

# TOPGOLF CALLAWAY BRANDS (MODG)

November 17, 2023

Consumer Discretionary – Leisure

Stock Rating

**BUY**

## Investment Thesis

We are recommending a “Buy” rating on Topgolf Callaway Brands with a target price range of \$14-16. Topgolf has a depressed valuation due to its substantial debt amid a rising interest rate environment. We see potential for share recovery driven by strong topline growth and margin expansion as the company begins to deleverage and optimize its capital structure.

### Drivers of Thesis

- We expect a 5-year CAGR of 12.5% for the Topgolf segment and improved margins aided by expansion of the franchise business internationally.
- A re-focus on free cash flow generation and more measured growth spending will allow for de-risking the balance sheet and improved net margins over the next two years.
- Forecasted 8.5% annual growth for Active Lifestyle segment and improving operating margins driven by growing brand awareness and a shift towards direct-to-consumer sales.

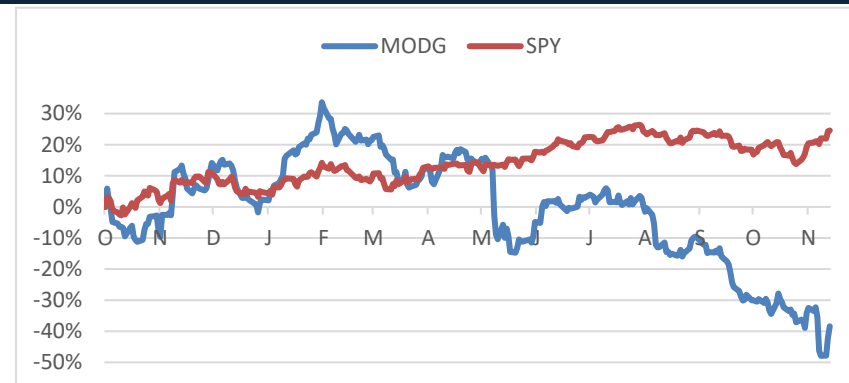
### Risks to Thesis

- Interest payments on the company’s floating rate debt will continue to depress earnings should short-term rates increase or stay elevated.
- A consumer led recession would significantly impact the near-term growth outlook for the Topgolf and Active Lifestyle segments.

## Earnings Estimates

Year	2020	2021	2022	2023E	2024E	2025E
EPS	\$-1.35	\$1.90	\$0.85	\$0.56	\$0.48	\$0.56
HF est.				\$0.75	\$0.65	\$0.90
Growth	--%	--%	-55.3%	-11.7%	13.0%	37.3%

## 12 Month Performance



## Target Price

**\$14-16**

Henry Fund DCF	\$14.04
Henry Fund DDM	\$5.49
Relative Multiple	\$15.56

### Price Data

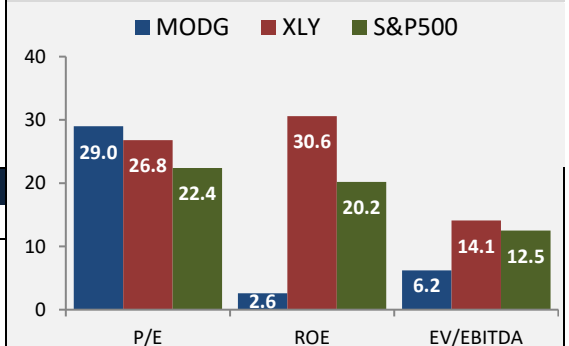
Current Price	\$11.61
52wk Range	\$9.84 – 25.96
Consensus 1yr Target	\$18.11

### Key Statistics

Market Cap (B)	\$2.1
Shares Outstanding (M)	184.5
Institutional Ownership	73.3%
Beta	1.46
Dividend Yield	0.0%
Est. 5yr Growth	14.0%
Price/Earnings (TTM)	24.7
Price/Earnings (FY1)	29.0
Price/Sales (TTM)	0.6
Price/Book (mrq)	0.5

### Profitability

Operating Margin	7.3%
Profit Margin	3.6%
Return on Assets (TTM)	1.2%
Return on Equity (TTM)	2.6%



## Company Description

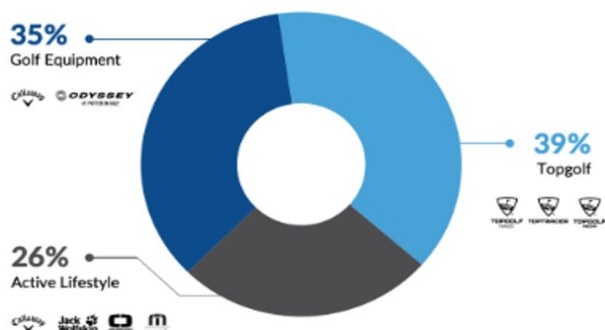
Topgolf Callaway Brands is a golf equipment, entertainment, and apparel company based in Carlsbad, CA. Callaway Golf, established in 1982, has long been an industry leader in golf clubs, balls, and accessories. Through strategic acquisitions of Topgolf and lifestyle brands Travis Mathew, OGIO, and Jack Wolfskin, the company rebranded in 2022. Now operating as a Modern Golf and active lifestyle company, Topgolf Callaway aims to make the game of golf more accessible and grow the game on and off-course.

## COMPANY DESCRIPTION

Topgolf Callaway Brands is a globally recognized golf equipment, entertainment, and active lifestyle and apparel business. In August 2022 Callaway Golf (Ticker: ELY) rebranded as Topgolf Callaway Brands (MODG) following recent acquisitions of Travis Mathew, Jack Wolfskin, OGIO, and Topgolf. The company positioned itself as a “tech-enabled Modern Golf and active lifestyle company”.<sup>1</sup> The recent M&A activity has transformed the company from a stable-equipment focused business to a dynamic, high-growth enterprise. The strategic focus has shifted towards expanding the presence of Topgolf and the lifestyle brands, both in the US and internationally.

Topgolf Callaway breaks its operations into three key segments: Golf Equipment, Topgolf, and Active Lifestyle. The company generated revenues of \$4b in 2022, marking a 27.5% increase, and is on track to hit \$4.25b for FY23. A breakdown of revenue distribution by segment can be found below.

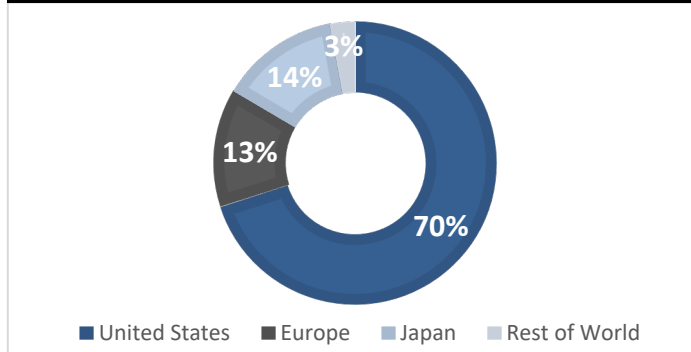
### FY 2022 REVENUE BY SEGMENT



Topgolf 10-K

From a geographical standpoint the US comprised 70% of the company’s total revenues in 2022. Japan and Europe accounted for 14% and 13%, respectively, while 3% of sales came outside of those regions. Of note 95% of Topgolf’s revenues come from the U.S., where 85 of the company’s 95 venues are located. Additionally, the Golf equipment business is heavily concentrated in the US market.<sup>1</sup> The active lifestyle sales are more evenly distributed with Jack Wolfskin being based in Germany and seeing the majority of sales in Europe and China.

### FY 2022 Revenue By Region



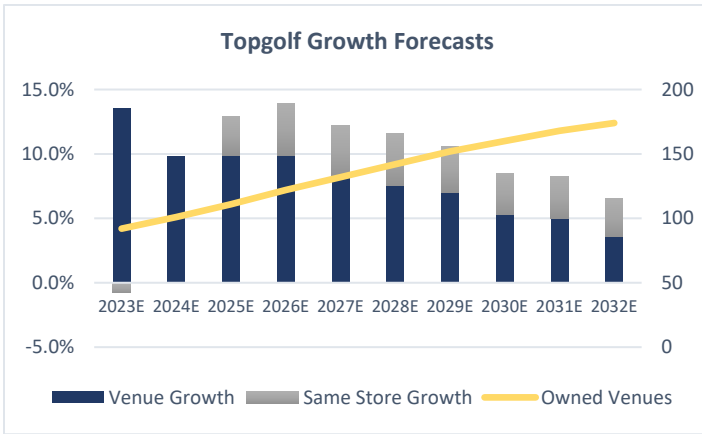
Topgolf 10-K

## Topgolf

Topgolf is a technology enabled golf and entertainment business. Its venues feature climate-controlled hitting bays that provides a unique driving range experience where guests can compete against each other in a variety of games.<sup>1</sup> Topgolf is aimed at making the sport of golf more accessible and offers games designed to appeal to players of all skill levels. Beyond golf, each venue also offers a bar and dining area and, entertainment spaces for hosting parties and corporate events.

The Topgolf business was acquired in March of 2021 and is now the largest revenue driver for the company. Callaway Golf held a 14% stake in Topgolf dating back to 2006, and in 2021 it completed an all-stock transaction to acquire the remaining 86% of the business at a \$3.1b valuation.<sup>1</sup> Topgolf is on track for \$1.75b in sales for FY23, up from 1.55b in 2022.<sup>3</sup> The company now owns and operates 85 venues in the US and 4 venues in the UK. There are also 6 additional franchised locations with one each in Australia, China, Germany, Mexico, Thailand, and the UAE. Topgolf also generates revenue from licensing its proprietary Toptracer ball tracking technology to independent driving ranges.

As the company continues to pursue both domestic and international expansion, we expect Topgolf to be the company’s fastest-growing segment. Our growth forecasts for Topgolf are broken into two components: percentage increase in owned and operated venues, and same-store sales growth. Our breakdown for growth expectations are detailed in the chart below, with our forecasts for number of owned venues on the right axis and percentage sales growth on the left.



Henry Fund Estimates

We anticipate flat or slightly negative same-store sales growth in Q4 and throughout FY24. The company has seen a decline in the corporate events business, which is roughly 20% of Topgolf sales, and stabilizing demand from consumers.<sup>3</sup> The post-Covid surge in spending on events and entertainment appears to be tapering off. We expect same-store sales to pick back up by 2025 and eventually stabilize around 3%, in line with inflation expectations.

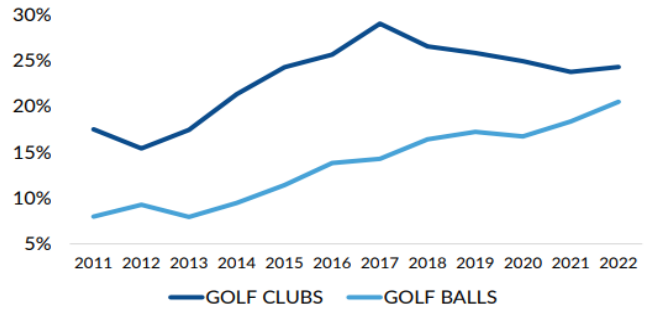
Our growth projections for owned and operated venues stem from management’s guidance on expansion plans. Topgolf has been adding roughly 11 new venues annually. The company has adjusted its expansion strategy for 2024, expecting to only add 8 or 9 new venues and then re-accelerating the growth in 2025. We are projecting 175 locations by 2032, with the percentage growth rate naturally slowing as the number of existing venues increases. For our five-year growth outlook, we have forecasted a 12.5% CAGR and expect Topgolf sales to surpass \$3b annually 2028.

## Golf Equipment

The golf equipment business is the company’s oldest and most mature segment. Prior to the recent acquisition spree, Callaway’s primary business was the design and manufacturing of golf clubs, balls, and accessories. Callaway golf is the global leader in golf clubs and ranks second in golf balls behind Titleist.<sup>10</sup>

The equipment business accounted for \$1.4b, or 35% of revenue in FY22. We expect this share to continue to decline as the Topgolf and Active Lifestyle segments grow at a faster pace. Of the \$1.4b in sales, 78% or \$1.1b came from golf clubs, while \$310m came from golf balls.<sup>1</sup>

## CONTINUED MARKET SHARE GROWTH OVER TIME<sup>1</sup>



Topgolf Investor Presentation

The equipment business exhibits strong seasonality. Sales are primarily concentrated in the first two quarters, resulting from sell-in to the retail channel for the upcoming golf season. Golf club sales are also cyclical with respect to new product releases and, to some extent, the business cycle. However, they demonstrate some resilience during recessions relative to other consumer products due to the higher average income of golfers. In contrast, golf ball sales are more stable and are largely driven by rounds played.<sup>10</sup>

Similar to our Topgolf outlook, we expect flat growth for the equipment segment through 2024, driven by a retreat from post-Covid spending habits. We have forecasted slightly lower sales for golf clubs and a moderate 2.5% growth for ball sales in FY24. Our five-year growth outlook for the equipment is a 5% CAGR with growth in club sales slightly lower than golf ball sales.

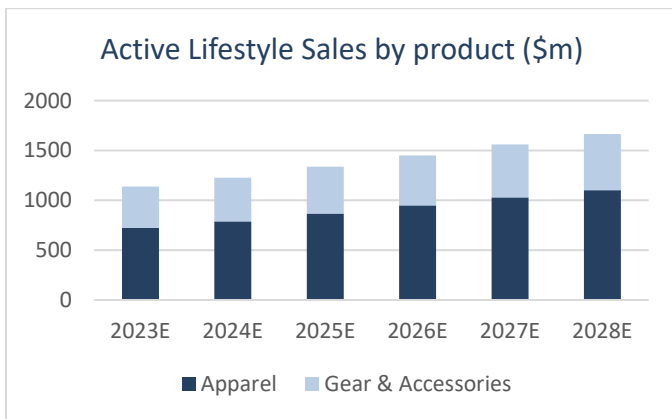
## Active Lifestyle

The company entered the active lifestyle and apparel business following the acquisitions of TravisMathew (\$125m) and OGIO (\$75.5m) in 2017, and Jack Wolfskin (\$476m) in 2019.<sup>1</sup> The revenues from those three brands in addition to sales of Callaway branded golf apparel now account for 26% of company revenue at \$1.04b in FY22.

Through its recent brand acquisitions, the company now offers a broad portfolio of products to customers globally. The TravisMathew brand sells premium golf and active wear primarily targeted towards men. The brand also recently launched a women’s line in 2022.<sup>1</sup> OGIO specializes in bags and travel gear including golf bags, duffel bags, and backpacks. Jack Wolfskin is an eco-friendly outdoor gear and apparel brand with a focus on quality, durability, and sustainability. It is based in

Germany and is one of the largest outdoor retailers in Europe.<sup>1</sup>

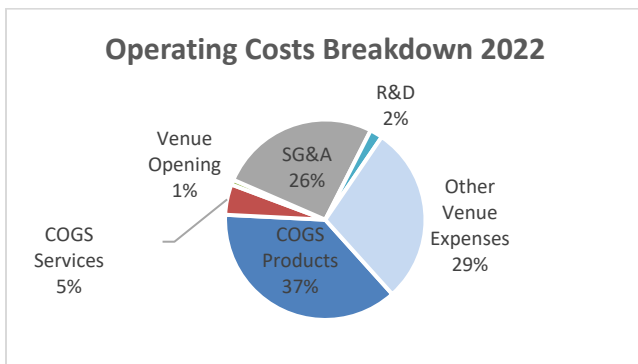
Topgolf Callaway does not report sales for each brand individually, but the segment as a whole has averaged 13% growth annually since 2019. We expect to see continued positive growth of 8.5% through 2028. The company continues to penetrate new markets and achieve greater brand awareness globally. Key drivers include Jack Wolfskin’s expansion into the North American market and the aforementioned launch of the TravisMathews women’s line. We also expect segment operating margins to improve as the company continues to shift away from wholesale to the more profitable direct-to-consumer business. The operating margin for the segment through Q3 of FY23 is up to 11% compared to just 7.4% in 2022.<sup>1,3</sup>



Henry Fund Estimates

## Cost Structure Analysis

Topgolf’s operating expenses are broken out into six distinct categories, three of which represent expenses associated with the Topgolf venue business. For FY22 the company had \$3.7b in total operating expenses and an operating margin of 6.4%.



Topgolf 10K

The bulk of the Topgolf related expenses fall under other venue expenses, which includes D&A, rent, utilities, and employee costs. Cost of services primarily consists of food and beverages sold at Topgolf locations. Finally, the venue pre-opening costs are directly related the number of new venues opened and average \$2.5-3m per location depending on size.<sup>1</sup> We expect to see gradually improving margins on Topgolf revenues as the company has rolled out PIE, a golf bay inventory management and dynamic pricing tool at all of its locations.<sup>3</sup> Additionally, the company currently only has 6 franchised venues internationally, we expect to see this number grow significantly over the coming decade, which will further bolster the bottom line.

Looking at the non-Topgolf-related operating expenses, we expect to see SG&A come down by 50bps as a percentage of sales. The company announced a restructuring effort including corporate layoffs targeting \$45m in annual savings on operating expenses. Finally, we are projecting a normalizing of cost of products now that recent supply chain issues have eased up. We expect cost of products to stabilize around 54.5% of product sales, in line with pre-covid levels. Our resulting operating margin expectations are detailed in the table below:

Margins	2022	2023E	2024E	2025E	2026E
Operating	6.43%	6.56%	7.97%	8.55%	9.16%
Net	3.95%	3.25%	2.64%	3.29%	3.83%

Henry Fund Estimates

We expect the bulk of the operating margin improvement to play out over the next three years before stabilizing around 9%. Our net margin forecasts are a base case assuming the company maintains its current capital structure. Interest expenses for the year are expected to be ~\$205m, which is over 70% of projected operating income.<sup>3</sup> The combined impact of interest payments on the company’s \$1.2b in floating rate debt and deemed landlord financings is creating a significant drag on net earnings. Should the company start to use its free cash flows to pay down the debt, we will see a major improvement on the bottom line.

## Topgolf Expansion

Topgolf sees its total market opportunity as having 250 locations in the US and an additional 250 locations internationally.<sup>12</sup> Whether those goals are realized remains to be seen. However, that level of expansion will

at some point come with diminishing marginal returns, particularly as the US market becomes saturated. The company currently has 95 locations open, 85 in the US and 10 internationally. Management remains firm in its strategy of owning and operating US and UK based locations and expanding globally through franchising partnerships.<sup>3</sup>

We see the franchise model as being a particularly attractive opportunity for profitable growth. There are a number of markets where golf has strong or growing popularity outside of the US. Of note the UK, Japan, Canada, Germany, and South Korea represent the largest non-US markets for golf.<sup>6</sup> Those countries combined currently have five Topgolf locations, with four in the UK and one in Germany. Further commitment to global expansion could have a meaningful impact on margins over the long term.

### Topgolf Venue Unit Economics

Topgolf typically uses external financing for the development and construction of its company operated venues. The total cost of venue construction ranges from \$20-40m depending on location and size. After financing, the company has an average cash outlay of \$7.5m for construction costs. Once complete, the venues are usually sold to a REIT and leased back to Topgolf.<sup>1</sup> A company provided breakdown of a typical a venue’s economics can be found below.

Target 4-Wall Economics	Representative Venue <sup>1</sup>
Revenue	\$17.5 million
Adjusted EBITDAR	\$5.6 million
Adjusted EBITDAR Margin	32%
Average Construction Cost (Before Financing)	\$30 million
Topgolf Construction Cost Cash Outlay (After Financing)	\$7.5 million
Occupancy Costs <sup>2</sup>	\$1.9 million
Cash Flow <sup>3</sup>	\$3.7 million
Average Annual Maintenance Capex <sup>4</sup>	\$0.3 million

Topgolf Earnings Presentation

The \$17.5m per venue revenue projection excludes large flagship locations such as Las Vegas where revenue can exceed \$40m. The adjusted EBITDAR calculation excludes interest, taxes, D&A, and rent expense for each location. As of Q3 that margin had improved from 32% in 2022 up to 35%.<sup>3</sup>

Of note, the company has been able to generate positive free cashflow from Topgolf venues despite its high borrowing costs and aggressive growth spending. The business still offers a strong value proposition that will only look better should the company deliver on reducing its leverage and pursuing growth at a more reasonable pace.

### ESG Analysis

#### ESG Risk Rating

12.5 Low Risk



#### Sustainalytics

Sustainalytics gives Topgolf a 12.5 ESG risk rating and considers the company low risk. The company compares favorably to its peers ranking 27<sup>th</sup> out of 226 rated companies in the consumer durables sector.<sup>7</sup>

Topgolf Callaway has a number of social and environmental initiatives and formally launched their Global Sustainability Program in 2019. The company’s efforts are rooted in their core value statement that “Good ethics is good business”.<sup>8</sup> The Sustainability Program includes initiatives to reduce energy consumption and waste in their manufacturing process and packaging. The company also has a number of charitable endeavors including the community giving program and monthly employee volunteering events.<sup>8</sup>

While Topgolf has largely avoided major controversy, there are a few recent events and risk factors to highlight. In 2020 Topgolf was hit with a class action lawsuit by employees. The lawsuit alleged that the company paid workers a tipped hourly wage of \$2.13 while having them do untipped work. The company settled that suit for an undisclosed amount in 2022. Topgolf was also ordered to pay \$750k in back pay to employees for unpaid overtime, and a \$2.6m settlement for requiring employees to use a biometric fingerprint scanner to clock in to work.<sup>9</sup> The financial impact of these settlements is largely immaterial, but a trend of class action lawsuits from current and former employees bears mentioning and should be monitored going forward.



## RECENT DEVELOPMENTS

### Recent Earnings Announcement

Topgolf reported Q3 earnings for FY23 on 11/8. The company beat earnings expectations with adjusted EPS of \$0.20 vs. consensus estimates of \$0.11. Revenues came in slightly below expectations at \$1.04b vs. \$1.05b, but grew 5.3% YOY.<sup>11</sup> During the earnings call management lowered their guidance on FY23 sales and adjusted EBITDA. Sales expectations were lowered to \$4.25b, down from previous expectations of \$4.45b. The guidance on adjusted EBITDA was cut from \$635m down to \$580m. The primary driver for lowered guidance was negative growth for Topgolf same venue sales which was down 3% for the quarter.<sup>3</sup> The company also announced cost-cutting efforts that are expected to save \$45m annually in operating expenses. They are also reducing Topgolf growth capex by \$100m over the next two years.

Following the earnings release, the share price fell over 20%, dipping below \$10/share. The stock has mostly recovered and is now down just 4% from where it traded pre-earnings.<sup>4</sup>

On a positive note, the company saw improved operating margins despite the revenue miss. The Topgolf segment and the company as a whole are still expected to be free cash flow positive for the year.<sup>3</sup> We have updated our model assumptions to account for the lower guidance, subdued demand, and expected cost savings.

### BigShots Golf Acquisition

On November 1<sup>st</sup> Topgolf announced that it had acquired BigShots Golf from private golf course operator Invited Inc. in an all-cash deal for \$29m. BigShots operates golf entertainment complexes with a tech enabled driving range experience similar to Topgolf's. The company had been focusing on smaller markets not currently served by Topgolf. As part of the deal Topgolf acquires one company owned venue which will be converted to a Topgolf location, and three franchised Bigshots venues.<sup>13</sup> Additionally, the deal includes a preferred vendor relationship where Topgolf's equipment and clothing brands will be featured in Invited Inc.'s 140 golf and country club locations.

This deal will likely have a marginal impact on the topline adding just one owned and operated venue. More

notably, it may signal a shift in Topgolf's expansion strategy into smaller markets. As part of the deal, the company own's BigShot's development pipeline which includes 5 additional planned locations in mid-sized markets.

## MARKETS AND COMPETITION

### Peer Comparisons

Topgolf Callaway's three business segments compete in three distinct markets. We've broken down our peer comparisons into the golf equipment market, active lifestyle and apparel, and entertainment and experiences. Each industry faces differing levels of consolidation and competition. We've also included a peer comp table in the appendix for reference.

### Golf Equipment

The golf equipment market is fairly concentrated with a few major players holding the majority of the market share. The market for golf balls is effectively a duopoly with Titleist leading the industry followed by Callaway. The golf club market is slightly more fragmented but still largely dominated by a handful of major brands, with Callaway holding the largest market share.<sup>10</sup>

Our focus for this market will be on comparing Topgolf's Callaway golf branded equipment business with Acushnet Holdings. Acushnet is listed under the ticker symbol GOLF and is the parent company of Titleist, Pinnacle, FootJoy, and Scotty Cameron. It is also the largest publicly traded golf equipment manufacturer with a market cap of \$3.57b.<sup>1,16</sup>

Company	Golf Balls		Golf Clubs		Operating Margin
	FY 22 Sales	Market Share	FY 22 Sales	Market Share	
Callaway Golf	309.5	24%	1097	30%	17.80%
Titleist	678.8	52%	609.6	17%	16.60%

*Topgolf, Acushnet 10-Ks*

Referencing the table above, Callaway Golf generated \$1.4b in revenue last year compared to Titleist's \$1.28b. Callaway has an industry leading 30% market share in golf clubs, while Titleist has a dominant 52% share of the golf ball market. Finally, the two companies have relatively comparable operating margins on their equipment sales with 17.8% for Callaway and 16.6% for Titleist in FY22.

Acushnet also has sizeable golf footwear and apparel business stemming from its Titleist branded gear and

FootJoy.<sup>16</sup> While the apparel is more golf centric relative to some of Topgolf’s brands, there is still a strong overlap in the targeted consumer base. Given this, we extended our analysis to comparing Acushnet’s entire business to Topgolf Callaway’s equipment and active lifestyle segments.

	\$MODG (ex TG)	\$GOLF
Revenue	\$ 2,446.7	\$ 2,270.3
Op Income	306.4	281.5
Op Margin	13%	12%
MKT Cap (\$m)	2,199	3,572
LT Debt (\$m)	1,600	592

FactSet

Combining Topgolf’s equipment and active lifestyle segments reveals slightly higher sales, operating income, and margin compared to Acushnet Holdings. Despite this, the market cap of Acushnet stands at \$3.6b, 62% higher than Topgolf’s. This divergence provides some insight into how the market perceives the value of the Topgolf venue business and the impacts of the elevated debt associated with it. We still view the Topgolf venue business as accretive to value long-term. Operating under that assumption, the equipment business appears undervalued relative to its largest direct competitor.

## Active Lifestyle / Apparel

Given the diverse brand portfolio in Topgolf’s Active lifestyle segment, there are a wide range of brands and that Topgolf competes with. Callaway’s apparel business and TravisMathew compete directly with the aforementioned FootJoy, as well as other golf apparel brands including Nike Golf. TravisMathew also faces direct competition from a wide range of lifestyle brands including Bonobos, Lululemon, & Rhoback.<sup>1</sup>

The Jack Wolfskin business is more geared towards outdoor apparel. Its range of products is similar to Patagonia, The North Face, & Columbia Sportswear. A concern for the growth of this brand is the lack of penetration in the US market. Jack Wolfskin started selling online in the US in 2020 and opened its first retail location in the US in 2021. In a 2022 U.S. consumer survey Jack Wolfskin ranked 12<sup>th</sup> in brand awareness among outdoor fashion brands with just 25% of participants being familiar with the brand. The brand ranked fourth in the U.K. based survey with 51% brand

awareness.<sup>17</sup> The company may face challenges gaining market share and brand awareness given the strong established competition from the previously mentioned outdoor brands.

Prevalent trends within the activewear and apparel industry include a shift toward higher margin direct-to-consumer sales and the rise in popularity of Athleisure as a fashion trend. Topgolf has expanded its branded retail store presence with over 190 retail locations worldwide and built out its e-commerce business to capitalize on the higher DTC margin sales.<sup>1</sup> Its brands also stand to benefit from the Athleisure trend that was aided by work from home and relaxed dress codes coming out of Covid.

We see the Active Lifestyle segment as being competitively positioned in a highly fragmented market. The three brands have a strong growth outlook driven by growing brand recognition and expansion into new markets.

## Entertainment and Experiences

Topgolf’s technology-enabled driving ranges are fairly unique, although they have attracted some copycats. Primarily though, we see this segment as competing for discretionary dollars with all businesses operating in the entertainment and experience industries. Competition includes bowling alleys, movie theaters, restaurants, sports and concert venues, casinos, and many others.

Our peer comparisons for this category will center around Dave and Buster’s and bowling alley operator Bowlero. We feel these companies’ operations are the most similar to Topgolf, combining a dining experience with an activity.

	Locations	Sales (\$m)	Sales/Venue	Op. Margin
Topgolf	81	\$1,549	\$19.1m	5.0%
Bowlero	328	\$1,059	\$3.2m	19.0%
Dave & Busters	204	\$1,964	\$9.6m	13.4%

FactSet

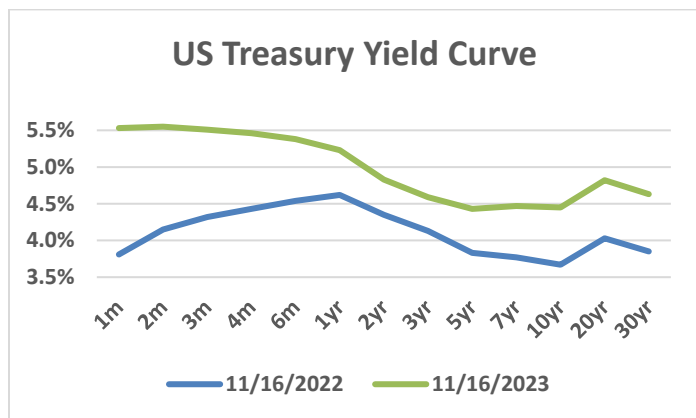
The data from the above table uses location and sales numbers for the last FY end for each company. Relative to peers Topgolf has a much smaller footprint and lower operating margins. Sales per venue are significantly higher, however. We expect Topgolf’s growth to far outpace both Bowlero and Dave & Busters as they have more room to expand. We also believe margins will improve relative to peers as the company expands its

franchise business internationally and the US business matures.

## ECONOMIC OUTLOOK

Topgolf Callaway’s business is almost entirely consumer driven. Topgolf and the Active Lifestyle brand sales would likely see a significant drop should consumer spending tighten. The equipment business is expected to be more resilient based on prior performance during recessions.

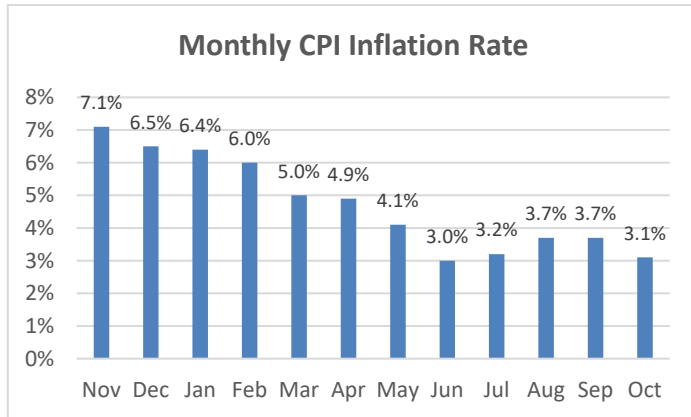
### Interest Rates and Inflation



US Treasury

Over the past 18 months the Fed has raised the short-term borrowing rate from near zero to 5.5%.<sup>18</sup> This has had a considerable impact on Topgolf’s interest expense given its large outstanding floating rate debt. Higher rates may also start to have an impact on consumers, which may mean an eventual cutback on discretionary spending.

Along with higher rates we’ve seen elevated levels of inflation. The CPI inflation rate peaked in the summer of 2022, but has remained well above the Fed’s target of 2%. However, the most recent data from October showed improvement, coming in at 3.1%<sup>14</sup> The sooner that inflation returns to normal levels, the more likely we will see the Fed begin to cut rates, lowering Topgolf’s interest expense and bolstering net income.



Trading Economics

### GDP & Consumer Spending

The US consumer has been resilient in the wake of higher rates and prices. GDP for Q3 came in at 4.9% outpacing expectations of 4.5% for the quarter, and much higher than the 2.1% growth in Q2. Additionally, consumer spending was a key driver of the higher GDP growth. Spending on both goods and services accelerated during Q3.<sup>15</sup> Despite this positive trend there are reasons for more cautious expectations going forward. Per the Conference Board, real personal income declined by 1% and debt levels are rising.<sup>15</sup>

We expect to see a pullback in discretionary spending starting Q4 and carrying through to 2024. Student loan repayments resumed in October and many consumers likely have spent through their excess savings coming out of the pandemic. We have factored this expectation into our growth forecasts and expect to see an eventual recovery to higher spending by 2025.

## VALUATION

### Debt & Capital Structure

Our valuation section starts with a look at Topgolf’s outstanding debt and overall capital structure. We believe the debt poses the greatest risk to the business, but also presents opportunity for a higher valuation should the outlook improve.

Topgolf currently has \$1.6b in long-term debt outstanding and a credit rating of B+ from S&P.<sup>4</sup> A significant portion of the debt is from the Term Loan B facility issued in March, which has \$1.2b in principal outstanding and matures in 2030. The company entered into the new credit agreement in an effort to consolidate



its outstanding debt and increase liquidity for further expansion of Topgolf. The loan amortizes at 1% per annum and has a floating rate structure. The interest rate is determined by 30-day SOFR + 0.1%, with an additional spread of 3.25%, which would increase to 3.5% in the event of a credit rating downgrade.<sup>2</sup>

### Five-Year Debt Maturity Schedule

Fiscal Year	Coupon (%)	Payment (\$mil)
2023	5.93	\$5.3
2024	5.65	20.8
2025	0.9	18.6
2026	2.75	276.3
2027	2.36	15.5
Thereafter	SOFR +3.25%	1235.5
<b>Total</b>		<b>\$1572.0</b>

*Topgolf 10-Q*

In addition to the debt outlined above, the company also carries Deemed Landlord Financing (DLF) obligations totaling \$809m. These DLF agreements are used to finance certain Topgolf venues where the company lacks ownership of the property but is considered to have control. Payments made under these agreements function essentially as rent on operating leases, yet they are classified as interest expense in accordance with accounting rules. The weighted average rate on these obligations is 9%.<sup>2</sup>

The company's net debt/EBITDA ratio is currently 6.7x. For the first three quarters of FY23, interest expense has totaled \$154m, erasing 57% of operating income and creating a substantial drag on earnings.<sup>2</sup> Given the magnitude of the debt and elevated interest rates, we see the current capital structure as the greatest risk to the business. Further interest rate hikes or weakening demand could put additional pressure on net margins and cash flows.

Despite the inherent risks, we also see this as an opportunity for a potential re-rating of the company. The weight of the debt has likely been the main driving force behind the decline in share price over the year. However, we believe it is likely that the Fed's rate hiking cycle is at or near its end. Should a soft-landing scenario play out and short-term rates begin to fall, the company stands to benefit from its floating rate debt with a resulting decline in interest expense. We sensitivity tested the impacts of lower interest rates using the current rate on the Term

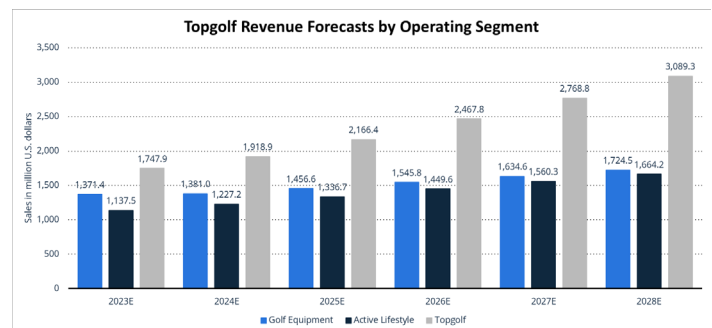
Loan B as a proxy for the company's pre-tax cost of debt. A 50bp drop in SOFR would increase our DCF valuation by 10%.

		SG&A 2024							
		14.0%	22.0%	22.5%	23.0%	23.5%	24.0%	24.5%	25.0%
Pre-Tax Cost of Debt	7.00%	19.61	19.17	18.72	18.27	17.83	17.38	16.93	16.48
	7.50%	18.08	17.64	17.20	16.76	16.31	15.87	15.43	14.99
	8.00%	16.72	16.28	15.84	15.41	14.97	14.53	14.09	13.65
	8.57%	15.33	14.90	14.47	14.04	13.60	13.17	12.74	12.31
	9.00%	14.39	13.96	13.53	13.11	12.68	12.25	11.82	11.39
	9.50%	13.39	12.97	12.54	12.12	11.70	11.27	10.85	10.43
	10.00%	12.48	12.06	11.64	11.22	10.80	10.38	9.96	9.54

Moreover, the company maintains flexibility in its Topgolf expansion plans. The Q3 earnings call indicated at least a temporary shift away from aggressive growth, emphasizing a focus on cash flow generation. Management outlined plans to cut growth capex by \$100m over the next two years and to reduce annual operating expenses by \$45m. They also reaffirmed expectations for both the overall business and the Topgolf segment to be free cash flow positive for the year.<sup>3</sup> The company is in position to reign in growth spending, cut back on share repurchases, and utilize free cash flow to start paying down the debt. Should management execute on that strategy, they can then reaccelerate growth with an optimized capital structure under a more favorable interest rate environment.

## Revenue Growth

Our revenue growth assumptions by segment are detailed below. We have total revenue growing at 8.8% annually through 2028 before tapering off as the Topgolf and Active Lifestyle segments mature.



*Henry Fund Estimates*

We see the Topgolf segment continuing to outpace the others as the company executes its venue expansion strategy. We also expect strong continued growth for Active Lifestyle as the TravisMathew and Jack Wolfskin brands continue to expand their reach globally. Finally, we expect the golf equipment segment to see moderate

growth driven by the growing popularity of golf outside of core markets.

## Capex

The vast majority of the company's capital expenditure comes from the development and construction of Topgolf Venues. Our capex expectations come from company guidance and expectations for further venue expansion. A breakdown of capex spending is in the following table.

Capex Guidance	2023	2024	2025	2026	2027	2028
<b>Topgolf (net)</b>	<b>\$ 175</b>	<b>\$ 220</b>	<b>\$ 260</b>	<b>\$ 285</b>	<b>\$ 288</b>	<b>\$ 296</b>
Venue Growth, Gross	372	298	383	420	410	410
Venue Financing Reimbursements	(306)	(193)	(249)	(270)	(267)	(267)
<b>New Venue, Net</b>	<b>66</b>	<b>104</b>	<b>134</b>	<b>150</b>	<b>144</b>	<b>144</b>
Venue maintenance & refresh	45	50	58	65	73	81
New tech Development and other	64	66	68	70	72	72
<b>Non-Topgolf</b>	<b>\$ 65</b>	<b>\$ 67</b>	<b>\$ 69</b>	<b>\$ 71</b>	<b>\$ 73</b>	<b>\$ 75</b>
Growth Capex	20	21	21	22	23	23
Non-Growth Capex	45	46	48	49	51	52
<b>Total Gross CAPEX</b>	<b>\$ 546</b>	<b>\$ 481</b>	<b>\$ 578</b>	<b>\$ 626</b>	<b>\$ 628</b>	<b>\$ 638</b>

Henry Fund Estimates, Topgolf Investor Presentation

We expect total Capex before venue financing reimbursements to dip to \$481m in 2024 per company expectations. The growth in spending will then resume in 2025 and increase from there. Topgolf venue growth will rise with the number of expected new locations and a gradual increase in construction costs. The Non-Topgolf capex is expected to increase with inflation expectations at 3% annually.

## DCF & Economic Profit

We arrived at a share value of \$14.04 through our DCF and Economic profit valuation method. Key assumptions used in the valuation include a terminal growth rate of 4%, a WACC of 8.8%, and a ROIC of 9.8% in the final year of our 10-year forecast horizon.

Our terminal growth forecast of 4% is based on the expectation that Topgolf has a long runway for growth. If Topgolf delivers on their long-term plans of 500 locations globally, the company will be able to see elevated sales growth over a longer period of time as they continue to add new locations years after our forecast horizon. Additionally, the WACC calculation of 8.8% is impacted by the company's current high cost of debt and high beta. If Topgolf can improve its capital structure, it may see reduced borrowing costs and a less volatile share price. The following sensitivity table shows the impact of a lower cost of capital and beta on our share valuation.

		WACC							
		14.04	7.30%	7.80%	8.30%	8.80%	9.30%	9.80%	10.20%
Beta	1.00		33.01	24.91	18.70	13.81	9.86	6.60	4.39
	1.15		33.21	25.06	18.82	13.90	9.92	6.64	4.41
	1.30		33.41	25.21	18.93	13.98	9.98	6.68	4.44
	1.46		33.62	25.37	19.05	14.07	10.04	6.73	4.47
	1.60		33.81	25.50	19.15	14.14	10.10	6.76	4.49
	1.75		34.01	25.65	19.27	14.23	10.16	6.80	4.52
	1.90		34.21	25.80	19.38	14.31	10.22	6.84	4.55

## Relative Valuation

In constructing our relative valuation model, we employed a peer group consisting of companies that directly compete across all three business segments of Topgolf Callaway. This group encompasses Acushnet Holdings, a golf equipment manufacturer, various outdoor and active apparel companies, and entertainment venue operators such as Bowlero and Dave & Busters. We looked at both relative P/E valuations and PEG ratios to arrive at an implied share price for Topgolf.

The relative P/E approach yielded an implied value of \$15.56, with an average forward P/E of 20.74 for the peer group. Our PEG ratio analysis resulted in a share value of \$16.50 driven by an average PEG ratio of 1.96 for the peers.

## Conclusion

We arrived at our final price target of \$14-16/share by taking into consideration both our DCF and relative valuation models. We did not give any weight to the dividend discount model as the company stopped paying dividend during covid and opted not to reinstate them following the Topgolf acquisition.<sup>1</sup>

Our target price comes in lower than street consensus of \$18/share, although that target price is somewhat impacted by an outlier estimate of \$43 being included. The majority of analysts have a price target somewhere within the \$13-\$20 per share range.<sup>4</sup> Our EPS estimates come in considerably higher relative to consensus, in part due to analysts estimates using diluted shares and our calculations using basic shares outstanding.

## KEYS TO MONITOR

Despite the recent volatility and underperformance, we see Topgolf Callaway as having significant upside over the long-term. Recent headwinds of slowing consumer demand and currency impacts may persist into 2024, but we believe a pathway exists for profitable growth and stable cash flows long-term. Keys risks to monitor in the coming year include:

- Additional rate hikes, or higher for longer short-term interest rates
- Consumer sentiment fading and we see a sharp drop-off in discretionary spending.
- Topgolf's struggles to generate positive free cashflow and is unable to start paying down its debt.

Given the risks detailed, we still believe the company has tremendous upside potential. Our model and target price present our base case for the company and economy, expecting moderate stable growth over the medium term. Should we achieve a soft-landing and a subsequent drop in interest rates, we believe Topgolf has considerable long-term upside and can see its share price recover back towards the \$20/share value.

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**Topgolf Callaway Brands**  
Revenue Decomposition

<i>Fiscal Quarters Ending Dec. 31</i>	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026	Q3 2026	Q4 2026	Q1 2027	Q2 2027	Q3 2027	Q4 2027
<b>Revenue by Segment</b>																								
<b>Topgolf</b>	322.00	403.70	413.80	409.50	403.50	470.80	447.70	425.88	442.97	516.86	491.50	467.54	500.12	583.54	554.90	527.86	569.69	664.71	632.09	601.28	639.17	745.78	709.19	674.62
<i>growth</i>	248%	24%	24%	22%	25%	17%	8%	4%	10%	10%	10%	10%	13%	13%	13%	14%	14%	14%	14%	12%	12%	12%	12%	12%
<b>Golf Equipment</b>	468.00	451.90	296.70	190.00	443.70	451.00	293.40	183.25	437.41	451.00	301.32	191.24	461.08	475.76	317.92	201.88	489.22	504.90	337.41	214.28	517.16	533.93	356.84	226.68
<i>growth</i>	24.2%	12.6%	2.4%	17.7%	-5.2%	-0.2%	-1.1%	-3.6%	-1.4%	0.0%	2.7%	4.4%	5.4%	5.5%	5.5%	5.6%	6.1%	6.1%	6.1%	6.1%	5.7%	5.7%	5.8%	5.8%
<b>Clubs</b>	370.40	367.80	221.40	137.50	350.80	340.30	222.20	133.38	347.29	340.30	224.42	137.38	364.66	357.32	235.64	144.25	386.54	378.75	249.78	152.90	407.80	399.59	263.52	161.31
<i>growth</i>	17.1%	14.9%	-3.5%	6.8%	-5.3%	-7.5%	0.4%	-3.0%	-1.0%	0.0%	1.0%	3.0%	5.0%	5.0%	5.0%	5.0%	6.0%	6.0%	6.0%	6.0%	5.5%	5.5%	5.5%	5.5%
<b>Balls</b>	97.60	84.10	75.30	52.50	92.90	110.70	71.20	49.88	90.11	110.70	76.90	53.87	96.42	118.45	82.28	57.64	102.69	126.15	87.63	61.38	109.36	134.35	93.32	65.37
<i>growth</i>	61.2%	3.5%	24.9%	61.0%	-4.8%	31.6%	-5.4%	-5.0%	-3.0%	0.0%	8.0%	8.0%	7.0%	7.0%	7.0%	7.0%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
<b>Active Lifestyle</b>	250.20	260.10	278.00	251.80	320.20	257.90	299.50	259.87	341.49	275.10	326.82	283.78	371.10	299.01	356.68	309.94	401.50	323.56	387.55	337.01	431.32	347.64	417.81	363.55
<i>growth</i>	37.4%	39.1%	19.3%	17.4%	28.0%	-0.8%	7.7%	3.2%	6.6%	6.7%	9.1%	9.2%	8.7%	8.7%	9.1%	9.2%	8.2%	8.2%	8.7%	8.7%	7.4%	7.4%	7.8%	7.9%
<b>Apparel</b>	138.40	136.90	181.40	175.00	176.10	143.50	211.70	190.75	190.19	154.98	232.87	209.83	209.21	170.48	256.16	230.81	229.08	186.67	280.49	252.73	248.55	202.54	304.33	274.22
<i>growth</i>	45.2%	49.8%	20.7%	13.6%	27.2%	4.8%	16.7%	9.0%	8.0%	8.0%	10.0%	10.0%	10.0%	10.0%	10.0%	9.5%	9.5%	9.5%	9.5%	8.5%	8.5%	8.5%	8.5%	8.5%
<b>Gear, Accessories, &amp; Other</b>	111.80	123.20	96.60	76.80	144.10	114.40	87.80	69.12	151.31	120.12	93.95	73.96	161.90	128.53	100.52	79.14	172.42	136.88	107.06	84.28	182.76	145.10	113.48	89.34
<i>growth</i>	28.8%	29.0%	16.6%	26.9%	28.9%	-7.1%	-9.1%	-10.0%	5.0%	5.0%	7.0%	7.0%	7.0%	7.0%	7.0%	6.5%	6.5%	6.5%	6.5%	6.0%	6.0%	6.0%	6.0%	6.0%
<b>Total</b>	1,040.20	1,115.70	988.50	851.30	1,167.40	1,179.70	1,040.60	869.00	1,221.87	1,242.96	1,119.63	942.57	1,332.30	1,358.31	1,229.51	1,039.68	1,460.41	1,493.16	1,357.05	1,152.58	1,587.65	1,627.35	1,483.84	1,264.86
<i>growth</i>	59.6%	22.1%	15.4%	19.6%	12.2%	5.7%	5.3%	2.1%	4.7%	5.4%	7.6%	8.5%	9.0%	9.3%	9.8%	10.3%	9.6%	9.9%	10.4%	10.9%	8.7%	9.0%	9.3%	9.7%
<b>% of Total</b>																								
<b>Topgolf</b>	31%	36%	42%	48%	35%	40%	43%	49%	36%	42%	44%	50%	38%	43%	45%	51%	39%	45%	47%	52%	40%	46%	48%	53%
<b>Golf Equipment</b>	116.1%	112.1%	73.6%	47.1%	110.0%	111.9%	72.8%	45.4%	108.5%	111.9%	74.7%	47.4%	114.4%	118.0%	78.9%	50.1%	121.3%	125.2%	83.7%	53.1%	128.3%	132.4%	88.5%	56.2%
<b>Clubs</b>	35.6%	33.0%	22.4%	16.2%	30.0%	28.8%	21.4%	15.3%	28.4%	27.4%	20.0%	14.6%	27.4%	26.3%	19.2%	13.9%	26.5%	25.4%	18.4%	13.3%	25.7%	24.6%	17.8%	12.8%
<b>Balls</b>	9.4%	7.5%	7.6%	6.2%	8.0%	9.4%	6.8%	5.7%	7.4%	8.9%	6.9%	5.7%	7.2%	8.7%	6.7%	5.5%	7.0%	8.4%	6.5%	5.3%	6.9%	8.3%	6.3%	5.2%
<b>Active Lifestyle</b>	62.1%	64.5%	68.9%	62.5%	79.4%	64.0%	74.3%	64.5%	84.7%	68.2%	81.1%	70.4%	92.0%	74.2%	88.5%	76.9%	99.6%	80.2%	96.1%	83.6%	107.0%	86.2%	103.6%	90.2%
<b>Apparel</b>	34.3%	34.0%	45.0%	43.4%	43.7%	35.6%	52.5%	47.3%	47.2%	38.4%	57.8%	52.0%	51.9%	42.3%	63.5%	57.2%	56.8%	46.3%	69.6%	62.7%	61.6%	50.2%	75.5%	68.0%
<b>Gear, Accessories, &amp; Other</b>	27.7%	30.6%	24.0%	19.0%	35.7%	28.4%	21.8%	17.1%	37.5%	29.8%	23.3%	18.3%	40.2%	31.9%	24.9%	19.6%	42.8%	33.9%	26.6%	20.9%	45.3%	36.0%	28.1%	22.2%
<b>Geographic Breakdown</b>																								
<b>United States</b>	709.40	800.50	684.80	603.30	811.10	886.70																		
<b>Europe</b>	134.90	141.00	141.90	119.70	153.60	120.20																		
<b>Japan</b>	158.60	135.20	138.70	112.80	160.20	128.20																		
<b>Rest of World</b>	37.30	39.00	23.10	15.50	42.50	44.60																		
<b>Total</b>	1,040.20	1,115.70	988.50	851.30	1,167.40	1,179.70																		
<b>% of Total</b>																								
<b>United States</b>	68%	72%	69%	71%	69%	75%																		
<b>Europe</b>	13%	13%	14%	14%	13%	10%																		
<b>Japan</b>	15%	12%	14%	13%	14%	11%																		
<b>Rest of World</b>	4%	3%	2%	2%	4%	4%																		

<b>Topgolf</b>	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
<b>Venues</b>	70	81	92	101	111	122	132	142	152	160	168	174
<i>growth</i>	-	15.7%	13.6%	9.8%	9.9%	9.9%	8.2%	7.6%	7.0%	5.3%	5.0%	3.6%
<b>SSS Growth</b>	-	-	-	0.0%	3.0%	4.0%	4.0%	4.0%	3.50%	3.25%	3.25%	3.0%
<b>Total</b>	-	-	-	9.8%	12.9%	13.9%	12.2%	11.6%	10.5%	8.5%	8.3%	6.6%

**Topgolf Callaway Brands**

*Income Statement*

<i>in millions</i>		<b>Fiscal Quarters Ending Dec. 31</b>																						
	<b>Q1 2022</b>	<b>Q2 2022</b>	<b>Q3 2022</b>	<b>Q4 2022</b>	<b>Q1 2023</b>	<b>Q2 2023</b>	<b>Q3 2023</b>	<b>Q4 2023</b>	<b>Q1 2024</b>	<b>Q2 2024</b>	<b>Q3 2024</b>	<b>Q4 2024</b>	<b>Q1 2025</b>	<b>Q2 2025</b>	<b>Q3 2025</b>	<b>Q4 2025</b>	<b>Q1 2026</b>	<b>Q2 2026</b>	<b>Q3 2026</b>	<b>Q4 2026</b>	<b>Q1 2027</b>	<b>Q2 2027</b>	<b>Q3 2027</b>	<b>Q4 2027</b>
Revenues:																								
Products	722	717	579	447	768	714	597	443	779	726	628	475	832	775	675	512	891	828	725	551	948	882	775	590
Services	318	399	409	404	400	466	444	426	443	517	491	468	500	584	555	528	570	665	632	601	639	746	709	675
<b>Total Revenue</b>	<b>1,040</b>	<b>1,116</b>	<b>989</b>	<b>851</b>	<b>1,167</b>	<b>1,180</b>	<b>1,041</b>	<b>869</b>	<b>1,222</b>	<b>1,243</b>	<b>1,120</b>	<b>943</b>	<b>1,332</b>	<b>1,358</b>	<b>1,230</b>	<b>1,040</b>	<b>1,460</b>	<b>1,493</b>	<b>1,357</b>	<b>1,153</b>	<b>1,588</b>	<b>1,627</b>	<b>1,484</b>	<b>1,265</b>
Cost of Products	(412)	(400)	(331)	(258)	(442)	(388)	(337)	(256)	(435)	(405)	(351)	(265)	(464)	(432)	(376)	(286)	(485)	(452)	(395)	(300)	(517)	(480)	(422)	(322)
Cost of services	(39)	(49)	(48)	(48)	(44)	(51)	(46)	(52)	(54)	(63)	(60)	(57)	(61)	(71)	(68)	(65)	(70)	(81)	(77)	(73)	(78)	(91)	(87)	(82)
Other venue expenses	(230)	(262)	(288)	(297)	(306)	(317)	(312)	(279)	(290)	(339)	(322)	(306)	(328)	(382)	(363)	(346)	(373)	(435)	(414)	(394)	(406)	(474)	(450)	(428)
SG&A	(243)	(253)	(225)	(250)	(269)	(280)	(243)	(243)	(287)	(292)	(263)	(264)	(313)	(319)	(289)	(291)	(343)	(351)	(319)	(323)	(373)	(382)	(349)	(354)
Research and development	(18)	(19)	(19)	(21)	(23)	(22)	(23)	(17)	(24)	(25)	(22)	(19)	(27)	(27)	(25)	(21)	(29)	(30)	(27)	(23)	(32)	(33)	(30)	(25)
Goodwill and trade name impairment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Venue pre-opening costs	(4)	(4)	(10)	(12)	(4)	(6)	(7)	(12)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(7)	(7)	(7)	(7)	(6)	(6)	(6)	(6)
<b>Income (loss) from operations</b>	<b>94</b>	<b>129</b>	<b>68</b>	<b>(35)</b>	<b>81</b>	<b>116</b>	<b>74</b>	<b>9</b>	<b>126</b>	<b>113</b>	<b>96</b>	<b>26</b>	<b>133</b>	<b>120</b>	<b>102</b>	<b>26</b>	<b>153</b>	<b>137</b>	<b>118</b>	<b>32</b>	<b>176</b>	<b>161</b>	<b>140</b>	<b>47</b>
Interest expense	(31)	(33)	(36)	(43)	(50)	(52)	(52.3)	(52.0)	(30.3)	(30.3)	(30.3)	(30.3)	(28.5)	(28.5)	(28.5)	(28.5)	(29.7)	(29.7)	(29.7)	(29.7)	(31.8)	(31.8)	(31.8)	(31.8)
Interest income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other income / expense, net excluding interest income	8	12	7	1	(10)	7	5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gain on Topgolf International, Inc. investment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Income / loss before income taxes	71	108	39	(76)	21	72	26.7	(43)	95	83	66	(5)	105	91	73	(3)	123	108	88	2	144	129	108	15
Income tax provision / benefit	16	(3)	(0)	4	4	46	3	9	20	17	14	(1)	22	19	15	(1)	26	23	18	1	30	27	23	3
<b>Net income</b>	<b>87</b>	<b>105</b>	<b>39</b>	<b>(73)</b>	<b>25</b>	<b>117</b>	<b>30</b>	<b>(34)</b>	<b>75</b>	<b>66</b>	<b>52</b>	<b>(4)</b>	<b>83</b>	<b>72</b>	<b>58</b>	<b>(2)</b>	<b>97</b>	<b>85</b>	<b>70</b>	<b>2</b>	<b>114</b>	<b>102</b>	<b>86</b>	<b>12</b>





**Topgolf Callaway Brands**
**Balance Sheet**
*in millions*
**Fiscal Years Ending Dec. 31**

	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
<b>Current Assets:</b>													
Cash and cash equivalents	366	353	199	723	840	975	1,199	1,429	1,627	1,908	2,251	2,645	3,072
Accounts receivable, net	138	105	167	161	171	187	206	225	244	264	282	300	316
Inventories	353	533	959	737	756	810	869	927	983	1,039	1,094	1,145	1,188
Prepaid expenses	-	54	57	67	72	78	86	94	102	111	118	126	132
Other Current Assets	55	119	136	153	163	179	197	215	234	252	270	287	302
<b>Total Current Assets</b>	<b>913</b>	<b>1,166</b>	<b>1,519</b>	<b>1,841</b>	<b>2,002</b>	<b>2,230</b>	<b>2,557</b>	<b>2,890</b>	<b>3,190</b>	<b>3,574</b>	<b>4,015</b>	<b>4,503</b>	<b>5,010</b>
Property, plant and equipment gross	408	1,785	2,296	2,842	3,322	3,900	4,526	5,154	5,792	6,440	7,017	7,603	8,117
Less: accumulated depreciation	261	333	486	706	984	1,288	1,627	2,004	2,414	2,853	3,319	3,800	4,294
Property, plant & equipment, net	146	1,451	1,810	2,136	2,339	2,612	2,899	3,150	3,378	3,588	3,697	3,803	3,823
Operating lease right-of-use assets, net	195	1,385	1,419	1,675	1,834	2,049	2,273	2,470	2,649	2,813	2,899	2,982	2,998
Intangible Assets	484	1,529	1,504	1,490	1,478	1,467	1,456	1,445	1,435	1,426	1,419	1,419	1,419
Goodwill	57	1,960	1,984	1,984	1,984	1,984	1,984	1,984	1,984	1,984	1,984	1,984	1,984
Investment in golf-related ventures	111	39	-	-	-	-	-	-	-	-	-	-	-
Other assets	74	218	355	366	377	388	400	412	424	437	450	464	478
<b>Total Assets</b>	<b>1,981</b>	<b>7,748</b>	<b>8,590</b>	<b>9,491</b>	<b>10,014</b>	<b>10,730</b>	<b>11,569</b>	<b>12,351</b>	<b>13,061</b>	<b>13,822</b>	<b>14,465</b>	<b>15,155</b>	<b>15,711</b>
<b>Current Liabilities:</b>													
Accounts payable	66	139	159	170	181	198	218	238	259	280	299	318	335
Accrued expenses	212	352	421	517	550	603	664	725	787	851	909	967	1,018
Deferred revenue	-	94	95	114	122	133	147	160	174	188	201	214	225
Accrued employee compensation and benefits	31	129	135	133	142	155	171	187	203	219	234	249	262
Asset-based credit facilities	22	9	219	97	97	55.4	55.4	55.4	-	-	-	-	-
Current operating lease liabilities	30	72	76	90	99	110	122	133	143	151	156	161	161
Construction advances	-	23	35	45	53	62	70	77	85	92	98	104	108
Other current liabilities	30	48	35	59	62	68	75	82	89	96	103	110	115
<b>Total current liabilities</b>	<b>391</b>	<b>866</b>	<b>1,176</b>	<b>1,225</b>	<b>1,305</b>	<b>1,385</b>	<b>1,523</b>	<b>1,658</b>	<b>1,740</b>	<b>1,877</b>	<b>2,000</b>	<b>2,123</b>	<b>2,224</b>
Long-term Debt	651	1,025	1,176	1,525	1,567	1,666	1,771	1,865	1,953	2,035	2,086	2,137	2,159
Long-term operating lease liabilities	178	1,385	1,438	1,696	1,858	2,075	2,303	2,502	2,684	2,850	2,937	3,021	3,037
Deemed landlord financing	-	461	658	831	980	1,145	1,296	1,433	1,571	1,708	1,818	1,928	2,011
Deferred taxes, net	59	164	118	63	24	-	-	-	-	-	-	-	-
Other long-term liabilities	26	164	251	245	260	285	314	343	373	403	430	458	482
<b>Total Long-term Liabilities</b>	<b>914</b>	<b>3,199</b>	<b>3,640</b>	<b>4,360</b>	<b>4,688</b>	<b>5,171</b>	<b>5,684</b>	<b>6,144</b>	<b>6,580</b>	<b>6,995</b>	<b>7,272</b>	<b>7,544</b>	<b>7,688</b>
<b>Total Liabilities</b>	<b>1,305</b>	<b>4,065</b>	<b>4,816</b>	<b>5,585</b>	<b>5,993</b>	<b>6,556</b>	<b>7,207</b>	<b>7,802</b>	<b>8,319</b>	<b>8,872</b>	<b>9,271</b>	<b>9,666</b>	<b>9,912</b>
Common stock, additional paid-in capital	348	3,053	3,015	3,028	3,042	3,056	3,066	3,066	3,066	3,066	3,066	3,066	3,066
Retained earnings	360	682	853	970	1,072	1,210	1,388	1,576	1,768	1,976	2,221	2,516	2,826
Accumulated other comprehensive loss	(7)	(27)	(62)	(62)	(62)	(62)	(62)	(62)	(62)	(62)	(62)	(62)	(62)
Common stock held in treasury, at cost	(26)	(25)	(31)	(31)	(31)	(31)	(31)	(31)	(31)	(31)	(31)	(31)	(31)
Non-controlling interest in consolidated entity	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total shareholders' equity</b>	<b>676</b>	<b>3,683</b>	<b>3,774</b>	<b>3,906</b>	<b>4,021</b>	<b>4,174</b>	<b>4,362</b>	<b>4,549</b>	<b>4,741</b>	<b>4,949</b>	<b>5,194</b>	<b>5,489</b>	<b>5,799</b>

**Topgolf Callaway Brands**  
*Historical Cash Flow Statement*  
in millions

<b>Fiscal Years Ending Dec. 31</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>Cash flow from operating activities:</b>					
<b>Net Income (loss)</b>	105.3	79.2	(126.9)	322.0	157.9
Adjustments					
Depreciation & amortization	19.9	35.0	39.5	155.8	192.8
Lease amortization expense	-	30.9	32.7	80.0	94.2
Non-cash interest on financing & deemed landlord	-	-	-	-	9.8
Amortization of debt discount & issuance costs	-	3.3	10.5	30.9	-
Inventory step-up on acquisition	-	10.9	-	-	-
Impairment loss	-	-	174.3	-	5.5
Deferred taxes, net	21.7	(1.4)	(12.5)	8.4	(31.0)
Share-based compensation	13.5	12.9	10.9	38.7	47.0
Loss (gain) on disposal of long-lived assets	(0.0)	0.2	0.3	0.4	-
Loss (gain) on Topgolf International, Inc.	-	-	-	(252.5)	-
Loss (gain) on conversion of note receivable	-	-	(1.3)	-	-
Unrealized net losses (gains) on hedging	(4.6)	3.6	2.8	0.3	17.5
Loss on debt modification					
Acquisition costs	-	-	-	(16.2)	-
Other adjustments	-	-	-	-	10.9
Unrealized foreign currency loss (gain)					
Accounts receivable, net	(2.1)	(44.5)	10.0	38.2	(75.6)
Inventories	(78.0)	(34.0)	117.0	(177.5)	(442.4)
Leasing receivables	-	-	-	(22.9)	(22.2)
Other assets	(10.0)	(12.1)	19.8	(51.7)	(20.7)
Accounts payable & accrued expenses	22.3	34.9	(9.9)	96.8	110.4
Deferred revenue	-	-	-	24.9	0.8
Accrued employee compensation & benefits	3.1	(2.5)	(16.6)	53.8	7.6
Accrued warranty expense	1.0	(0.1)	(0.3)	-	-
Change in operating & financing leases, net	-	(29.9)	(29.4)	(57.4)	(86.7)
Income taxes receivable or payable, net	0.1	1.4	2.0	8.8	(11.4)
Other liabilities	0.1	(1.3)	5.3	(2.5)	0.5
<b>Net cash flows from operating activities</b>	<b>92.3</b>	<b>86.6</b>	<b>228.2</b>	<b>278.3</b>	<b>(35.1)</b>
Capital expenditures	(36.8)	(54.7)	(39.3)	(322.3)	(532.3)
Cash acquired in merger	-	-	-	171.3	-
Investment in golf-related ventures	(1.7)	(17.9)	(20.0)	(30.0)	-
Acquisitions, net of cash acquired	-	(463.1)	-	-	-
Proceeds from sale of property & equipment	0.0	0.0	0.0	0.0	-
Proceeds from sale of golf-related ventures	-	-	-	19.1	0.4
Acquisition of intangible assets	-	-	-	-	(3.2)
<b>Net cash flows from investing activities</b>	<b>(38.5)</b>	<b>(535.7)</b>	<b>(59.2)</b>	<b>(161.9)</b>	<b>(535.1)</b>
Proceeds from borrowings on long-term debt, net	(2.2)	456.5	25.3	(174.5)	80.2
Proceeds from credit facilities, net	(47.5)	105.9	(122.5)	(13.0)	213.0
Debt issuance cost	-	(19.1)	(9.1)	(5.4)	(0.2)
Payment on contingent earn-out obligation	-	-	-	(3.6)	(5.6)
Repayments of financing leases	-	(0.7)	(0.8)	(0.8)	(2.7)
Proceeds from lease financing	-	-	-	89.2	175.7
Premium paid for capped call confirmations	-	-	(31.8)	-	-
Exercise of stock options	1.6	0.4	0.2	22.3	0.7
Dividends paid, net	(3.8)	(3.8)	(1.9)	(0.0)	-
Repayments of long-term debt					
Acquisition of treasury stock	(22.5)	(28.1)	(22.2)	(38.1)	(35.8)
Payments to acquire interest in joint venture	-	(18.5)	-	-	-
Distributions to non-controlling interest	(0.8)	-	-	-	-
Proceeds from issuance of convertible notes	-	-	258.8	-	-
<b>Net cash flows from financing activities</b>	<b>(75.1)</b>	<b>492.5</b>	<b>96.1</b>	<b>(124.1)</b>	<b>425.3</b>

**Topgolf Callaway Brands**

*Forecasted Cash Flow Statement*

*in millions*

<b>Fiscal Years Ending Dec. 31</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>	<b>2030E</b>	<b>2031E</b>	<b>2032E</b>
<b>Cash flow from operating activities:</b>										
<b>Net Income</b>	<b>138</b>	<b>120</b>	<b>163</b>	<b>209</b>	<b>220</b>	<b>227</b>	<b>244</b>	<b>288</b>	<b>347</b>	<b>365</b>
Adjustments										
Depreciation	220	278	304	340	377	409	439	466	481	494
Amortization	14	11	11	11	11	10	9	7	0	0
Accounts receivable	7	-10	-16	-19	-19	-19	-20	-18	-18	-16
Inventories	223	-20	-54	-59	-58	-56	-56	-55	-51	-43
Prepaid expenses	-10	-4	-7	-8	-8	-8	-8	-8	-8	-7
Other current assets	-17	-10	-16	-18	-18	-19	-19	-17	-17	-15
Other assets	-11	-11	-11	-12	-12	-12	-13	-13	-14	-14
Accounts payable	11	11	17	20	20	21	21	19	19	17
Accrued expenses	97	33	53	61	61	63	63	58	58	50
Deferred revenue	19	7	12	14	13	14	14	13	13	11
Accrued employee compensation and benef	-2	8	14	16	16	16	16	15	15	13
Other current liabilities	24	4	6	7	7	7	7	7	7	6
Deferred taxes	-55	-39	-24	0	0	0	0	0	0	0
Other Liabilities	-6	16	25	29	29	30	30	28	28	24
<b>Net cash flow from operating activities</b>	<b>651</b>	<b>393</b>	<b>477</b>	<b>591</b>	<b>639</b>	<b>681</b>	<b>728</b>	<b>790</b>	<b>861</b>	<b>886</b>
<b>Cash flow from investing activities:</b>										
Property, plant and equipment	-546	-481	-578	-626	-628	-638	-648	-576	-586	-514
Operating lease assets	-256	-159	-215	-225	-197	-179	-164	-86	-83	-15
<b>Net cash used in investing activities:</b>	<b>-802</b>	<b>-640</b>	<b>-792</b>	<b>-851</b>	<b>-825</b>	<b>-817</b>	<b>-812</b>	<b>-662</b>	<b>-669</b>	<b>-529</b>
<b>Cash flow from Financing activities:</b>										
Asset based credit facilities	-123	0	-41	0	0	-55	0	0	0	0
Operating lease liabilities	273	170	229	240	210	191	175	92	88	16
Long-term debt	349	41	99	105	94	87	82	51	51	22
Construction advances	9	8	9	8	7	7	7	6	6	4
Deemed landlord financing	173	149	165	151	138	138	138	110	110	83
Cash from ESOP	14	14	14	10	0	0	0	0	0	0
Share repurchases	-21	-18	-24	-31	-33	-34	-37	-43	-52	-55
<b>Net cash from financing activities:</b>	<b>674</b>	<b>364</b>	<b>450</b>	<b>483</b>	<b>416</b>	<b>334</b>	<b>365</b>	<b>216</b>	<b>203</b>	<b>70</b>
Beginning Cash	199	723	840	975	1199	1429	1627	1908	2251	2645
Net increase (decrease) in cash	524	117	135	223	230	198	281	343	394	427
Ending Cash	723	840	975	1199	1429	1627	1908	2251	2645	3072

Topgolf Callaway Brands  
Common Size Income Statement

Fiscal Years Ending Dec. 31	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Revenues:													
Products	100.00%	65.70%	61.70%	59.23%	57.61%	56.32%	54.83%	53.57%	52.31%	51.20%	50.45%	49.60%	48.94%
Services	-	34.30%	38.30%	40.77%	42.39%	43.68%	45.17%	46.43%	47.69%	48.80%	49.55%	50.40%	51.06%
Total Revenue	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of Products	-58.63%	-55.21%	-56.81%	-56.44%	-55.81%	-55.81%	-54.50%	-54.50%	-54.50%	-54.50%	-54.50%	-54.50%	-54.50%
Cost of services	-	-12.42%	-12.02%	-11.15%	-12.22%	-12.22%	-12.22%	-12.22%	-12.22%	-12.22%	-12.22%	-12.22%	-12.22%
Other venue expenses	-	68.07%	70.38%	69.94%	65.50%	63.50%	63.50%	63.50%	63.50%	63.50%	63.50%	62.00%	62.00%
SG&A	-34.13%	-27.12%	-24.29%	-24.29%	-24.44%	-24.44%	-24.45%	-24.45%	-24.46%	-24.46%	-24.07%	-24.08%	-24.08%
Research and development	-2.91%	-2.17%	-1.91%	-1.99%	-2.00%	-2.00%	-1.80%	-1.80%	-1.80%	-1.60%	-1.60%	-1.60%	-1.60%
Goodwill and trade name impairment	-10.96%	-	-	-	-	-	-	-	-	-	-	-	-
Venue pre-opening costs	-	-0.87%	-1.99%	-1.63%	-1.17%	-1.15%	-1.11%	-0.90%	-0.81%	-0.73%	-0.54%	-0.50%	-0.35%
<b>Income (loss) from operations</b>	<b>-6.64%</b>	<b>6.53%</b>	<b>6.43%</b>	<b>6.56%</b>	<b>7.97%</b>	<b>8.55%</b>	<b>9.16%</b>	<b>8.97%</b>	<b>8.73%</b>	<b>8.72%</b>	<b>9.04%</b>	<b>9.63%</b>	<b>9.57%</b>
Interest expense	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Interest income	-2.98%	-3.69%	-3.57%	-4.83%	-4.62%	-4.38%	-4.31%	-4.29%	-4.31%	-4.30%	-4.17%	-4.11%	-4.05%
Other income, expense, net	0.03%	-	-	0.00%	-	-	-	-	-	-	-	-	-
Gain on Topgolf Intnl, Inc. investment	1.57%	0.29%	0.70%	0.06%	-	-	-	-	-	-	-	-	-
Income / loss before income taxes	-	8.06%	-	0.00%	-	-	-	-	-	-	-	-	-
Income tax provision / benefit	-8.02%	11.19%	3.55%	1.79%	3.34%	4.17%	4.85%	4.68%	4.43%	4.42%	4.87%	5.52%	5.52%
<b>Net Income</b>	<b>0.03%</b>	<b>-0.91%</b>	<b>0.40%</b>	<b>1.46%</b>	<b>-0.70%</b>	<b>-0.88%</b>	<b>-1.02%</b>	<b>-0.98%</b>	<b>-0.93%</b>	<b>-0.93%</b>	<b>-1.02%</b>	<b>-1.16%</b>	<b>-1.16%</b>
	<b>-7.99%</b>	<b>10.28%</b>	<b>3.95%</b>	<b>3.25%</b>	<b>2.64%</b>	<b>3.29%</b>	<b>3.83%</b>	<b>3.70%</b>	<b>3.50%</b>	<b>3.49%</b>	<b>3.85%</b>	<b>4.36%</b>	<b>4.36%</b>



**Topgolf Callaway Brands**  
Common Size Balance Sheet  
in millions

<b>Fiscal Years Ending Dec. 31</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>	<b>2030E</b>	<b>2031E</b>	<b>2032E</b>
<b>Current Assets:</b>													
Cash and cash equivalents	23%	11%	5%	17%	19%	20%	22%	24%	25%	27%	30%	33%	37%
Restricted cash	-	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Accounts receivable, net	9%	3%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%
Inventories	22.18%	25.91%	38.90%	29.21%	29.00%	29.00%	29.00%	29.00%	29.00%	29.00%	29.00%	29.00%	29.00%
Prepaid expenses	-	1.73%	1.43%	1.58%	1.58%	1.58%	1.58%	1.58%	1.58%	1.58%	1.58%	1.58%	1.58%
Other Current Assets	3.49%	3.81%	3.40%	3.61%	3.61%	3.61%	3.61%	3.61%	3.61%	3.61%	3.61%	3.61%	3.61%
<b>Total Current Assets</b>	<b>57.42%</b>	<b>37.20%</b>	<b>38.01%</b>	<b>43.25%</b>	<b>44.23%</b>	<b>44.96%</b>	<b>46.80%</b>	<b>48.46%</b>	<b>49.25%</b>	<b>51.07%</b>	<b>53.69%</b>	<b>56.58%</b>	<b>59.85%</b>
Property, plant and equipment gross	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Less: accumulated depreciation	25.65%	56.95%	57.45%	66.76%	73.39%	78.63%	82.85%	86.42%	89.41%	92.04%	93.83%	95.53%	96.95%
Property, plant & equipment, net	16.44%	10.63%	12.16%	16.59%	21.73%	25.96%	29.79%	33.61%	37.26%	40.77%	44.39%	47.74%	51.29%
Operating lease right-of-use assets, net	9.22%	46.32%	45.29%	50.17%	51.66%	52.67%	53.06%	52.82%	52.15%	51.27%	49.44%	47.78%	45.66%
Intangible assets	12.25%	44.18%	35.52%	39.34%	40.51%	41.31%	41.61%	41.42%	40.90%	40.21%	38.77%	37.47%	35.81%
Goodwill	30.47%	48.78%	37.63%	35.00%	32.66%	29.58%	26.65%	24.23%	22.15%	20.38%	18.98%	17.83%	16.95%
Investment in golf-related ventures	3.56%	62.55%	49.65%	46.60%	43.82%	40.00%	36.31%	33.26%	30.62%	28.35%	26.53%	24.92%	23.69%
Other assets	7.01%	1.25%	-	-	-	-	-	-	-	-	-	-	-
<b>Total Assets</b>	<b>124.61%</b>	<b>247.26%</b>	<b>214.99%</b>	<b>222.97%</b>	<b>221.21%</b>	<b>216.34%</b>	<b>211.75%</b>	<b>207.10%</b>	<b>201.62%</b>	<b>197.53%</b>	<b>193.44%</b>	<b>190.42%</b>	<b>187.66%</b>
<b>Current Liabilities:</b>													
Accounts payable	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Accrued expenses	4.17%	4.43%	3.98%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Deferred revenue	13.37%	11.25%	10.53%	12.16%	12.16%	12.16%	12.16%	12.16%	12.16%	12.16%	12.16%	12.16%	12.16%
Accrued employee compensation and benefits	-	3.00%	2.38%	2.69%	2.69%	2.69%	2.69%	2.69%	2.69%	2.69%	2.69%	2.69%	2.69%
Asset-based credit facilities	1.95%	4.11%	3.38%	3.13%	3.13%	3.13%	3.13%	3.13%	3.13%	3.13%	3.13%	3.13%	3.13%
Current operating lease liabilities	1.39%	0.29%	5.49%	2.27%	2.13%	1.12%	1.01%	0.93%	0.00%	0.00%	0.00%	0.00%	0.00%
Construction advances	1.86%	2.31%	1.91%	2.12%	2.18%	2.22%	2.24%	2.23%	2.20%	2.16%	2.09%	2.02%	1.93%
Other current liabilities	-	0.73%	0.89%	1.05%	1.16%	1.24%	1.28%	1.29%	1.30%	1.31%	1.31%	1.30%	1.29%
<b>Total current liabilities</b>	<b>1.88%</b>	<b>27.64%</b>	<b>29.44%</b>	<b>28.78%</b>	<b>28.83%</b>	<b>27.93%</b>	<b>27.88%</b>	<b>27.80%</b>	<b>26.85%</b>	<b>26.83%</b>	<b>26.74%</b>	<b>26.67%</b>	<b>26.57%</b>
Long-term Debt	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Long-term operating lease liabilities	40.93%	32.72%	29.44%	35.84%	34.61%	33.59%	32.42%	31.28%	30.14%	29.08%	27.90%	26.85%	25.78%
Deemed landlord financing	11.20%	44.21%	35.98%	39.85%	41.04%	41.84%	42.15%	41.96%	41.43%	40.73%	39.28%	37.96%	36.27%
Deferred taxes, net	-	14.70%	16.47%	19.52%	21.64%	23.08%	23.72%	24.03%	24.25%	24.41%	24.31%	24.23%	24.02%
Other long-term liabilities	3.69%	5.22%	2.94%	1.47%	0.52%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Total Long-term Liabilities</b>	<b>1.67%</b>	<b>5.23%</b>	<b>6.27%</b>	<b>5.75%</b>	<b>5.75%</b>	<b>5.75%</b>	<b>5.75%</b>	<b>5.75%</b>	<b>5.75%</b>	<b>5.75%</b>	<b>5.75%</b>	<b>5.75%</b>	<b>5.75%</b>
<b>Total Liabilities</b>	<b>57.48%</b>	<b>102.09%</b>	<b>91.10%</b>	<b>102.43%</b>	<b>103.56%</b>	<b>104.26%</b>	<b>104.04%</b>	<b>103.02%</b>	<b>101.57%</b>	<b>99.97%</b>	<b>97.24%</b>	<b>94.78%</b>	<b>91.82%</b>
Common stock	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Additional paid-in capital	-	-	-	-	-	-	-	-	-	-	-	-	-
Retained earnings	21.89%	97.45%	75.45%	71.14%	67.20%	61.61%	56.12%	51.41%	47.33%	43.81%	41.00%	38.52%	36.62%
Accumulated other comprehensive loss	22.66%	21.77%	21.34%	22.79%	23.67%	24.41%	25.42%	26.42%	27.30%	28.24%	29.70%	31.61%	33.76%
Common stock held in treasury, at cost	-0.41%	-0.87%	-1.54%	-1.44%	-1.36%	-1.24%	-1.13%	-1.03%	-0.95%	-0.88%	-0.82%	-0.77%	-0.73%
Non-controlling interest in consolidated entity	-1.63%	-0.81%	-0.78%	-0.74%	-0.69%	-0.63%	-0.57%	-0.52%	-0.48%	-0.45%	-0.42%	-0.39%	-0.37%
<b>Total shareholders' equity</b>	<b>42.51%</b>	<b>117.54%</b>	<b>94.46%</b>	<b>91.75%</b>	<b>88.82%</b>	<b>84.15%</b>	<b>79.83%</b>	<b>76.28%</b>	<b>73.19%</b>	<b>70.73%</b>	<b>69.45%</b>	<b>68.97%</b>	<b>69.27%</b>

**Topgolf Callaway Brands**  
Value Driver Estimation

<b>Fiscal Years Ending Dec. 31</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>	<b>2030E</b>	<b>2031E</b>	<b>2032E</b>
<b>NOPLAT:</b>													
Revenues	1,589	3,133	3,996	4,257	4,527	4,960	5,463	5,964	6,478	6,997	7,478	7,959	8,372
Cost of Revenues	(932)	(1,270)	(1,585)	(1,617)	(1,690)	(1,824)	(1,934)	(2,080)	(2,224)	(2,370)	(2,509)	(2,642)	(2,756)
Other venue expenses	-	(732)	(1,077)	(1,214)	(1,257)	(1,376)	(1,567)	(1,758)	(1,962)	(2,168)	(2,353)	(2,487)	(2,650)
SG&A	(543)	(850)	(971)	(1,034)	(1,106)	(1,212)	(1,336)	(1,458)	(1,584)	(1,712)	(1,800)	(1,916)	(2,016)
Research and development	(46)	(68)	(76)	(85)	(91)	(99)	(98)	(107)	(117)	(112)	(120)	(127)	(134)
Venue pre-opening costs	-	(9)	(30)	(28)	(23)	(25)	(28)	(25)	(25)	(25)	(20)	(20)	(15)
Plus implied interest on operating leases	17	119	122	144	157	176	195	212	227	241	248	256	257
<b>EBIT</b>	<b>85</b>	<b>323</b>	<b>378</b>	<b>423</b>	<b>518</b>	<b>599</b>	<b>695</b>	<b>747</b>	<b>793</b>	<b>851</b>	<b>925</b>	<b>1,022</b>	<b>1,058</b>
Provision for Income Taxes:	(1)	29	(16)	(62)	32	43	56	59	60	65	76	92	97
Add: Tax shield on interest expense	11	23	27	40	41	42	46	50	54	59	61	64	66
Add: Tax shield on operating lease interest	4	23	23	28	31	34	38	41	44	47	48	50	50
Less: Interest Income	(0)	-	-	-	-	-	-	-	-	-	-	-	-
Less: Other Income (expense)	6	2	5	0	-	-	-	-	-	-	-	-	-
Less: Gain on investment	-	50	-	-	-	-	-	-	-	-	-	-	-
<b>Total Adjusted Taxes</b>	<b>21</b>	<b>127</b>	<b>40</b>	<b>7</b>	<b>103</b>	<b>120</b>	<b>140</b>	<b>150</b>	<b>159</b>	<b>171</b>	<b>186</b>	<b>206</b>	<b>213</b>
<b>Change in deferred taxes</b>	<b>(15)</b>	<b>105</b>	<b>(46)</b>	<b>(55)</b>	<b>(39)</b>	<b>(24)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NOPLAT</b>	<b>50</b>	<b>302</b>	<b>292</b>	<b>361</b>	<b>376</b>	<b>456</b>	<b>556</b>	<b>597</b>	<b>634</b>	<b>681</b>	<b>739</b>	<b>816</b>	<b>845</b>
<b>Invested Capital (IC):</b>													
<b>Operating current assets</b>													
Normal Cash	79	157	200	213	226	248	273	298	324	350	374	398	419
Receivables	138	105	167	161	171	187	206	225	244	264	282	300	316
Inventories	353	533	959	737	756	810	869	927	983	1,039	1,094	1,145	1,188
Prepaid expenses	-	54	57	67	72	78	86	94	102	111	118	126	132
Other current assets	55	119	136	153	163	179	197	215	234	252	270	287	302
<b>Total operating current assets</b>	<b>626</b>	<b>969</b>	<b>1,519</b>	<b>1,331</b>	<b>1,388</b>	<b>1,502</b>	<b>1,631</b>	<b>1,759</b>	<b>1,887</b>	<b>2,016</b>	<b>2,138</b>	<b>2,256</b>	<b>2,357</b>
<b>Operating current liabilities</b>													
Accounts payable	66	139	159	170	181	198	218	238	259	280	299	318	335
Accrued expenses	212	352	421	517	550	603	664	725	787	851	909	967	1,018
Deferred revenue	-	94	95	114	122	133	147	160	174	188	201	214	225
Employee compensation benefits	31	129	135	133	142	155	171	187	203	219	234	249	262
Other current liabilities	30	48	35	59	62	68	75	82	89	96	103	110	115
<b>Total operating current liabilities</b>	<b>340</b>	<b>762</b>	<b>845</b>	<b>994</b>	<b>1,057</b>	<b>1,158</b>	<b>1,276</b>	<b>1,392</b>	<b>1,513</b>	<b>1,634</b>	<b>1,746</b>	<b>1,858</b>	<b>1,955</b>
<b>Net operating working capital</b>	<b>286</b>	<b>207</b>	<b>674</b>	<b>337</b>	<b>331</b>	<b>344</b>	<b>356</b>	<b>367</b>	<b>375</b>	<b>382</b>	<b>392</b>	<b>398</b>	<b>402</b>
<b>Non-current operating assets</b>													
Property, plant & equipment, net	146	1,451	1,810	2,136	2,339	2,612	2,899	3,150	3,378	3,588	3,697	3,803	3,823
Intangible assets	484	1,529	1,504	1,490	1,478	1,467	1,456	1,445	1,435	1,426	1,419	1,419	1,419
Operating Lease Assets	195	1,385	1,419	1,675	1,834	2,049	2,273	2,470	2,649	2,813	2,899	2,982	2,998
Other assets	74	218	355	366	377	388	400	412	424	437	450	464	478
<b>Total non-current operating assets</b>	<b>900</b>	<b>4,583</b>	<b>5,088</b>	<b>5,666</b>	<b>6,028</b>	<b>6,516</b>	<b>7,028</b>	<b>7,477</b>	<b>7,887</b>	<b>8,264</b>	<b>8,466</b>	<b>8,668</b>	<b>8,717</b>
<b>Non-Current operating liabilities</b>													
Other long-term liabilities	26	164	251	245	260	285	314	343	373	403	430	458	482
<b>Invested Capital</b>	<b>1160</b>	<b>4626</b>	<b>5511</b>	<b>5758</b>	<b>6099</b>	<b>6576</b>	<b>7070</b>	<b>7501</b>	<b>7889</b>	<b>8244</b>	<b>8428</b>	<b>8608</b>	<b>8638</b>
<b>Free Cash Flow (FCF):</b>													
NOPLAT	50	302	292	361	376	456	556	597	634	681	739	816	845
Change in IC	(118)	3466	885	247	341	476	494	431	388	355	184	180	29
<b>FCF</b>	<b>167</b>	<b>-3165</b>	<b>-593</b>	<b>115</b>	<b>35</b>	<b>-20</b>	<b>62</b>	<b>166</b>	<b>246</b>	<b>326</b>	<b>555</b>	<b>636</b>	<b>815</b>
<b>Return on Invested Capital (ROIC):</b>													
NOPLAT	50	302	292	361	376	456	556	597	634	681	739	816	845
Beginning IC	1277.30	1159.80	4626.10	5511.49	5758.13	6099.24	6575.55	7069.56	7500.56	7888.74	8243.66	8428.01	8608.25
<b>ROIC</b>	<b>3.91%</b>	<b>26.00%</b>	<b>6.32%</b>	<b>6.56%</b>	<b>6.52%</b>	<b>7.48%</b>	<b>8.45%</b>	<b>8.44%</b>	<b>8.45%</b>	<b>8.63%</b>	<b>8.96%</b>	<b>9.68%</b>	<b>9.81%</b>
<b>Economic Profit (EP):</b>													
Beginning IC	1277	1160	4626	5511	5758	6099	6576	7070	7501	7889	8244	8428	8608
x (ROIC - WACC)	-4.89%	17.20%	-2.49%	-2.25%	-2.28%	-1.33%	-0.35%	-0.36%	-0.35%	-0.17%	0.16%	0.88%	1.01%
<b>EP</b>	<b>(62.48)</b>	<b>199.43</b>	<b>(115.04)</b>	<b>(123.77)</b>	<b>(131.21)</b>	<b>(80.97)</b>	<b>(23.13)</b>	<b>(25.34)</b>	<b>(26.34)</b>	<b>(13.70)</b>	<b>13.20</b>	<b>74.30</b>	<b>87.09</b>

## Topgolf Callaway Brands

### Weighted Average Cost of Capital (WACC) Estimation

#### Cost of Equity:

Risk-Free Rate	4.44%
Beta	1.46
Equity Risk Premium	5.00%
<b>Cost of Equity</b>	<b>11.72%</b>

#### ASSUMPTIONS:

10-year Treasury Bond  
Average of 1-4 year weekly beta  
Henry Fund Consensus

#### Cost of Debt:

Risk-Free Rate	4.44%
Implied Default Premium	4.13%
Pre-Tax Cost of Debt	8.57%
Marginal Tax Rate	20%
<b>After-Tax Cost of Debt</b>	<b>6.90%</b>

10-year Treasury Bond

YTM on company's 2030 Bond

#### Market Value of Common Equity:

Total Shares Outstanding	185,475,534.00
Current Stock Price	\$13.02
<b>MV of Equity</b>	<b>2,414,891,452.68</b>

#### MV Weights

39.50%

#### Market Value of Debt:

Short-Term Debt	96,500,000.00
Current Portion of LTD	-
Long-Term Debt	1,525,400,000.00
PV of Operating Leases	1,419,100,000.00
Deemed Landlord Financing	658,000,000.00
<b>MV of Total Debt</b>	<b>3,699,000,000.00</b>

60.50%

#### Market Value of the Firm

6,113,891,452.68

100.00%

Estimated WACC

8.80%







**Topgolf Callaway Brands**  
*Relative Valuation Models*

Ticker	Company	Price	EPS		P/E 23	P/E 24	Est. 5yr EPS gr.	PEG 23	PEG 24
			2023E	2024E					
GOLF	Acushnet Holdings	\$56.71	\$2.96	\$3.12	19.16	18.18	5.0	3.83	3.64
PLAY	Dave & Busters	\$38.39	\$3.10	\$4.09	12.38	9.39	5.9	2.11	1.60
BOWL	Bowlero	\$10.70	\$0.30	\$0.48	35.67	22.29	33.3	1.07	0.67
DKS	Dicks Sporting Goods	\$118.08	\$11.80	\$12.20	10.01	9.68	5.0	2.00	1.94
COLM	Columbia Sportswear	\$76.90	\$4.53	\$4.66	16.98	16.50	31.7	0.54	0.52
NKE	Nike	\$105.96	\$3.50	\$4.10	30.27	25.84	13.8	2.20	1.87
Average					<b>20.74</b>	<b>16.98</b>		<b>1.96</b>	<b>1.71</b>
<b>MODG</b>	<b>Topgolf Callaway Brands</b>	<b>\$11.61</b>	<b>\$0.75</b>	<b>\$0.65</b>	<b>15.5</b>	<b>17.8</b>	<b>11.2</b>	<b>1.4</b>	<b>1.6</b>

**Implied Relative Value:**

P/E (EPS23)	\$ 15.56
P/E (EPS24)	\$ 11.09
PEG (EPS23)	\$ 16.50
PEG (EPS24)	\$ 12.51

**Topgolf Callaway Brands**

*Effects of ESOP Exercise and Share Repurchases on Common Stock Account and Number of Shares Outstanding*

Number of Options Outstanding (shares):	2
Average Time to Maturity (years):	3.72
Expected Annual Number of Options Exercised:	0.51

Current Average Strike Price:	\$ 26.97
Cost of Equity:	11.72%
Current Stock Price:	\$11.61

<b>Fiscal Years Ending Dec. 31</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>	<b>2030E</b>	<b>2031E</b>	<b>2032E</b>
Increase in Shares Outstanding:	510,753	510,753	510,753	367,742						
Average Strike Price:	\$ 26.97	\$ 26.97	\$ 26.97	\$ 26.97						
<b>Increase in Common Stock Account:</b>	<b>13,775,000</b>	<b>13,775,000</b>	<b>13,775,000</b>	<b>9,918,000</b>						
Share Repurchases (\$)	20,735,801	17,942,103	24,492,195	31,415,580	33,064,325	33,986,808	36,632,615	43,158,558	52,102,891	54,794,552
Expected Price of Repurchased Shares:	\$ 11.61	\$ 12.97	\$ 14.49	\$ 16.19	\$ 18.09	\$ 20.21	\$ 22.57	\$ 25.22	\$ 28.18	\$ 31.48
<b>Number of Shares Repurchased:</b>	<b>1,786,029</b>	<b>1,383,280</b>	<b>1,690,183</b>	<b>1,940,529</b>	<b>1,828,116</b>	<b>1,681,990</b>	<b>1,622,744</b>	<b>1,711,269</b>	<b>1,849,193</b>	<b>1,740,712</b>
Shares Outstanding (beginning of the year)	184,900,000	183,624,723	182,752,196	181,572,766	179,999,979	178,171,863	176,489,873	174,867,128	173,155,859	171,306,667
Plus: Shares Issued Through ESOP	510,753	510,753	510,753	367,742	0	0	0	0	0	0
Less: Shares Repurchased in Treasury	1,786,029	1,383,280	1,690,183	1,940,529	1,828,116	1,681,990	1,622,744	1,711,269	1,849,193	1,740,712
<b>Shares Outstanding (end of the year)</b>	<b>183,624,723</b>	<b>182,752,196</b>	<b>181,572,766</b>	<b>179,999,979</b>	<b>178,171,863</b>	<b>176,489,873</b>	<b>174,867,128</b>	<b>173,155,859</b>	<b>171,306,667</b>	<b>169,565,955</b>



**Topgolf Callaway Brands***Valuation of Options Granted under ESOP*

Current Stock Price	\$11.61
Risk Free Rate	4.44%
Current Dividend Yield	0.00%
Annualized St. Dev. of Stock Returns	48.00%

Range of Outstanding Options	Number of Shares	Average Exercise Price	Average Remaining Life (yrs)	B-S Option Price	Value of Options Granted
Range 1	1.9	26.97	3.72	\$ 1.92	\$ 4
Total	2	\$ 26.97	3.72	\$ 1.92	<b>\$ 4</b>

**Topgolf Callaway Brands**  
Sensitivity Tables

		WACC							
		14.04	7.30%	7.80%	8.30%	8.80%	9.30%	9.80%	10.20%
Beta	1.00	33.01	24.91	18.70	13.81	9.86	6.60	4.39	
	1.15	33.21	25.06	18.82	13.90	9.92	6.64	4.41	
	1.30	33.41	25.21	18.93	13.98	9.98	6.68	4.44	
	1.46	33.62	25.37	19.05	14.07	10.04	6.73	4.47	
	1.60	33.81	25.50	19.15	14.14	10.10	6.76	4.49	
	1.75	34.01	25.65	19.27	14.23	10.16	6.80	4.52	
1.90	34.21	25.80	19.38	14.31	10.22	6.84	4.55		

		CV Growth NOPLAT							
		14.04	3.00%	3.50%	3.75%	4.00%	4.25%	4.50%	5.00%
Equity Risk Premium	4.00%	17.85	18.64	19.11	19.63	20.22	20.89	22.53	
	4.50%	15.39	15.96	16.29	16.66	17.08	17.54	18.67	
	4.75%	14.25	14.73	15.01	15.31	15.65	16.03	16.95	
	5.00%	13.16	13.56	13.79	14.04	14.31	14.62	15.37	
	5.25%	12.13	12.45	12.63	12.83	13.05	13.30	13.89	
	5.50%	11.14	11.39	11.54	11.69	11.87	12.06	12.51	
	6.00%	9.29	9.43	9.50	9.59	9.68	9.78	10.02	

		Cost of Services 2024							
		14.04	10.50%	11.00%	11.50%	12.22%	12.50%	13.00%	13.50%
Other Venue Expense	63.00%	18.86	17.53	16.20	14.28	13.54	12.21	10.88	
	64.00%	18.76	17.43	16.10	14.19	13.44	12.12	10.79	
	65.00%	18.67	17.34	16.01	14.09	13.35	12.02	10.69	
	65.50%	18.62	17.29	15.96	14.05	13.30	11.97	10.64	
	66.00%	18.57	17.24	15.91	14.00	13.25	11.93	10.60	
	67.00%	18.48	17.15	15.82	13.90	13.16	11.83	10.50	
68.00%	18.38	17.05	15.72	13.81	13.07	11.74	10.41		

		Normal Cash							
		14.04	4.00%	4.50%	4.75%	5.00%	5.25%	5.50%	6.00%
Effective Tax Rate	18.00%	15.66	15.37	15.23	15.09	14.94	14.80	14.51	
	19.00%	15.31	15.02	14.88	14.74	14.59	14.45	14.16	
	20.00%	14.96	14.67	14.53	14.39	14.24	14.10	13.81	
	21.00%	14.61	14.32	14.18	14.04	13.89	13.75	13.46	
	22.00%	14.26	13.98	13.83	13.69	13.54	13.40	13.11	
	23.00%	13.91	13.63	13.48	13.34	13.19	13.05	12.76	
24.00%	13.56	13.28	13.13	12.99	12.84	12.70	12.41		

Company	Ticker	Mkt Cap (m)	Price	YTD (%)	Sales Growth			P/E FY1	P/S FY1	PEG	EPS FY1	Margin		
					1 Year	3 Years						EBIT	Net	Debt/Equity
<b>Topgolf Callaway Brands</b>	<b>MODG</b>	<b>1,858</b>	<b>10.07</b>	<b>-49.0%</b>	<b>9.9%</b>	<b>177.6%</b>	<b>23.1x</b>	<b>0.4x</b>	<b>6.1x</b>	<b>0.44</b>	<b>6.5%</b>	<b>2.3%</b>	<b>101.7%</b>	
<b>Entertainment</b>														
Bowlero A	BOWL	1,552	10.26	-23.9%	9.9%	-	21.2x	1.3x	2.1x	0.48	19.3%	12.7%	5,977.6%	
Dave & Buster's	PLAY	1,533	35.69	0.7%	38.2%	154.8%	11.4x	0.7x	-	3.12	14.6%	6.3%	911.4%	
<b>Equipment &amp; Apparel</b>														
Acushnet Holdings	GOLF	3,572	54.63	28.7%	7.7%	54.9%	18.4x	1.5x	-	2.96	12.4%	9.3%	23.0%	
Columbia Sportswear	COLM	4,541	75.05	-14.3%	5.0%	41.6%	16.6x	1.3x	1.6x	4.53	10.0%	7.9%	17.1%	
Dick's Sporting Goods	DKS	10,040	118.08	-1.8%	6.0%	46.5%	10.0x	0.8x	2.0x	11.78	10.0%	8.0%	142.1%	
NIKE B	NKE	158,594	104.20	-10.9%	8.9%	37.7%	28.0x	3.0x	1.9x	3.72	12.6%	9.8%	84.0%	