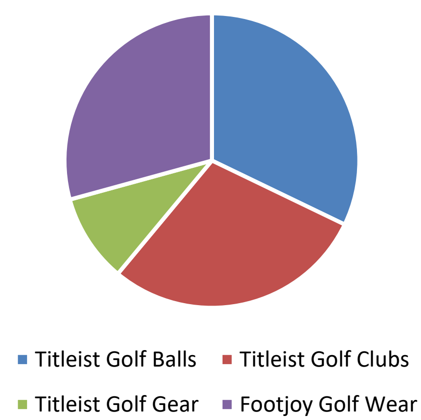


Source: FactSet

Acushnet Holdings Corp. (GOLF)

Acushnet Holdings Corp. is a diversified manufacturer of Titleist golf equipment and Footjoy accessories. Three of its operating segments account for roughly 90% of its annual revenues, with Titleist golf balls and golf clubs regularly earning double-digit operating margins.[7] The company's strongest intangible asset is its brand recognition within the golf community, primarily driven through its Titleist golf ball and Footjoy golf apparel segments. For over 70 years, Titleist has been the number one ball in golf with Footjoy as the number one shoe on the PGA Tour.[7] While Acushnet is a very mature company that targets more serious, on-course golfers, it is consistently one of Topgolf Callaway's most direct competitors.

Acushnet Revenue Decomposition

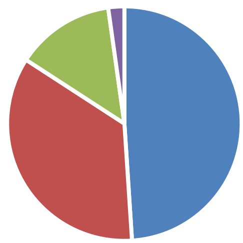


Source: FactSet

Bowlero (BOWL)

Bowlero is the world's largest employer of bowling entertainment centers with 322 locations across the United States, serving over 28 million guests annually.[28] In 2019, Bowlero purchased the Professional Bowlers Association (PBA) as well as media rights to schedule and broadcast tournaments throughout the year.[29] More recently, the company has renovated many of its older locations by updating amenities, improving video-game screen technology, and revamping arcade game offerings. Going forward, the company's growth strategy consists of three phases – maintaining consistent same-store revenue growth, acquisitions of smaller companies in favorable markets, and ground-up construction of new venues.

Bowlero Revenue Decomposition

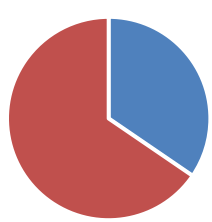


Source: FactSet

Dave and Buster's (PLAY)

Dave and Buster's is a leading restaurant, arcade, and sports entertainment business with 201 locations in the United States.[4] Each location offers a full menu of food, alcoholic and non-alcoholic drinks, and an assortment of entertainment options centered around playing games and watching live sports. Its core competency is to "Eat, Drink, Play and Watch" all in one location, providing guests with a one-stop shop for all of their entertainment needs.[4] In 2022, the company completed the acquisition of Main Event, an entertainment company centered around offering various family-friendly games such as bowling, mini golf, and laser tag, further building on its identity. This next fiscal year the company will be revamping its management team that includes a new CEO and CFO. Four of the seven members will be brought into their roles in July, resulting in six individuals having less than two years of experience with the company.

Dave and Buster's Revenue Decomposition

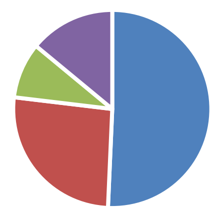


Source: FactSet

Atlanta Braves Holdings (BATRA)

Atlanta Braves Holdings owns and operates the team's Major League Baseball (MLB) club. The company's primary revenue drivers stem from ticket sales, concessions, broadcasting rights, and advertising sponsorship sales. The company had its IPO on July 19, 2023, after splitting off from Liberty Media to take full control of its financial decisions regarding player contracts and suburban development.[30] The company's performance has been relatively volatile, with returns correlating with the team's performance. Currently, the Braves are marked as the eighth most valuable team in the MLB at $2.6 billion.[31]

Atlanta Braves Revenue Decomposition



Source: FactSet

Financial Metrics

The following table provides a summary of various financial metrics for each of the firms in this peer group (note: averages only consider values > 0):

	TTM Sales (M)	Oper. Margin	Profit Margin	Payout Ratio	Int Coverage	Current Ratio	Debt/Capital	TTM CAPEX (M)
MODG	$ 1,761	6.31%	2.22%	0.00%	1.23	1.72	51.21%	$ 482.00
PLAY	$ 1,964	15.53%	6.98%	0.00%	3.54	0.70	87.50%	$ 234.22
BOWL	$ 1,059	18.51%	7.75%	29.00%	1.75	1.37	86.91%	$ 185.25
BATRA	$ 641	-7.16%	-19.56%	0.00%	-1.22	0.93	52.57%	$ 69.04
GOLF	$ 2,382	11.82%	8.33%	26.22%	6.46	2.21	44.94%	$ 100.60
Average	$ 1,561	13.04%	6.32%	27.61%	3.25	1.39	64.63%	$ 214.22
Median	$ 1,761	11.82%	6.98%	0.00%	1.75	1.37	52.57%	$ 185.25

Source: FactSet

From a financial perspective, it appears that Acushnet (GOLF) is the most balanced among firms in this peer group. While its operating margin underperforms when compared to Dave and Buster's (PLAY) and Bowerlo (BOWL), it has the highest profit margin, interest coverage, and current ratio. The company's liquidity appears to be its strong suit, reporting an extremely high 6.46x interest coverage ratio and 2.21x current ratio in the last fiscal year. It also has the lowest debt/capital ratio, thereby helping reduce its interest expense.

Operating Metrics

The following table provides a summary of various operating metrics for firms that own and operate retail locations (note: MODG Sales/Venue only considers Topgolf sales):

	% US Locations	Total Venues	Sales/Venue	5Y SVS growth	Annual Visitors (M)
MODG	96%	93	$ 18.94	8.00%	27
PLAY	99%	204	$ 9.63	14.00%	69
BOWL	98%	343	$ 3.09	27.80%	28

Source: MODG, PLAY, and BOWL Investor Relations

From an operating perspective, Bowlero (BOWL) and Topgolf Callaway (MODG) appear to operate with the greatest efficiency. While MODG brings in the most revenue per venue, Bowlero has earned the highest five-year same-venue-sales (SVS) growth. While Dave and Buster's and Bowlero are more established companies with over 200 venues, Topgolf has and is expected to continue growing by adding 10 to 11 venues per year through 2025.[11] This will only increase the company's expected number of annual visitors and should result in higher SVS growth in the future. All three companies are highly concentrated within the United States, so management should consider diversifying their venue locations to other international locations such as Europe, Latin America, or Asia.

Relative Valuation Metrics

The following table provides a summary of various relative valuation metrics for firms in this peer group (P/CF and EV/EBITDA represent current market conditions).

	NTM P/E	NTM P/S	P/CF	EV/EBITDA
MODG	50.50	0.60	7.40	7.90
PLAY	16.70	1.10	6.20	7.30
BOWL	55.50	1.68	11.10	9.60
BATRA		3.99		60.90
GOLF	21.30	1.82	15.80	15.10
Average	36.00	1.84	10.13	20.16
Median	35.90	1.68	9.25	9.60

Source: FactSet

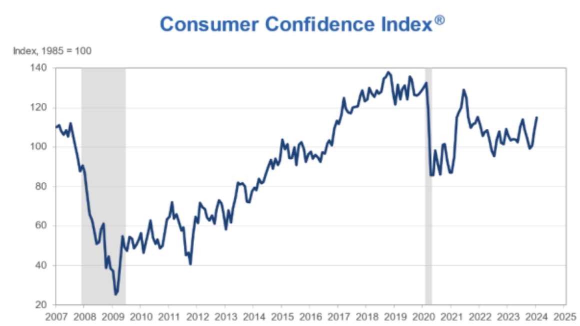
From a relative valuation perspective, Dave and Buster's appears as the most undervalued company with the lowest forward P/E, P/CF, and EV/EBITDA. On the other hand, Atlanta Braves Holdings (BATRA) appears the most overvalued with an extremely high forward P/S and EV/EBITDA. Most notable is Topgolf Callaway, who has the second-highest forward P/E among its peers but appears undervalued with looking at the other three metrics. This high P/E is largely driven by analyst's expectations of Topgolf's EPS for FY2024, which is estimated to be $0.27 per share for a 46% decrease from FY2023.[32]

ECONOMIC OUTLOOK

The sports entertainment industry is very seasonal and is heavily impacted by demand-side macroeconomic conditions. The current macroeconomic environment is favorable, with increasing consumer confidence, real disposable income, and falling commercial real estate prices. However, sticky inflation could continue to put price pressures on companies, potentially reducing expected demand.

Consumer Confidence Index

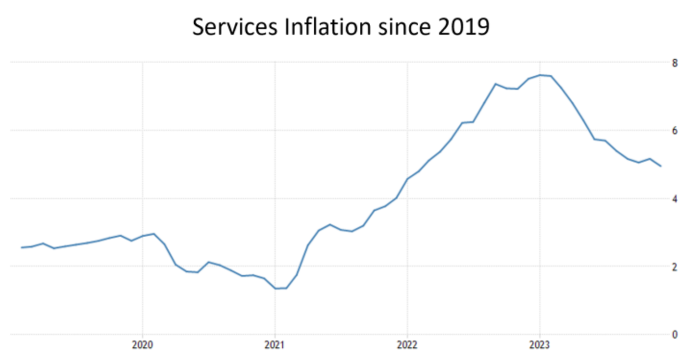
The Consumer Confidence Index (CCI) is a monthly survey that measures consumer's attitudes toward current and expected economic conditions.[33] The survey is considered to have a baseline of 100, with reported values above or below this mark indicating how optimistic or pessimistic Americans are about the economy. The most recent report of 114.8 in January 2023 was up 6.8 points from December 2022, indicating that consumers are feeling better about the current environment and likely anticipating a soft landing.[34] With inflation making steady declines and GDP growth maintaining at roughly 3% per year, many people are expecting the Federal Reserve to begin cutting interest rates in June of this year.[34] Insights from the Conference Board indicate this recent gain was seen across all ages and nearly all income groups.[33] As a subset of the consumer discretionary industry, this is a positive sign for companies in this market with more consumers willing to purchase these products and services with their disposable income. If the Federal Reserve continues to follow its plans and inflation reaches its consensus 2.0% target, consumer confidence should continue to rise and benefit these companies in the near future.



Source: Conference Board

Services Inflation

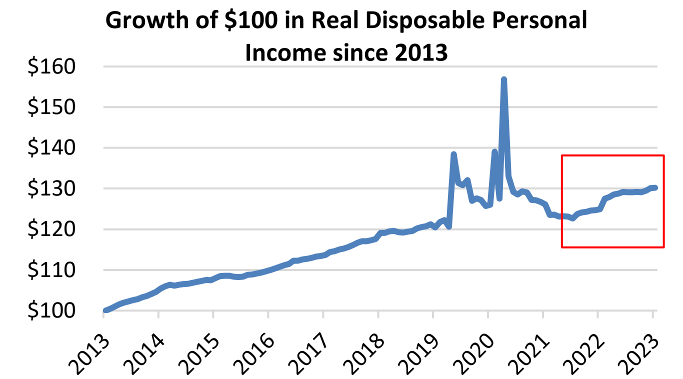
Inflation has continued to be at the forefront of many Americans' minds as the price of products and services has drastically increased over the last couple of years. Fortunately, the Federal Reserve's tightening policy has been generally successful thus far, lowering the Core Personal Consumption Expenditures (Core PCE) index under 3% for the first time since February 2021.[35] However, inflation within the service industry has remained sticky and sits at 5.2%.[35] Although it has been steadily decreasing since its five-year high in January 2023, this presents a risk for the sports entertainment industry. Many companies have been forced to push these higher prices onto their customers to overcome higher lease payments and operating expenses. While evidence has shown that demand is still strong, this may not be sustainable if inflation does not continue to subside.

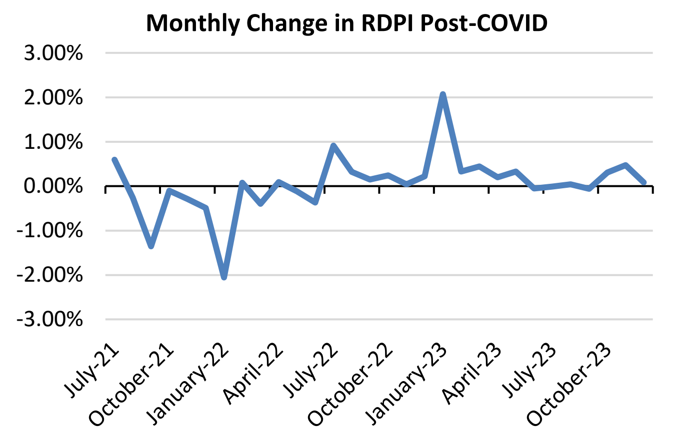


Source: TradingEconomics

Real Disposable Personal Income

Highly correlated with the CCI, Real Disposable Personal Income (RDPI) is the amount of money an individual or household has available to spend, invest, or save after taxes have been deducted and adjusted for inflation.[36] However, unlike CCI, this measure is not adjusted to one specific period (except for inflation) and is simply reported in absolute dollar amounts. Ultimately, a higher RDPI is favorable for firms in this industry, and it means that consumers are more likely to purchase discretionary items. For presentation purposes, the following charts have adjusted the index to show the growth of $100 in real disposable income since 2013, as well as the percentage change in the index since July 2021. As of December 2023, RDPI had increased 30.2% in this period and remains steady despite rising inflation. While uncertainty lingers around the potential for a new debt policy after the Presidential election in November, improving consumer confidence and higher RDPI means Americans are more qualified than ever to make discretionary purchases. This bodes well for some of the most seasonal firms, particularly MODG and BATRA, who regularly earn most of their annual revenues in the second and third quarters of the year.[11,30]



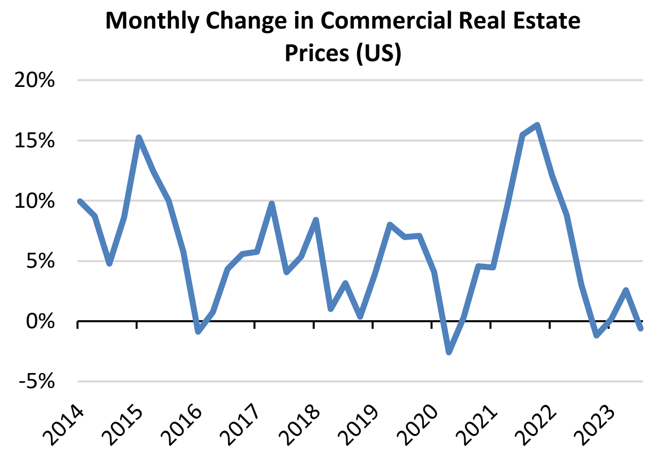


Source: FRED

Commercial Real Estate Prices

Capital expenditures are regularly one of the largest annual investments that companies in this industry will undertake. These investments help finance the growth of retail locations and manufacturing plants and play a major role in each company's financial statements through long-term leases and rental expenses. The commercial real estate price index measures the current market value of these properties across the United States and often negatively correlates with mortgage rates.[37] Since peaking in October of 2021, prices have begun to stabilize as the Federal Reserve has tightened its monetary policy. Going forward this presents an opportunity for the sports entertainment industry, particularly with the Federal

Reserve's plans to begin cutting rates later this year. Financing these properties over the next 24 months will be far less costly than it has since COVID-19, making it easier for companies such as Topgolf Callaway and Dave and Buster's to meet their store growth targets and reduce rental expenses. Market consensus sees the 30-year mortgage rate finishing 2024 around 6%, roughly 122 basis points below current levels.[38]



Source: FRED

INDUSTRY OUTLOOK

Drivers

- With the increasing likelihood of a soft landing, improved consumer confidence and higher disposable incomes will remain elevated to help maintain consumer resiliency.
- Falling 30-year mortgage rates will help companies finance future capital budgeting projects, particularly those pursuing more aggressive store/venue growth.
- Growth in the 18- to 34-year-old market segment is resulting in a younger and more diverse customer base. This will allow companies to leverage new sponsorships with content creators to push high single-digit revenue growth targets.

Risks

- As general inflation levels continue to decline, service inflation remains sticky, requiring companies to find the balance between higher margins and fair customer prices. A prolonged high-interest rate environment could discourage customers from participating in this industry.
- Geopolitical risks continue to present threats to supply chains since the pandemic. Reactive surveillance of these factors could result in shipping delays, price pressure, and shortages, potentially tarnishing a company's reputation.
- The seasonality of customer demand could be detrimental to each company's operating performance and often stem from factors outside of management's control (i.e., weather, political tensions, team/player performance). Continuing to hedge against these risks through adequate liquidity management will be imperative to remain financially viable.

The sports entertainment industry is characterized by intense competition, seasonal performance, and fast-paced demand. Going forward, three factors will be key in monitoring this industry's success – new mergers or partnerships with companies or individuals, customer sentiment through consumer confidence or inflation levels, and overall demand levels for new and existing customers. As more companies continue to expand their brand recognition, new customers are positioned to enter this space and increase revenues. The sports entertainment market has never been younger or more diverse and presents fantastic opportunities for companies to branch out of their traditional roles. Strong consumer sentiment and lower rental expenses will help drive this growth even further, allowing companies to consider opening new locations in less-populated markets. Inflation will continue to be a key metric to follow as the Federal Reserve begins to cut interest rates this year. Prices within the sports entertainment industry have traditionally outpaced inflation and could push out lower-income individuals, but since the pandemic, consumers have remained resilient in supporting their favorite brands.

Assuming the economy can achieve a soft landing, companies within this industry are positioned to outperform the market with stronger operating margins, higher same-store sales growth, and potential expansion into international markets. In the unlikely event a recession does occur, strong historical performance should allow these companies to weather the storm and maintain their market share.

Going forward, Topgolf Callaway (MODG), Dave and Buster's (PLAY), and Acushnet Holdings (GOLF) are best positioned for investment opportunities. Topgolf is set to capitalize on the changing dynamics of the golf industry and has a diversified product mix to help push toward double-digit SVS growth. Dave and Buster's will offer sports fans an alternative to watching their favorite sporting events without needing to purchase expensive tickets. Although Dave and Buster's will be bringing on a new management team this summer, the company's stable business model will help maintain its above-average margins, high visitor rate, and attractive relative valuation. For the more risk-averse investor, Acushnet offers the most reliable business model with industry-leading margins, liquidity, and interest coverage. While the company has a lower potential for short-term appreciation, its diversified cash flows and reliable dividends provide the best opportunity for long-term growth. The company's leading market share among golf balls and Footjoy apparel will continue to drive operating performance and attract more traditional golfers for years to come. Overall, between the growth of professional sports and recreational offerings such as gamified driving ranges and pickleball, the sports entertainment industry presents a dynamic set of experiences for individuals of all ages and skill levels to enjoy a longer, happier, and healthier life.

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