The Henry Fund
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TOPGOLF CALLAWAY BRANDS (MODG)

March 8, 2024

Consumer Discretionary – Sports Entertainment

Stock Rating **HOLD**

Investment Thesis

We recommend a **HOLD** rating for Topgolf Callaway Brands with a target price of $16, for an upside of 12.4%. Although rising popularity and brand recognition present attractive upsides for the company's Topgolf and apparel segments, sticky services inflation and higher prices could drive out consumer spending. The stock has recovered quickly since hitting a 52-week low in November, but we continue to remain cautiously optimistic.

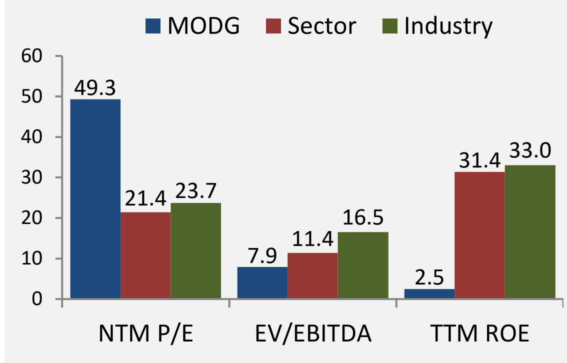
Drivers of Thesis

- Continued growth among off-course golfers will increase revenues in Topgolf venues for a five-year CAGR of 13.4%.
- Integration of the company's new proprietary inventory management system will improve operational efficiency and raise future Topgolf margins by over 50 bps.
- Greater stabilization of the company's capital expenditures and net profit margins, resulting in a five-year CAGR of 9.6% in free cash flow (FCF).

Risks to Thesis

- Interest payments on floating rate debt and lease obligations could be negatively impacted by sustained higher interest rates. The company operates with an above-average debt/equity ratio of 1.48x.
- Seasonal demand and sticky services inflation of 4.9% may result in a mid-single-digit decline in volume at Topgolf venues.
- A dampened return on invested capital (ROIC) will not exceed the weighted average cost of capital (WACC) until 2030, making it difficult to create long-term shareholder value.

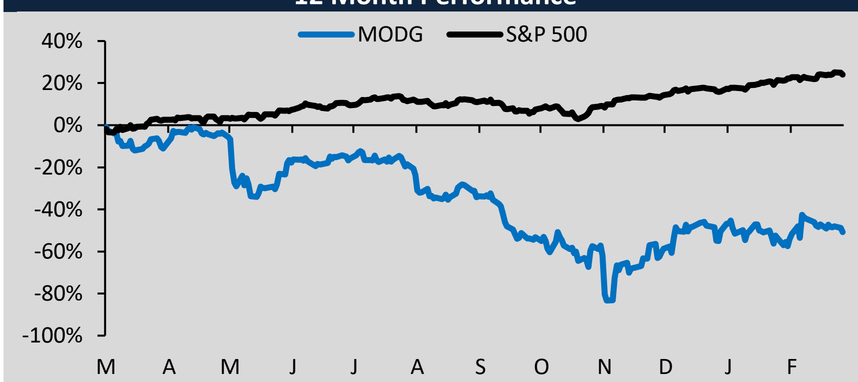
Target Price	$16
Henry Fund DCF	$16
Henry Fund DDM	$5
Relative Multiple	$20
Price Data	
Current Price	$14
52wk Range	$10 – 24
Consensus 1yr Target	$19
Key Statistics	
Market Cap (B)	$2.6
Shares Outstanding (M)	184.5
Institutional Ownership	73.6%
Beta	1.3
Dividend Yield	--
Est. 5yr Growth	7.7%
Price/Earnings (TTM)	28.7
Price/Earnings (FY1)	49.3
Price/Sales (TTM)	0.7
PEG (NTM)	2.2
Profitability	
Operating Margin	6.3%
Profit Margin	2.2%
Return on Assets (TTM)	1.1%
Return on Equity (TTM)	2.5%



Earnings Estimates

Year	2021	2022	2023	2024E	2025E	2026E
EPS	$1.90	$0.85	$0.50	$0.27	$0.39	$0.55
HF est.				$0.29	$0.45	$0.64
Growth	*240.7%*	*-55.3%*	*-40.6%*	*-42.8%*	*55.7%*	*43.2%*

12 Month Performance



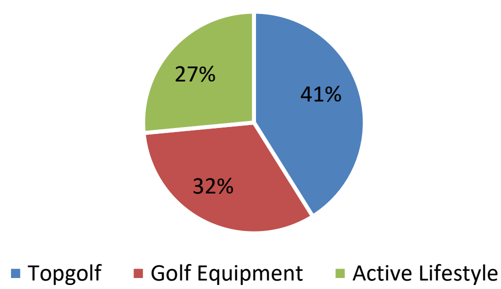
Company Description

Topgolf Callaway Brands is a golf equipment, entertainment, and apparel company based out of Carlsbad, CA. Founded in 1982, Callaway Golf has long been an industry leader in the manufacturing and distribution of golf equipment and owns the top dollar market share for drivers, fairway woods, and hybrids in the United States. The company rebranded in 2022 after the acquisition of Topgolf and now operates as a modern golf and lifestyle company with several subsidiaries including Odyssey, TravisMathew, Jack Wolfskin, and OGIO.

COMPANY DESCRIPTION

Founded in 1982, Topgolf Callaway Brands is a golf equipment, entertainment, and apparel company based out of Carlsbad, CA. Since then, Callaway Golf has long been an industry leader in the manufacturing and distribution of golf equipment and owns the top dollar market share for total clubs, drivers, fairway woods, hybrids, and irons in the United States, and is second within golf balls.[1] The company rebranded in 2022 after the acquisition of Top-golf and now operates as a modern golf and lifestyle company with several subsidiaries including Odyssey, TravisMathew, Jack Wolfskin, and OGIO. The following figure shows the company's revenue breakdown from the last fiscal year:

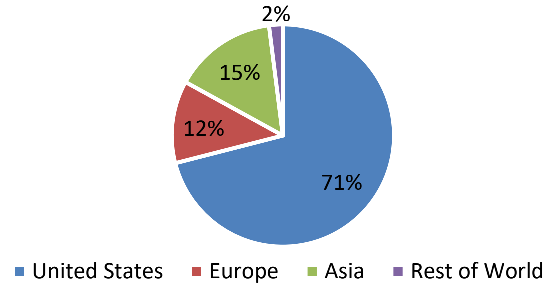
Revenue by Segment ($4.29B)



Source: MODG 2023 10-K

The company also has exposure to international markets primarily through its golf equipment and active lifestyle segments. While over 70% of the company's revenues originate from the United States, the company has a strong presence in several European and Asian countries, particularly the United Kingdom, Germany, Japan, and South Korea, as well as other emerging markets such as Australia, Canada, and Latin America.[1] To mitigate the effects of foreign exchange risk, the company utilizes currency forward and interest rate hedge contracts. As of Dec. 31, 2023, the company had a notional value of $292.3 million in forward and interest rate swap contracts.[1] The following figure shows a breakdown of the company's revenue by geographic region from the last fiscal year:

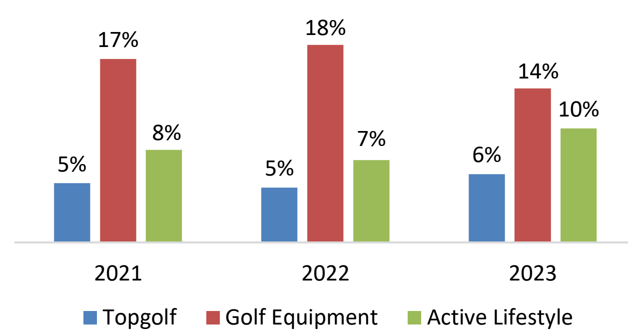
Revenue by Geographic Region



Source: MODG 2023 10-K

Topgolf Callaway is generally a low-margin business due to competitive price pressures, high operating costs, and research and development expenses. In the last fiscal year, the golf equipment segment earned the highest operating margin of only 13.9%, down roughly four percent from the year prior due to higher advertising and promotional expenses related to the company's new line of equipment. Topgolf and Active Lifestyle segments each increased by roughly two to three percentage points, which were driven by double-digit revenue growth.[1] Historically, golf equipment has earned the widest margin due to the high markup it can place on its products, especially within golf balls. The maturity of this segment provides stability to offset its fast-growing Topgolf segment, which has historically earned the lowest operating margin of the company at roughly 5%. The following figure shows the operating margin by segment over the last three years:

Operating Margin



Source: MODG 2023 10-K

Topgolf

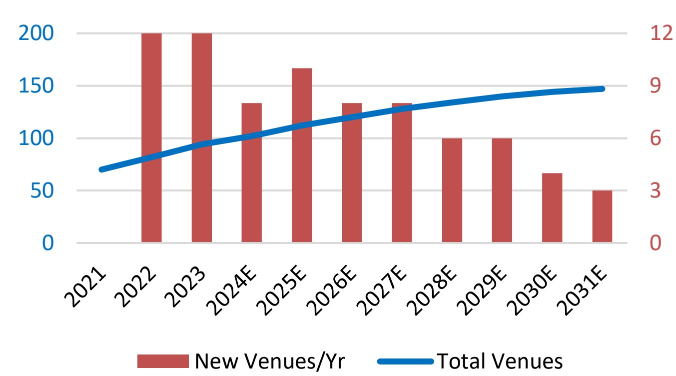
Topgolf is a revolutionary sports entertainment venue that allows individuals to play and socialize at gamified driving ranges. Originally founded in 2000 in Watford, England, the company currently owns and operates 94 locations across the United States and UK, and has five franchised locations in Australia, Mexico, United Arab Emirates, Thailand, and Germany. Venues have historically targeted larger markets across the United States, with new builds taking roughly 10 to 15 months to complete with a gross development cost between $15 and $60 million. Topgolf will typically seek to finance the construction through third-party developers or real estate financing partners, and once complete, will be sold to a REIT and leased back to Topgolf.[1] Revenue is driven by gameplay, food and beverage sales, and corporate events and sponsorships.

More recently the company has been expanding into small- and medium-sized markets through new constructions or by acquiring smaller competitors. The company's most recent acquisition occurred in November 2023 with BigShots Golf for $29 million, adding four new locations primarily in the southern half of the United States.[2] The following map shows the current distribution of Topgolf locations across the United States and the growth of total owned and operated locations over the forecast period:

U.S. Topgolf Locations

Source: Topgolf website
***Orange dots represent new locations added in 2023*

Topgolf Venue Growth



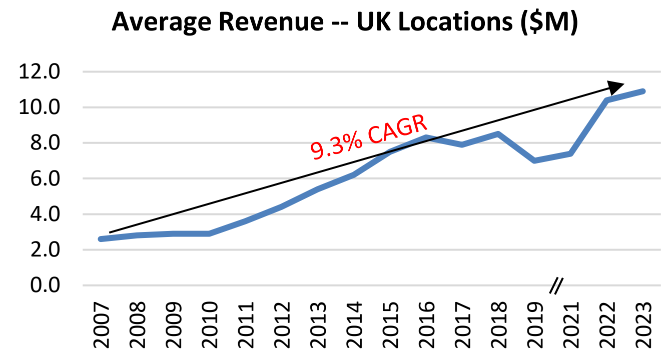
Source: MODG 10-K and Henry Fund Estimates

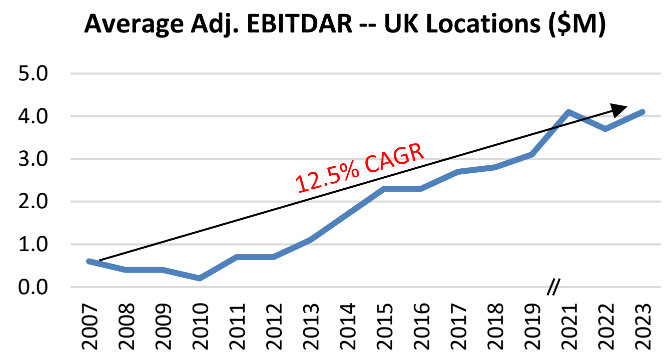
The Topgolf segment also includes the company's proprietary Toptracer ball-tracking technology and digital media platform. Toptracer is a versatile offering, not only for use at Topgolf but also at traditional driving ranges through licensing. Currently, Toptracer is utilized by over 750 driving ranges across 31 countries and is the number one driving range technology in the world.[3] Toptracer has also partnered with the PGA of America as its official range tracking technology, providing future pathways to expand Toptracer's presence. Other technologies on the market include Trackman, a privately held company that targets elite golfers and baseball players. While Toptracer is designed for commercial use, Trackman is engineered for more personal use, selling its launch monitors directly to consumers. Trackman also has agreements with various driving ranges but is primarily centered in Europe, with only around 100 locations in the United States.[4]

Last fiscal year, Topgolf also fully integrated its new inventory management system ("PIE") into all locations, which will expand its digital footprint to improve reservation capabilities, operating margins, and customer satisfaction. Initial results indicate the software has allowed EBITDAR margins to increase roughly 100 basis points on a year-over-year basis, offer more accurate wait time estimations, and improve customer feedback.[5] Some of these enhancements include:

- Ability to book reservations 2 hours ahead of arrival (3 hours previously).
- Early booking as far as 7 days in advance, with plans to expand to 14 days by Q2 2024.
- Variable length reservation offerings including 90- and 150-minute offerings (just 2 hours previously).
- Streamlined functionality for requesting specialty equipment, such as premium or junior-length clubs.

Topgolf locations have a track record of being very profitable over time with consistent same-venue-sales growth. As seen with its longstanding UK venues, revenues have grown at a CAGR of 9.3% and adjusted EBITDAR at 12.5%. Furthermore, US locations have seen EBITDAR margins grow at a CAGR of 4.2% over the last decade.[6] These margins will only continue to improve with the implementation of PIE, realizing greater economies of scale. As a result, the most aggressive forecasts within the Henry Fund model relate to Topgolf operating expenses, with the company's cost of services expected to decrease by 50 bps and other venue expenses to decrease by 250 bps by 2031. The following charts show the average operating performance of UK Topgolf locations dating back to 2007:





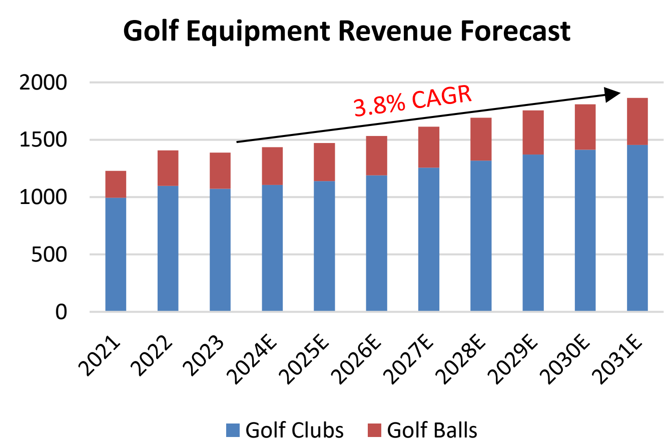
Source: MODG 2023 Earnings Presentation

Golf Equipment

As the company's founding product line, the golf equipment segment is a well-established, market leader within its industry. The company designs, manufactures, and sells a full line of equipment, including drivers, fairway woods, hybrids, irons, wedges, putters (Odyssey brand), and golf balls.[1] Product offerings are tailored to a wide range of players, from beginners to those playing at the professional level. Research and development are necessary components of this line of business to ensure its products remain competitive and innovative. In 2022, the company's golf equipment was voted as the number one overall brand rating for innovation and technology due to the highly successful launch of its "Paradym" line of clubs.[7] Since then the company has continued to prioritize technology in its research and development, most recently releasing its "AI Smoke" line of clubs that are optimized using data from thousands of golfers and machine learning to create multiple sweet sports across the face. Their newest golf ball, the "Chrome Tour," is their most precise design ever, with over 100 million proof points to prevent production irregularities.[1] Clearly, between the company's Toptracer technology, proprietary inventory management system, and equipment manufacturing process, the company is committed to innovation and will continue to be a driving factor going forward.

The company's golf equipment manufacturing process is primarily done in Monterrey, Mexico, but also has limited facilities in the United States, China, Vietnam, Japan, England, and Australia to help support regional demand. The company's golf ball manufacturing is primarily completed in China and Taiwan, with a smaller plant in Massachusetts. In total, over 50% of the company's golf equipment and 75% of the company's golf balls are manufactured outside the United States.[1] Overall, the company's international supply chain system requires seamless logistics and was put under immense pressure during the COVID-19 pandemic. Although offshoring production is very common for this industry to minimize costs, it presents a risk to the company's operational efficiency if all processes are not perfectly integrated.

Overall, given the company's size and maturity within the golf equipment space, growth is expected to be in the low single digits. The following chart shows the projected growth of the company's golf club and golf ball lines over the forecast period:



Source: MODG 10-K and Henry Fund Estimates

Active Lifestyle

The active lifestyle segments consist of the company's array of soft goods products and its umbrella of subsidiaries, which include TravisMathew, OGIO, and Jack Wolfskin. These soft goods include golf apparel; footwear; golf accessories such as golf bags, golf gloves, and headwear; active clothing; and travel gear.[1] Over the past decade, the company has gradually expanded and performed acquisitions of various subsidiaries to grow this area of its business, including OGIO in January 2017, TravisMathew in August 2017, and Jack Wolfskin in January 2019.[8] 2022 was a breakthrough year for this segment and will continue to provide steady momentum. Total active lifestyle revenue surpassed $1 billion for the first time, TravisMathew opened 11 new locations, and JackWolfskin was voted as the number one outdoor clothing company in Germany.[7] Currently, TravisMathew owns and operates 46 stores across the United States and JackWolfskin is a market leader in the activewear space in Western Europe. The following map shows the distribution of TravisMathew branded stores across the United States and the popularity ratings for outdoor clothing companies in Germany:

U.S. TravisMathew Locations (Feb. '24)

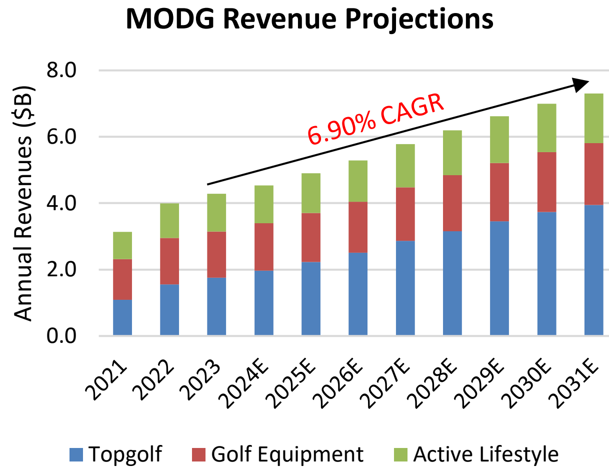
Source: Scrape Hero

Outdoor Apparel Rankings in Germany (July '23)

Platz	Marke	Name	BRAND INDEX
1		Jack Wolfskin	60,1
2		The North Face	45,7
3		Timberland	38,5
4		Gore-Tex	36,9
5		Mammut	34,4
6	Schöffel	Schöffel	27,6
7	SALOMON	Salomon	23,4
8		Fjällräven	23,3
9	Columbia	Columbia	21,1
10	HH	Helly Hansen	21,1

Source: MODG Q3 2023 Earnings Presentation

In summary, below is a projection of the company's revenues across all three operating segments. Growth is expected to be steady, with Topgolf being the primary driver for future success and a CAGR of 10.6% over the forecast horizon. Golf equipment and active lifestyle are anticipated to be much more muted, at 3.8% and 3.5%, respectively, due to the maturity of its product lines and the competitiveness of the apparel industry.



Source: MODG 10-K and Henry Fund Estimates

Seasonality

Given the nature of the golf industry, Topgolf Callaway faces significant seasonality within its product lines. For northern Topgolf locations, weather can play a significant role in the level of customer demand and net revenues. Financial results for Topgolf are often strongest during the second and third quarters with the strongest demand on evenings and weekends. To combat this, the company has utilized a tiered pricing strategy to bring in more mid-week and mid-day traffic.[9] Going forward, with the integration of PIE, the company plans to use more aggressive marketing tactics through in-app promotions and competitive pricing.

The golf equipment business also faces seasonality, driven by customer demand and the length of the golf season. In general, the company sees the most success in the first and second quarters of the year with customers and retailers ordering fresh inventory for the new year.[5] If weather conditions are favorable through late summer and fall, the third quarter has the potential to reach first-quarter revenue levels but varies from year to year. Furthermore, the success and perception of the company's professional sponsorships could have a material difference in customer behavior, especially through driver and golf ball revenues. The Henry Fund believes the company is being proactive in attempting to mitigate this uncertainty, but ultimately poses a threat to the company's short-term results.

Competitive Positioning

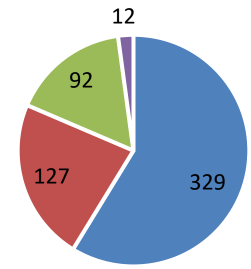
Through the company's diversified set of product and service offerings, Topgolf Callaway is well-positioned within its competitive landscape. Since its inception, Topgolf has had a first-mover advantage in the off-course space. Since then, by steadily growing through new venues and acquisitions, they have become the market leader in the industry. While several smaller, more specialized competitors continue to threaten Topgolf's dominance through more competitive pricing, The Henry Fund does not see this as a major threat going forward. The following chart shows the number of venues across the United States for Topgolf and its closest competitors as of fiscal year end 2023:[10]

Competitor	Venues
Topgolf	93
Drive Shack	4
Pinseekers	2
GolfSuites	3

Source: Business Strategy Hub

The company's golf equipment segment continues to maintain a strong market share amongst "pure-play" golf companies. As of 2023, Callaway golf equipment holds the top market share for total clubs, drivers, fairway woods, hybrids, and irons in the United States, and is second within the golf ball market.[1] The golf industry primarily consists of four large brands – Titleist (Acushnet), Callaway, Ping, and Taylormade. 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 can largely be achieved through sponsorships and proactive marketing. While the annual expenses for sponsoring these athletes are not disclosed, the volume and popularity of a company's athletes can help build and retain customers. For example, in 2021, Callaway signed Jon Rahm before he went on to win his first major championship, helping increase golf equipment sales by 25.1% on the year.[11] Examples like this are common and are a major driver for why the market share of the "big four" can vary from year to year. The following pie chart shows the number of professional golfers whom these companies currently sponsor worldwide.

Pro Golf Sponsorships by Brand (March '23)



Source: Titleist, Callaway, Ping, and Taylormade websites

As Topgolf Callaway has continued to expand its active lifestyle segment, they are becoming a more prominent player within the sports apparel industry. However, several big players already own a much more commanding position in the space such as Footjoy (Titleist), Nike, Adidas, and Lululemon. Therefore, The Henry Fund anticipates growth for this segment will be muted as the company reaches the breadth of its customer base and takes more of a market-following position within North America. While the growth of TravisMathew retail locations and Jack Wolfskin's strong presence in Europe will provide a backdrop for more direct-to-consumer sales, this segment is better positioned as a revenue diversifier than a catalyst for growth going forward.

Cost Structure Analysis

A majority of the company's expenses are tied to the cost of products (golf equipment, apparel), other Topgolf venue expenses, and selling, general and administrative expenses (SG&A). In the last fiscal year, these line items accounted for 57.4%, 66.0%, and 20.0% of revenues.[1]

Dating back to 2018, the cost of products has risen from 53.5% of revenues, driven by increased golf club components costs, shipping expenses, and warehousing costs. Despite rising sales volumes within the golf industry, these input costs have remained relatively stable and should remain as such going forward. As a result of the Topgolf acquisition, other venue expenses originated in 2021 and relate to employee costs to support venue operations, rent and occupancy costs, and marketing expenses. These costs have amounted to as high as 70.4% of revenues in 2022 due to wage inflation but should normalize at 63.5% of revenues long term. Continued revenue growth and greater efficiencies through its PIE software are drivers for this decrease. Likewise, SG&A expenses dropped by ten percentage points in 2021 after the acquisition due to revenue growth. Similar to product costs, these expenses have historically been very stable and are expected to normalize at 19% of revenues.

Although only 1.9% of the company's annual revenue, research and development (R&D) is a key component in maintaining the company's competitive position within golf equipment. Product launches occur roughly every 2-3 years, which often correlates with stronger revenue growth and R&D. As mentioned previously, the company's new "AI Smoke" line of clubs is the most technologically advanced set ever released by Callaway, resulting in a record $94 million in R&D in 2023. In the long term, the Henry Fund believes these expenditures will need to continue to grow to stay competitive, stabilizing at 2% of revenues.

Debt Maturity Analysis

Since the Topgolf acquisition in 2021 and the significant amount of financing that goes into new Topgolf venues, the company has a large amount of debt on its balance sheet with a B+ debt rating.[12] This debt is spread across various line items including asset-based credit facilities, operating lease liabilities (short and long-term), and deemed landlord financing (DLF) obligations. As a result, the company has a higher debt-to-equity ratio than most of its competitors at 1.48x. The company defines some of these line items as the following:

- **Asset-based credit facilities**: Revolving credit facilities with Bank of America and the Bank of Tokyo. Total liquidity as of FYE 2023: $742.6 million.[1]
- **Deemed Landlord Financing**: Agreements with third-party developers or real estate financing partners to finance Topgolf venues. Buildings are generally depreciated using a 40-year useful life. It is similar to rent with fixed interest rates, but there exists no obligation to repay principal.[1]

The company's primary obligations are in the form of long-term debt (39% of total). This debt is also sourced from Bank of America and is subject to a floating interest rate with a credit spread of roughly 3.0-3.5%.[1] As a result, the company is exposed to significant interest rate risk if overnight lending rates rise, posing a major headwind as the company looks to increase its FCF. This could be particularly challenging in 2026 when over $275 million of debt matures, making it paramount that the company is proactive in its liquidity management. Management has not provided guidance regarding its capital structure, so it can be assumed its current debt-to-equity ratio will be sustained for the forecast horizon. While the Henry Fund forecasts the company's operating cash flows will reach $323 million in 2026, management should consider refinancing their debt in the short term when interest rates become more favorable. The following table represents the company's five-year debt maturity schedule:

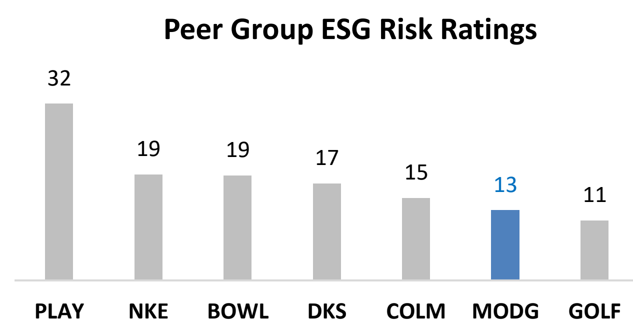
Five-Year Debt Maturity Schedule

Fiscal Year	Payment ($mil)
2024	$20.8
2025	$18.6
2026	$276.4
2027	$15.6
2028	$13.7
Thereafter	$1221.7
Total	$1556.8

Source: MODG 2023 10-K

ESG Analysis

Below is a distribution of ESG among competitors in Topgolf Callaway's peer group:



Source: Sustainalytics

In general, the sporting goods industry is relatively immune to ESG issues, with only Dave and Buster's being classified as "high risk" due to poor governance and recent allegations of labor violations.[13] Topgolf Callaway has the second-best rating of its peer group at 12.5, which ranks them 29th out of 232 companies in the consumer durables industry.[14] The company's motto from its founder Ely Callaway is, "good ethics is good business," which the company has continuously looked to implement through its Global Suitability Program.[15] Launched in 2019, the goal of the program was to bring awareness to broader societal and environmental sustainability initiatives, while also prioritizing sustainability within its business practices. Since 2019, 50% of management-level new hires have been women or diverse candidates, 55 EV charging stations have been installed at Topgolf locations across the United States, and over 7 million silica dry packs have been removed from Jack Wolfskin packaging.[15] In recent years, the company has been awarded several accolades for its diversity, equity, and inclusion practices, being named the 2018 National Down Syndrome Congress Employer of the Year, Forbes 2020 Best Employers for Women, and 2021 Diversity Jobs Top Employer.[1]

RECENT DEVELOPMENTS

Recent Earnings Announcement

On February 13, 2024, Topgolf Callaway released their Q4 2023 and fiscal year results. Quarter four revenues came in at $897.1 million and beat expectations by 3.7%. Non-GAAP EPS was -$0.30, beating analyst estimates by 9.8%. On the year, net revenues rose to $4,285 for a 7.2% YOY growth, with an EPS of $0.50 for a -40.6% YOY decline.[5] It was a positive end to a roller-coaster year for the company which saw its revenues miss estimates in each of the prior two quarters. The share price fell by 61% between February and November due to negative same-venue-sales (SVS) growth at Topgolf locations, a delay in the release of the company's new line of golf equipment, and higher interest payments putting downward pressure on net income.[5] However, FCF for the year was positive for the first time since the Topgolf acquisition, one year ahead of management's expectations, coming in at $160 million. Looking ahead to 2024, the company expects to achieve a net revenue between $4,515-4,555 million, for an average growth of 5.8% across all segments. Non-GAAP earnings per share are expected to decrease to $0.26 - $0.34, for an average decline of -38.8%. Management also indicated no plan to reinstate the company's dividend policy which was terminated in August 2020 due to the Topgolf acquisition.[5]

The reason for more stagnant growth is due to approximately flat SVS growth in Topgolf and only eight new venues being opened. Depreciation and amortization expenses are expected to increase to $265 million and sustained higher interest rates will continue to put pressure on the company's net interest expense via DLF and lease financing. Large bay events at Topgolf are expected to continue to decline and reach normalized levels after the post-COVID surge in corporate outings. Further, the company is committed to keeping FCF positive for the foreseeable future, so management expects to reduce capital expenditures with a ceiling of $350 million through 2025. While golf equipment is expected to see low single-digit growth with new golf clubs and ball releases, active lifestyle is expected to remain flat as the company integrates a new management team for its Jack Wolfskin line in Europe.[6,7]

The Henry Fund expects Topgolf to continue to be the driver for growth going forward and will look to open eight venues in 2024 and ten venues in 2025. This will help result in low-single-digit same-venue-sales growth, before stabilizing in the mid-single-digits due to an approximate 5% spread between revenue growth and venue growth. Capital expenditures should drop significantly to $280 - $330 million as the company focuses on smaller venues across the United States. Liquidity management will continue to be a major factor, in which the Henry Fund expects FCF to remain steady at $164 million in 2024 before dropping to $102 million in 2025. Overall, the company is well positioned across all three product segments to continue its upward momentum from Q4 2023, barring any unforeseen circumstances regarding foreign exchange risk or weather conditions.

New Brand Ambassadors

In January 2023, Callaway Golf partnered with Niall Horan, one of the most popular musicians in the world, for a multi-year agreement.[16] Horan will serve as a brand ambassador by using and promoting Callaway's equipment and apparel lines. Later that month, Topgolf Callaway made a similar agreement with GoodGood Golf, a YouTube channel that consists of six young men who compete against each other in recreational matches and do challenges with various professional golfers.[17] Since being founded in 2020, GoodGood has become one of the most popular golf entertainment channels in the world and currently has 1.44 million subscribers. The company now offers its own line of merchandise, golf clubs, and golf balls. By serving under Callaway Golf's umbrella, GoodGood has recently released a new line of equipment using Callaway's branding, furthering developing stronger brand recognition.

The Henry Fund believes each of these agreements could bring long-term positive externalities, whether that be through increased brand exposure or increased Topgolf and equipment sales. Individuals who watch GoodGood online may be inspired to begin playing golf themselves, in which Topgolf Callaway provides several outlets. As of last fiscal year, 10% of all new on-course golfers credited Topgolf as being their first introduction to the sport.[6] These agreements will help continue to increase these numbers going forward, driving topline revenues for Topgolf and golf equipment, and maintaining the company's leading market share.

BigShots Golf Acquisition

On November 1st, 2023, Topgolf announced its plans to acquire BigShots Golf from private golf course operator Invited, Inc. for an all-cash deal of $29 million.[2] BigShots Golf was previously a regional competitor to Topgolf, offering a selection of technology-enabled driving range venues across the southern United States. The acquisition added four new domestic venues (one owned, three franchised) to Topgolf's venue base, and emphasizes the company's new focus on targeting smaller markets. Concurrent with the transaction, Topgolf Callaway also entered into a preferred vendor agreement with Invited to allow Callaway and TravisMathew products to be featured at one of Invited's 140+ golf and country clubs.[2] The Henry Fund does not anticipate this deal will have a significant impact on topline revenues since it only adds one owned-and-operated venue but will help create greater cross-brand synergies by increasing exposure for all three of the company's operating segments.

INDUSTRY TRENDS

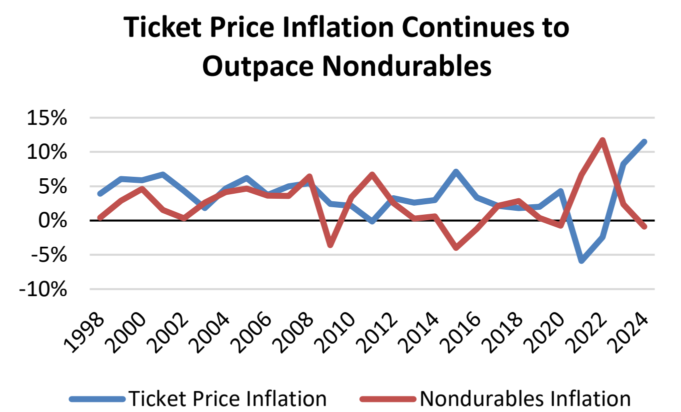
Ticket Price Inflation

The world of sports has significantly changed over the last few decades. Technological advancements, record-breaking player contracts, and media rights have turned the sports world 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.[18,19] Excluding the COVID-driven dip in 2021-22, these increases pose the potential to reduce demand, resulting in more individuals choosing to stream 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.*

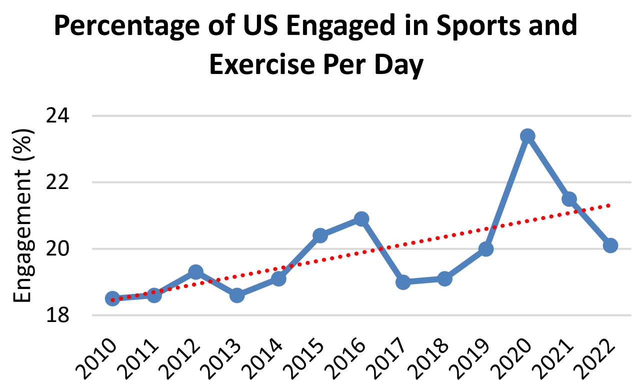


Source: U.S. Bureau of Labor Statistics

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 more seriously, 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.[20] 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.[20] 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, and potentially middle-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.

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 activities. The following time series chart describes this change over the last decade:

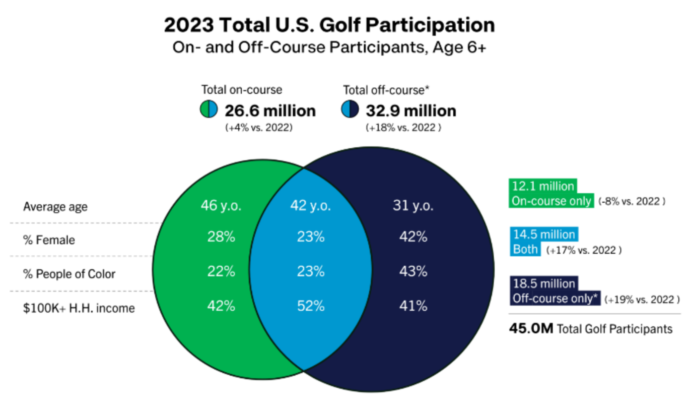


Source: Statista

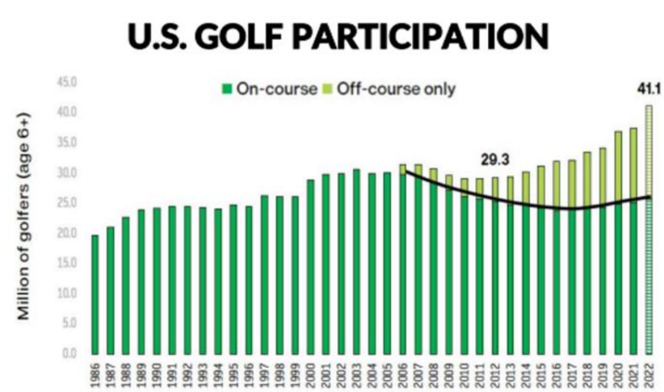
Although participation has declined over the last two years due to less remote work, these figures still sit above pre-pandemic levels. Reduced leisure time coupled with a greater availability of other entertainment options have pushed many Americans away from recreational activities. Nevertheless, the 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. The number of off-course participants has been a major catalyst for this growth, totaling 18.5 million people in 2023.[6] Other recreational sports such as pickleball have gained immense popularity, with an average participation growth rate of 159% over the last three years. As the fastest-growing sport in America, future growth is expected to remain strong with a CAGR of 7.7%. Further, over a quarter of its market are individuals between the ages of 18 to 34.[21] Thus, the Henry Fund predicts sports and exercise engagement will rebound in the next year, driven by the variety of options and rising wave of participants.

Diverse Target Market

One of Topgolf Callaway's biggest strengths is its diversified target market, from off- and on-course golfers to the general public. Since the end of the COVID-19 pandemic, golf popularity has risen dramatically, reaching record levels among both types of golfers. This popularity reached an inflection point in 2022, where the number of off-course golfers outnumbered the number of on-course golfers for the first time in history. Off-course golfers are defined as individuals who participate in golf-related activities away from a traditional 18-hole, 9-hole, or par-3 course layout. 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.[22] A summary of these statistics, as well as other key metrics, are summarized below.



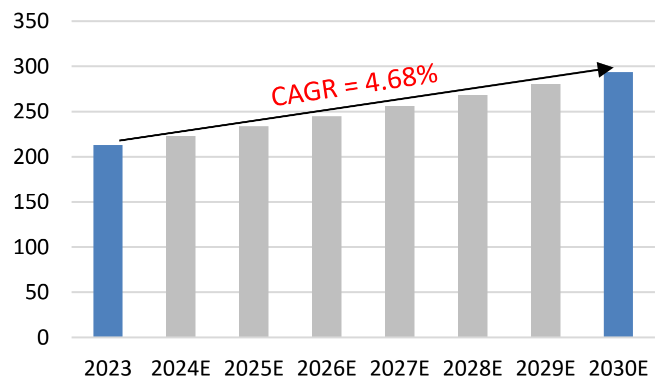
Source: National Golf Foundation



Source: National Golf Foundation

Serving as a leader in both of these market segments has been and continues to be very opportunistic, largely driven by the expansion of Topgolf venues and golf's overall popularity. The active lifestyle segment offers products that can apply to virtually any individual, including activewear, polos, accessories, and travel equipment such as bags and backpacks. Thus, Topgolf Callaway's expansive target market and product offerings provide it with greater revenue stability while competing in a cyclical industry. As of 2023, the total revenue of the global sports apparel market was $213.2 billion and is expected to achieve a CAGR of 4.7% through 2030.[23] The Henry Fund believes this is overly optimistic, as the number of individuals participating in the industry will plateau by 2025 with an oversaturation of competitors. Thus, Topgolf Callaway is only expected to have a 3.6% CAGR for its active lifestyle segment throughout this same period and is better positioned to capitalize on opportunities within the Topgolf and golf equipment segments.

Total Revenue of Global Sports Apparel Market ($)



Source: Statista

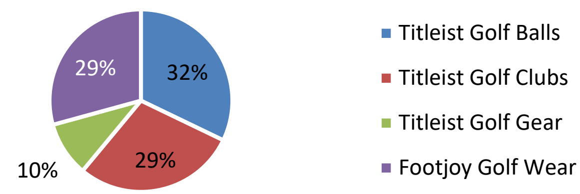
MARKETS AND COMPETITION

Given the diversity of Topgolf Callaway's product lines, it can be difficult to compare it to other companies on an equitable basis. Furthermore, many of the company's direct competitors are privately held, making it difficult to benchmark results. The following peer group attempts to sample a variety of companies that align with the company's three product segments – Topgolf, golf equipment, and active lifestyle – to then analyze the company's competitive positioning.

Acushnet Holdings (GOLF)

Acushnet Holdings Corp. is a diversified manufacturer of Titleist golf equipment and Footjoy accessories. The company's strongest intangible asset is its brand recognition within the golf community, primarily driven through its Titleist golf ball and Footjoy golf wear segments.[24] 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 for its golf equipment segment.

GOLF Revenue Decomposition ($2.1B)

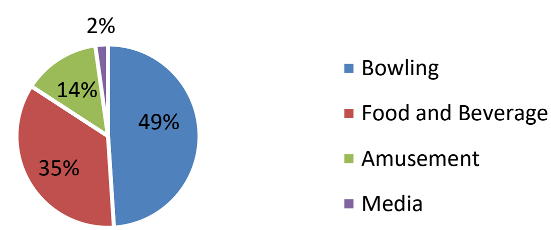


Source: FactSet

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.[25] The company holds the media rights to the Professional Bowlers Association (PBA)[26] and has recently renovated many of its older locations. For the purposes of this evaluation, Bowlero will be compared to Topgolf Callaway's Topgolf segment.

BOWL Revenue Decomposition ($1.1B)



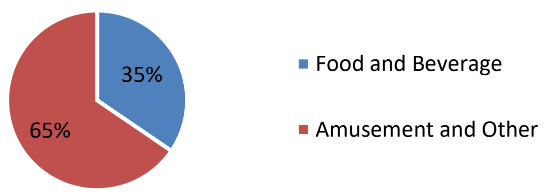
Source: FactSet

Dave & Buster's (PLAY)

Dave and Buster's is a leading restaurant, arcade, and sports entertainment business with 201 locations in the United States.[27] 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. The company recently acquired 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.[28]

For the purposes of this evaluation, Dave and Buster's will be compared to Topgolf Callaway's Topgolf segment.

PLAY Revenue Decomposition ($2.0B)

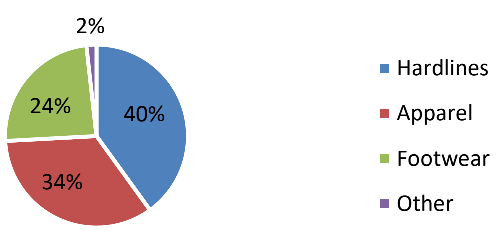


Source: FactSet

Dick's Sporting Goods (DKS)

Dick's Sporting Goods (Dick's) is a major retailer of sports equipment, athletic wear, footwear, and accessories. The company has a strong brick-and-mortar and e-commerce presence and also owns Golf Galaxy, Public Lands, and Going Going Gone specialty concept stores.[29] Hardlines (sporting goods and fitness equipment) and apparel have historically been their two largest segments and serve as one of Callaway's largest retail distributors for its golf equipment and active lifestyle products. For the purposes of this evaluation, Dick's will be compared to Topgolf Callaway's active lifestyle segment.

DKS Revenue Decomposition ($12.4B)

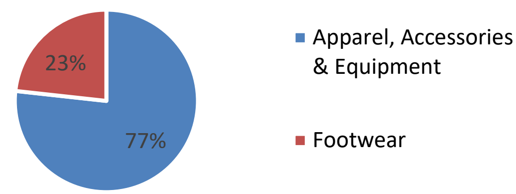


Source: FactSet

Columbia Sportswear (COLM)

Columbia Sportswear is the world's largest outdoor clothing company and includes several subsidiaries including SOREL, Mountain Hardwear, and prAna.[30] The company engages in the design, production, marketing, and distribution of its various products and utilizes an international supply chain of wholesalers, distributors, and direct-to-consumer locations. For the purposes of this evaluation, Columbia will be compared to Topgolf Callaway's active lifestyle segment.

COLM Revenue Decomposition ($3.5B)

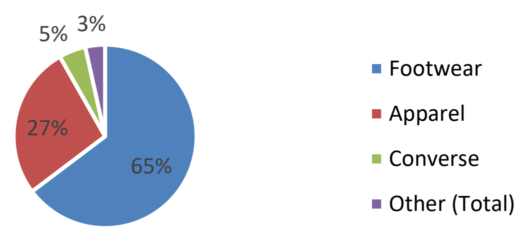


Source: FactSet

Nike (NKE)

Nike is one of the world's most recognizable companies, from its expansive line of footwear to its numerous sponsorships with professional athletes. Nearly all of the company's footwear and apparel products are manufactured outside the United States, with revenues being primarily driven by footwear sold in North America and Europe.[31] For the purposes of this evaluation, Nike will be compared to Topgolf Callaway's active lifestyle segment.

NKE Revenue Decomposition ($48.7B)



Source: FactSet

**In 2003, Nike acquired Converse for $305 million and is listed as a separate line item on their revenue decomposition (NKE Investor Relations).*

Peer Comparisons

The following peer comparisons will look to compare Topgolf and its competitors across a variety of financial, operational, and industry metrics. All sales, operating margins, and net margins for Topgolf are only for that respective segment of its business. Additionally, due to Dick's Sporting Goods diversified product line, its level of sales only represents its apparel segment. Any outliers from the peer group were removed when calculating averages and noted below when necessary.

Golf Equipment

	MODG	GOLF
Sales	$ 1,761	$ 2,382
5Y Golf Ball CAGR	9.9%	7.8%
5Y Golf Club CAGR	8.4%	8.2%
Oper Margin	6.2%	11.8%
Net Margin	2.2%	8.3%
Inventory Turnover	1.87	1.78
Fixed Asset Turnover	1.18	6.84
L-T Debt/Capital	51.2%	44.9%
Current Ratio	1.72	2.21

Source: FactSet

Based on the following metrics, it appears Acushnet is better positioned than Callaway for golf equipment. Although Callaway has the largest dollar market share and has grown faster in recent years, the company is not operating very efficiently. Lower margins, fixed asset turnover, and liquidity are some of the biggest weaknesses for the company financially, which may make it difficult for the company to compete in years when the company does not release new equipment. These factors were considered in the Henry Fund valuation, with the company's cost of products remaining relatively flat across the forecast horizon with revenues only growing at a 3.76% CAGR. Overall, both companies have well-established product lines, and the Henry Fund does not anticipate much change going forward. While both companies may oscillate between owning the top market share in different categories, they essentially operate in a steady-state environment.

Topgolf

	BOWL	PLAY	Avg	MODG
Sales	$ 1,059	$ 1,964	**$ 1,511**	**$ 1,388**
Oper Margin	18.5%	15.5%	**17.0%**	**13.9%**
Net Margin	7.8%	7.0%	**7.4%**	**2.1%**
Inventory Turnover	66.09	36.12	**51.11**	**1.87**
Fixed Asset Turnover	0.85	0.91	**0.88**	**1.18**
L-T Debt/Capital	86.9%	87.5%	**87.2%**	**51.2%**
% US Locations	98%	99%	**98%**	**96%**
Sales/Venue	$ 3.09	$ 9.63	**$ 6.36**	**$ 18.94**
Spend per visit (fam 4)	$ 103.40	$ 100.00	**$ 101.70**	**$ 152.00**
5Y SSS growth	27.8%	14.0%	**20.9%**	**8.0%**

Source: FactSet

Based on the following metrics, it appears Topgolf Callaway is best positioned within the sports entertainment market. Similar to the golf equipment, its margins are lower than its competitors, but stronger fixed asset turnover, lower L-T debt/Capital, and higher sales/venue present larger upside potential. This is also indicative through Topgolf's 5-year SVS growth of only 8% when compared to Dave and Buster's and Bowlero. As shown previously, Topgolf locations are unique in that they become more successful with age, evidenced by steadily improving store revenues of a 9% CAGR and growing EBITDAR margins. The higher cost per visit for a family of four presents long-term risks, however, as more price-conscious individuals may opt for less expensive options. The Henry Fund model anticipates Topgolf will be the major driver for the company's success going forward, forecasting a 10.6% CAGR through 2031. Coupled with greater economies of scale, this will help raise operating margins by 200 bps by 2030 and generate a 16.8% CAGR for FCF through the forecast horizon.

Active Lifestyle

	DKS	COLM	NKE	Avg	MODG
Sales	$ 4,218	$ 3,487	$ ~~51,191~~	**$ 3,853**	**$ 1,136**
Oper Margin	12.2%	9.0%	10.4%	**10.5%**	**10.3%**
Net Margin	8.4%	7.2%	9.9%	**8.5%**	**2.2%**
Inventory Turnover	3.15	1.98	3.50	**2.88**	**1.87**
Days Sales Outstanding	~~2.2~~	44.9	29.7	**37.3**	**18.1**
L-T Debt/Capital	54.4%	14.4%	44.8%	**37.8%**	**51.2%**
% US Locations	100%	59%	61%	**73%**	**96%**
Sales/Venue	$ 5.79	$ 0.57	$ 49.60	**$ 18.65**	**$ 18.94**

Source: FactSet

Based on the following metrics, it appears Nike is best positioned within the athletic apparel segment. This is understandable given the company's incredibly strong market share and sturdy supply chain. However, among more comparable-sized companies to Topgolf Callaway, Dick's Sporting Goods appears to be performing the best. Its margins are only second to Nike, with strong inventory turnover and a low days sales outstanding. While Topgolf's business model does make it difficult to collect receivables in such a timely manner, it is still performing better than the industry average. Dick's is also entirely concentrated in the United States, which may make it more susceptible to cyclical events.

The Henry Fund model remains conservative regarding Topgolf Callaway's active segment. Achieving the lowest 8-year CAGR of 3.52%, the incredibly competitive nature of the soft goods industry will make it difficult for the company to expand if it remains centered around Topgolf. While its TravisMathew and JackWolfskin lines are gaining brand recognition in their respective markets with greater direct-to-consumer sales, overall competition from blue-chip companies such as Nike and Adidas may cap the company's target market. Its other product offerings through OGIO and Callaway-branded products have not shown any significant upside and are generally expected to grow with inflation by the terminal year.

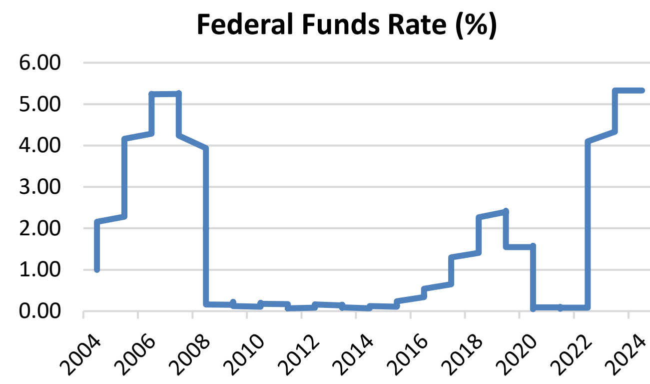
Future Outlook

Overall, Topgolf Callaway should leverage their Topgolf segment for future growth. The company's positioning within the golf equipment industry is solid and does not pose a long-term threat to the business. The active lifestyle segment will likely see greater headwinds soon as it struggles to take market share away from the largest players. While the company has a lower collection period, it does not outperform in any other category, especially in terms of margins, inventory turnover, or sales per venue. Thus, the young age and growing demand for Topgolf will drive the company forward. Its fixed asset turnover is the strongest among its peers, and greater efficiencies from the company's PIE software will help improve margins. Its debt/capital is well balanced and will likely be maintained as the company looks to steady the growth of future Topgolf locations. Ultimately, its dependency on the success of Topgolf does provide some cautious optimism, but the company's mature golf equipment line and growing brand awareness of its apparel segment will help reduce future volatility.

ECONOMIC OUTLOOK

Federal Funds Rate

Given the company's significant exposure to floating-rate debt, the federal funds rate (FFR) is a major driver for the company's annual interest expense and profitability. A higher federal funds rate will likely make it more challenging for the company to meet its outstanding debt obligations. As of March 2024, the FFR stands at 5.25-5.50% and represents the interest rate range at which commercial banks borrow and lend their excess reserves to each other. The rate is set by the Federal Open Market Committee, who meet eight times per year to make potential adjustments.[32] Changes to the FFR in turn have a direct impact on the short end of the yield curve, making it more difficult for less-credit-worthy companies like Topgolf Callaway to borrow and repay debt. Over the next six months, the Henry Fund predicts the FFR will be between 5.00-5.25%, before dropping to 3.50%-3.75% in the next two years. Thus, Topgolf Callaway's interest expense will continue to remain elevated, further driving down its EPS levels to $0.29 in 2024. The following chart shows the FFR dating back to 2004.



Source: FRED

Consumer Confidence

With a majority of Topgolf Callaway's success being dependent on customer demand, the Consumer Confidence Index (CCI) will have a direct impact on the company's financial performance. The 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. Despite macroeconomic uncertainty, consumer confidence has remained elevated with the increasing likelihood of a soft landing. However, expectations remain muted, as the forecasted number of rate cuts continues to decline coupled with the anticipation of a major election cycle. Overall, the Henry Fund believes these trends will continue to remain steady. Strong unemployment and steady GDP growth have proven that the economy is in good standing, but sticky services inflation may make it difficult for Topgolf to sustain double-digit growth.

Source: The Conference Board

Services Inflation

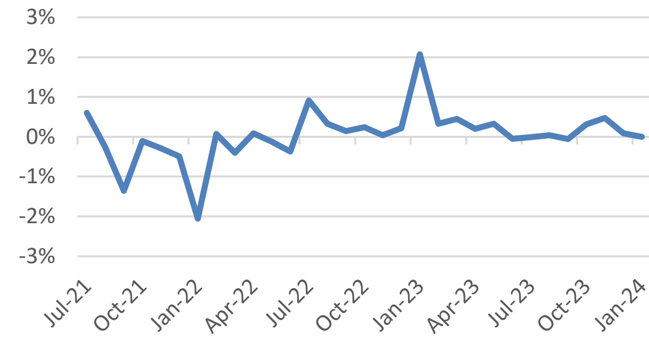
Although the Core Personal Consumption Expenditures (Core PCE) index has since fallen under three percent, services inflation continues to remain sticky at 4.9%. Evidence suggests that consumers are beginning to push back on these higher prices, especially through nondurable goods. Last year, unit sales of general merchandise fell by 7% and food and beverage by 3%.[34] This is likely to extend into discretionary service offerings like Topgolf, which may force the company to begin lowering its prices and put pressure on margins throughout the next 24 months. New venues will likely only provide a small boost in revenues, so Topgolf should consider maximizing its margins by leveraging its stronger technological footprint.

Source: Trading Economics, Bureau of Labor Statistics

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.[35] However, unlike CCI, this measure is not adjusted to one specific period (except for inflation) and is simply reported in absolute dollar amounts. For presentation purposes, the following chart shows the percentage change in RDPI each month since July 2021. Despite a small jump in January 2023, RDPI has been relatively flat over the past 18 months. Falling inflation will continue to be a tailwind for this statistic, but the Henry Fund anticipates these trends will remain steady in the short term. Capital management should continue to be management's current top priority, before looking to take advantage of stronger economic growth and widespread brand awareness in 2026.

Monthly Change in RDPI Post-COVID



Source: FRED

VALUATION

The following valuation uses an eight-year forecast with a continuing value estimation in 2031. A shorter forecast horizon was utilized to represent the time in which Topgolf would reach its steady-state growth rate. Full financial results for 2023 have yet to be released requiring some line items to be extrapolated from previous years. Initial forecasts for revenues, expenses, and balance sheet items attempt to closely align with analyst expectations through 2025 before applying the ideals of the investment thesis.

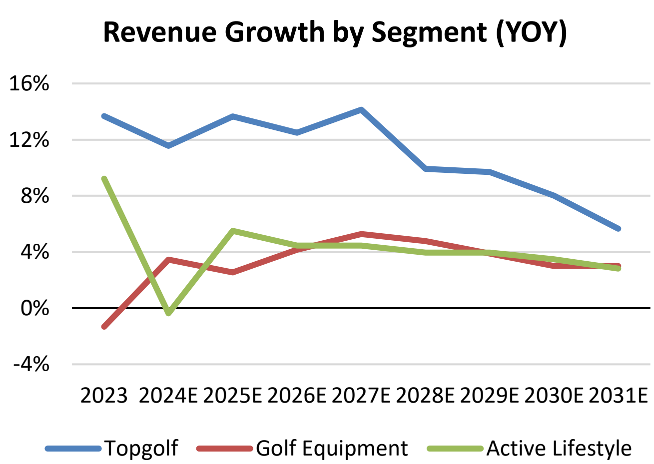
Revenue Forecasts

Since acquiring Topgolf in 2021, Topgolf Callaway has seen heightened top-line growth across all operating segments. The market expects this trend to continue, driven by rising consumer confidence and low double-digit growth within the Topgolf segment.[36] Looking ahead, Topgolf's revenues grow in line with additional venues while capitalizing on greater economies of scale through reduced venue expenses and demand management. Industry evidence indicates that the number of off-course golfers now exceeds on-course golfers by six million people,[22] resulting in a great opportunity to capitalize on an untapped segment of the market. As a result, Topgolf should look to add 8-10 new venues per year through 2027, before slowing to less than five by 2030. This is more conservative than management's expectations, given the rise in competitors and the risk of oversaturation. Net revenue per venue should steadily increase, driven by increased mid-week promotions,[6,9] recognizing its strongest growth in 2027, before reaching a continuing value growth rate of 3.5%. In all, the Topgolf segment represents the best opportunity for the company to gain a modern competitive advantage, and as a result, is expected to become over 50% of the company's revenues by 2027. However, sticky service inflation above 4.50% has caused hourly rates to rise across several Topgolf locations, which may drive out customer spending.

As a leading equipment manufacturer within the golf industry, growth within its golf club and golf ball segments will remain muted. In January of this year, the company released a new line of drivers, fairway woods, irons, and golf balls that are expected to see low- to mid-single-digit growth from both sub-operating segments.[6] In general, manufacturers release new equipment every three to five years, so, revenues for each of these areas are expected to grow by roughly 5% in 2027. Price competition is very strong, so most of this growth will be driven by customer demand, which presents some potential risks if historical trends do not persist.

The company's active lifestyle has continued to gain market share, especially through its TravisMathew and Jack Wolfskin line. In the last two years, TravisMathew has opened over a dozen new retail locations and Jack Wolfskin was awarded as the top outdoor clothing retailer in Germany.[6,7] Given the competitiveness of the sports apparel industry, maintaining competitive positioning is paramount, but often slows over time as the company reaches the breadth of its customer base. As a result, consistent mid-single-digit growth is expected through 2027 as the company shifts its focus to more direct-to-consumer sales.

The following chart shows the company's revenue growth by segment through its continuing value year in 2031.



Source: MODG 10-K and Henry Fund Estimates

Costs and Expenses Forecasts

Projections for the company's income statement were separated into operating and non-operating components before determining each line item's economic driver. As a result, most operating items such as the cost of products, cost of services, and other venue expenses were tied to their respective operating segment for revenue. Non-operating items were tied to more nuanced categories, such as Net Property, Plant, and Equipment (Net PP&E) for depreciation, intangible assets for amortization, and the company's pre-tax cost of debt for interest expense.

The biggest impact on the company's profitability going forward will stem from Topgolf's operating expenses. These include the cost of services, other venue expenses, depreciation, and venue pre-opening costs. In 2023, Topgolf fully integrated its proprietary bay management system to increase reservation capabilities and improve user experiences.[6] The operational efficiencies this system provides, along with greater cross-segment synergies and strong revenue growth will reduce venue expenses by over 300 basis points come 2030. Management also expects to maintain its implied depreciation rate of 12% going forward, which should continue to help stabilize free cash flow and operating margins.[5]

Driven by higher input and shipping costs, the costs of products will increase 60 bps to 58% of product revenue in 2024, before stabilizing above historical levels at 57.5%. While research and development expenses are projected to remain at roughly 2% of revenues, tensions between the United States and China will likely persist, raising material expenses and production costs over the long term. This also coincides with the assumption of low single-digit growth within the active lifestyle segment, making it difficult for the company to realize greater economies of scale.

In total, these projections allow for greater stability in earnings per share (EPS) metrics through 2025 with the ability to ramp up quickly thereafter. Reduced building and rent expenses from less aggressive new-venue construct-ion will help normalize interest expenses. When combined with more consistent top-line growth, the company will approach an EPS target of $1.99 at continuing value with a long-term growth rate that mimics nominal GDP at roughly 5%.

Balance Sheet Forecasts

The most important line items when forecasting the company's balance sheet were net PP&E, operating right-of-use (ROU) assets and liabilities, and total debt levels. Since most of the company's assets are through commercial leases via Topgolf, forecasting future capital expenditures (CAPEX) has made a significant impact on operating performance. Larger net PP&E levels have historically coincided with larger CAPEX outlays in Topgolf venues, which was considered when constructing forecasts. Management has indicated CAPEX levels will be relatively lower going forward, peaking in 2025 when the company is planning to open 10 additional venues.[6] These resulting net PP&E levels transferred directly into ROU asset projections, which were forecasted to grow at the same rate. Operating lease liabilities were then forecasted as a percentage of ROU assets by using a historical average. Due to limited public information, the level of ROU assets in 2023 was required to be manually adjusted based on management's guidance on the level of total assets and FCF from the fiscal year. However, this estimate still aligns with historical trends, steadily increasing from $1,385 million in 2021 to $1,439 million in 2023.

Since assuming Topgolf's $555 million in net debt in 2021, Topgolf Callaway has slowly been attempting to de-lever its balance sheet. Furthermore, a majority of this long-term debt faces floating-rate interest rates and acts as one of the company's biggest risks. If the federal funds rate remains elevated for the remainder of the year, this will keep the company's cost of debt elevated and corresponding interest payments. Generally, short-term and long-term debt components are forecasted as a percentage of non-cash current assets or non-cash operating assets. As mentioned previously, management has not provided guidance on the company's long-term capital structure, but historical book value debt-to-equity ratios have been between 1.1 and 1.37x since the Topgolf acquisition. Thus, the Henry Fund does not anticipate any major changes to the company's WACC.

Weighted Average Cost of Capital (WACC)

Topgolf Callaway's WACC was constructed around three assumptions regarding the company's beta, equity risk premium, and pre-tax cost of debt. An average of the company's beta using one-year, two-year, and three-year weekly returns was used to more accurately represent the company's exposure to systematic risk since the Topgolf acquisition. The equity risk premium was applied using the Henry Fund consensus of 5.00%. Finally, since none of the company's outstanding debt is publicly traded, the current yield to maturity on 10-year B+ rated corporate bonds was used as a proxy based on the company's most recent credit rating.[37] Given the company's exposure to various lease liabilities, its market debt-to-equity ratio currently sits above the industry average at 1.49x, resulting in a relatively lower WACC of only 7.77%.

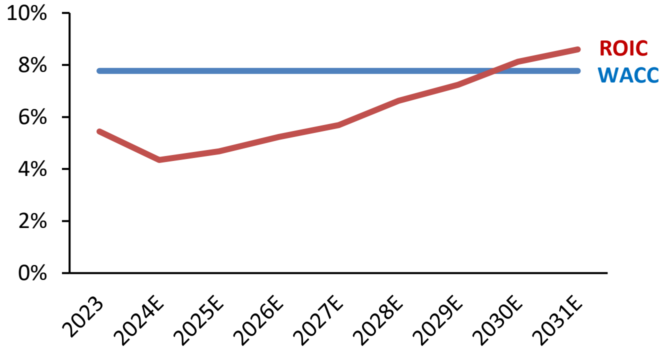
Valuation Metrics

Three valuation methods were applied to determine Topgolf Callaway's intrinsic value – the enterprise discounted cash flow (DCF), the dividend discount model (DDM), and a relative peer group. The target price of $16 represents a 12.7% upside from the current market price on March 8, 2023, sitting just below the FactSet and Wall Street Journal estimate of $18.52.[38] While the Topgolf segment provides a great opportunity for growth going forward, it may be difficult for the company to generate excess returns from its other product lines given their highly competitive markets and lower-margin business models. Combined with the overall seasonality of the company's industry, there exists some overall uncertainty regarding the future position of the company.

Since 2022, Topgolf Callaway has not paid an annual dividend to its shareholders and does not plan to reinstate this policy anytime soon.[5] As a result, the DDM valuation of $5.38 merely serves as a sanity check regarding the continuing value growth assumptions for the company's EPS. The relative valuation also fails to provide significant merit, as many of Topgolf's direct competitors within the broader golf industry are privately held. Thus, a diverse collection of companies that closely align with the company's operating segments was selected, resulting in a valuation between $6.18 and $36.60 per share.

One of the biggest risks to the company is its inability to generate a high ROIC. Expensive interest payments and heightened invested capital levels keep the company's ROIC below WACC through 2029. While the integration of the company's PIE software should help reduce its cost of services and other venue expenses going forward, management should greatly consider refinancing its debt within the next two years. While the Henry Fund anticipates the company should be able to fulfill its $276.4 million obligation in 2026, weakened demand for Topgolf venues could put its solvency in jeopardy. Based on current levels, over 70% of its operating earnings are being allocated to interest payments. Refinancing its debt to pursue more fixed-rate agreements will greatly improve its long-term profitability, ideally pushing this distribution below 50%.

Topgolf Callaway struggles to create shareholder value until 2030



Source: MODG 10-K, Henry Fund Estimates

Sensitivity Testing

As a final check of the strength of the model, several sensitivity tests were conducted on various operating and valuation assumptions that could exude significant variance going forward. Overall, the model is very stable, with an average interquartile range of prices between \$14.56 and \$17.29, a minimum price of \$10.47, and a maximum price of \$22.16.

KEYS TO MONITOR

Going forward, the company's ability to generate positive FCF will be crucial. Older Topgolf venues have proven to become more profitable with age, citing steady revenue growth and increasing EBITDAR margins. The Henry Fund believes management is well equipped to continue this trend, driven by off-course golf popularity, younger demographics, and the integration of the company's PIE software. However, keys to monitor over the next year include:

- Sustained high interest rates, resulting in increased interest expense due to the company's reliance on floating-rate debt
- Consumer pushback due to higher prices from sticky services inflation, potentially reducing operating margins
- Strong competition within the sports apparel industry from mega-cap corporations, making it difficult to grow the company's active lifestyle segment

Given these risks, the Henry Fund believes there still exists limited upside due to the company's strong market share within its golf equipment segment and diversified revenue streams. Becoming FCF positive one year ahead of schedule is very encouraging for the company's outlook and allows management to focus on more value-generating activities such as stabilizing its EPS and same-venue-sales growth. Should consumer confidence continue to remain elevated, and a soft landing is achieved, it is quite likely the company's stock can continue to rebound and trade at an upper bound of \$20 per share.

Overall, the company's outlook remains cautiously optimistic due to expected revenue and free cash flow growth driven by increased off-course golfers and operational efficiencies. Analyst consensus is largely anticipating strong active lifestyle growth with lower operating expenses for the company's golf equipment segment.[36] However, the Henry Fund believes there will be difficulties for the company going forward due to intense competition and sustained geopolitical risks. Topgolf will continue to be a major growth catalyst due to its strong market share, but risks such as higher interest rates, seasonal demand, and a dampened ROIC result in a **NEUTRAL** outlook.

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DISCLAIMER

TopGolf Callaway Brands

Revenue Decomposition

in millions (mm)

Fiscal Years Ending Dec. 31	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Revenue by Segment											
Topgolf	**1088**	**1549**	**1761**	**1964**	**2232**	**2512**	**2866**	**3151**	**3457**	**3733**	**3944**
growth	-	*42.4%*	*13.7%*	*11.5%*	*13.6%*	*12.5%*	*14.1%*	*9.9%*	*9.7%*	*8.0%*	*5.7%*
Golf Equipment											
Clubs	995	1097	1074	1106	1139	1191	1256	1319	1372	1413	1455
growth	*26.4%*	*10.3%*	*-2.1%*	*3.0%*	*3.0%*	*4.5%*	*5.5%*	*5.0%*	*4.0%*	*3.0%*	*3.0%*
Balls	235	310	314	330	333	343	358	373	386	397	409
growth	*20.0%*	*31.9%*	*1.5%*	*5.0%*	*1.0%*	*3.0%*	*4.5%*	*4.0%*	*3.5%*	*3.0%*	*3.0%*
Golf Equipment	**1229**	**1407**	**1388**	**1436**	**1472**	**1534**	**1615**	**1692**	**1758**	**1810**	**1865**
growth	*25.1%*	*14.4%*	*-1.3%*	*3.5%*	*2.5%*	*4.2%*	*5.3%*	*4.8%*	*3.9%*	*3.0%*	*3.0%*
Active Lifestyle											
Apparel	491	632	713	715	754	792	832	869	908	945	973
growth	*40.5%*	*28.7%*	*12.9%*	*0.3%*	*5.5%*	*5.0%*	*5.0%*	*4.5%*	*4.5%*	*4.0%*	*3.0%*
Gear, Accessories, and Other	326	408	423	417	440	455	471	485	500	512	525
growth	*26.5%*	*25.4%*	*3.6%*	*-1.5%*	*5.5%*	*3.5%*	*3.5%*	*3.0%*	*3.0%*	*2.5%*	*2.5%*
Active Lifestyle	**817**	**1040**	**1136**	**1132**	**1194**	**1247**	**1303**	**1354**	**1408**	**1457**	**1498**
growth		*27.4%*	*9.2%*	*-0.4%*	*5.5%*	*4.4%*	*4.5%*	*4.0%*	*4.0%*	*3.5%*	*2.8%*
Total Net Revenues	**3133**	**3996**	**4285**	**4532**	**4899**	**5292**	**5784**	**6197**	**6622**	**7000**	**7307**
growth	*97.1%*	*27.5%*	*7.2%*	*5.8%*	*8.1%*	*8.0%*	*9.3%*	*7.1%*	*6.9%*	*5.7%*	*4.4%*
% of Total											
Topgolf	**34.7%**	**38.8%**	**41.1%**	**43.3%**	**45.6%**	**47.5%**	**49.6%**	**50.8%**	**52.2%**	**53.3%**	**54.0%**
Golf Equipment											
Clubs	*31.7%*	*27.5%*	*25.1%*	*24.4%*	*23.3%*	*22.5%*	*21.7%*	*21.3%*	*20.7%*	*20.2%*	*19.9%*
Balls	*7.5%*	*7.7%*	*7.3%*	*7.3%*	*6.8%*	*6.5%*	*6.2%*	*6.0%*	*5.8%*	*5.7%*	*5.6%*
Golf Equipment	**39.2%**	**35.2%**	**32.4%**	**31.7%**	**30.1%**	**29.0%**	**27.9%**	**27.3%**	**26.5%**	**25.9%**	**25.5%**
Active Lifestyle											
Apparel	*15.7%*	*15.8%*	*16.6%*	*15.8%*	*15.4%*	*15.0%*	*14.4%*	*14.0%*	*13.7%*	*13.5%*	*13.3%*
Gear, Accessories, and Other	*10.4%*	*10.2%*	*9.9%*	*9.2%*	*9.0%*	*8.6%*	*8.1%*	*7.8%*	*7.5%*	*7.3%*	*7.2%*
Active Lifestyle	**26.1%**	**26.0%**	**26.5%**	**25.0%**	**24.4%**	**23.6%**	**22.5%**	**21.9%**	**21.3%**	**20.8%**	**20.5%**
Total Net Revenues	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Geographic Breakdown											
United States	2067	2798	3081	3263	3576	3863	4222	4524	4834	5110	5334
Europe	500	537	541	589	637	688	752	806	861	910	950
Asia	466	545	532	544	539	582	636	682	728	770	804
Rest of World	101	115	131	136	147	159	174	186	199	210	219
Total Net Revenues	**3133**	**3996**	**4285**	**4532**	**4899**	**5292**	**5784**	**6197**	**6622**	**7000**	**7307**
United States	66%	70%	72%	72%	73%	73%	73%	73%	73%	73%	73%
Europe	16%	13%	13%	13%	13%	13%	13%	13%	13%	13%	13%
Asia	15%	14%	12%	12%	11%	11%	11%	11%	11%	11%	11%
Rest of World	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Total Net Revenues	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Topgolf Venues											
Total Venues	70	82	94	102	112	120	128	134	140	144	147
growth		*17.1%*	*14.6%*	*8.5%*	*9.8%*	*7.1%*	*6.7%*	*4.7%*	*4.5%*	*2.9%*	*2.1%*
New Locations/Yr		12	12	8	10	8	8	6	6	4	3
Net Revenue/Venue	15.54	18.89	18.73	19.26	19.93	20.93	22.39	23.51	24.69	25.92	26.83
growth		*21.6%*	*-0.8%*	*2.8%*	*3.5%*	*5.0%*	*7.0%*	*5.0%*	*5.0%*	*5.0%*	*3.5%*

TopGolf Callaway Brands
Income Statement
in millions (mm), except share data

Fiscal Years Ending Dec. 31	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Net Revenues											
Net revenues - products	2,059	2,466	2,524	2,568	2,666	2,781	2,917	3,046	3,165	3,267	3,362
Net revenues - services	1,075	1,530	1,761	1,964	2,232	2,512	2,866	3,151	3,457	3,733	3,944
Total net revenues	**3,133**	**3,996**	**4,285**	**4,532**	**4,899**	**5,292**	**5,784**	**6,197**	**6,622**	**7,000**	**7,307**
Costs and expenses											
Cost of products	1,137	1,401	1,449	1,489	1,531	1,613	1,686	1,751	1,820	1,879	1,933
Cost of services, excluding depreciation & amortization	134	184	204	228	252	289	327	354	387	414	438
Other venue expenses	732	1,077	1,162	1,277	1,451	1,607	1,835	2,017	2,195	2,371	2,505
Depreciation & amortization	156	193	213	252	267	276	277	279	278	276	265
Selling, general & administrative expense	694	778	857	929	1,004	1,058	1,157	1,208	1,291	1,330	1,388
Research & development expense	68	76	94	100	98	106	116	124	132	140	146
Venue pre-opening costs	9	30	35	22	29	21	20	14	14	8	6
Total costs & expenses	2,929	3,739	4,015	4,297	4,632	4,970	5,418	5,748	6,118	6,418	6,681
Income (loss) from operations	**205**	**257**	**270**	**236**	**267**	**322**	**366**	**449**	**504**	**582**	**625**
Interest expense, net	(116)	(143)	(153)	(168)	(162)	(173)	(172)	(175)	(174)	(175)	(177)
Gain on sale of investments in golf-related ventures	253	-	-	-	-	-	-	-	-	-	-
Other income (expense), net	9	28	-	-	-	-	-	-	-	-	-
Income (loss) before income taxes	**351**	**142**	**118**	**67**	**104**	**149**	**194**	**274**	**330**	**407**	**449**
Income tax provision (benefit)	29	(16)	25	14	22	31	41	57	69	85	94
Net income (loss)	**322**	**158**	**93**	**53**	**83**	**118**	**154**	**217**	**261**	**322**	**355**
Net earnings (loss) per common share - basic	$1.90	$0.85	$0.50	$0.29	$0.45	$0.64	$0.84	$1.19	$1.44	$1.77	$1.96
Year end shares outstanding	185.2	184.9	184.4	183.9	183.6	183.2	182.5	181.8	181.4	181.3	181.3
Weighted average shares outstanding - basic	169.1	184.9	184.6	184.1	183.7	183.4	182.8	182.1	181.6	181.3	181.3
Dividends per common share	$0.01	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00

TopGolf Callaway Brands

Balance Sheet

in millions (mm), except share data

Fiscal Years Ending Dec. 31	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
ASSETS											
Current Assets											
Cash, cash equivalents, & restricted cash	353	199	571	508	688	666	797	920	1,166	1,479	1,829
Accounts receivable, less allowance of doubtful accounts	105	167	201	204	220	238	260	279	298	315	329
Inventories	533	959	793	861	955	1,032	1,122	1,196	1,278	1,351	1,410
Prepaid expenses	54	57	68	72	77	84	91	98	105	111	115
Other current assets	119	136	150	159	171	185	202	217	232	245	256
Total current assets	**1,166**	**1,519**	**1,783**	**1,803**	**2,113**	**2,205**	**2,473**	**2,710**	**3,078**	**3,501**	**3,939**
Property, plant & equipment, net	1,451	1,810	2,093	2,132	2,206	2,221	2,235	2,232	2,214	2,198	2,169
Operating lease right-of-use assets, net	1,385	1,419	1,439	1,466	1,517	1,528	1,537	1,535	1,522	1,512	1,492
Tradenames & trademarks	1,425	1,413	1,413	1,413	1,413	1,413	1,413	1,413	1,413	1,413	1,413
Other intangible assets, net	103	91	77	66	55	44	33	22	12	1	0
Goodwill	1,960	1,984	1,984	1,984	1,984	1,984	1,984	1,984	1,984	1,984	1,984
Other assets, net	257	355	394	408	441	476	509	545	583	616	643
Total assets	**7,748**	**8,590**	**9,182**	**9,272**	**9,728**	**9,870**	**10,183**	**10,440**	**10,805**	**11,224**	**11,640**
LIABILITIES AND SHAREHOLDERS' EQUITY											
Current Liabilities											
Accounts payable & accrued expenses	491	580	617	657	735	783	850	905	967	1,022	1,067
Accrued employee compensation & benefits	129	135	146	168	181	185	202	217	232	245	256
Asset-based credit facilities	9	219	130	135	148	160	174	186	199	210	219
Operating lease liabilities, short-term	72	76	76	78	80	81	82	81	81	80	79
Construction advances	23	35	41	42	43	43	44	44	43	43	42
Deferred revenue	94	95	120	127	147	143	156	167	179	189	197
Other current liabilities	48	35	43	45	49	53	58	62	66	70	73
Total current liabilities	**866**	**1,176**	**1,173**	**1,251**	**1,384**	**1,449**	**1,566**	**1,662**	**1,767**	**1,859**	**1,934**
Long-term debt, net	1,025	1,176	1,518	1,482	1,543	1,579	1,619	1,648	1,674	1,697	1,712
Operating lease liabilities, long-term	1,385	1,438	1,449	1,476	1,527	1,538	1,547	1,545	1,533	1,522	1,502
Deemed landlord financing obligations, long-term	461	658	748	704	789	733	738	691	685	680	671
Deferred taxes, net	164	118	154	161	167	168	170	173	176	180	184
Other long-term liabilities	164	251	273	279	319	290	292	269	266	265	261
Total liabilities	**4,065**	**4,816**	**5,316**	**5,353**	**5,728**	**5,757**	**5,932**	**5,987**	**6,101**	**6,203**	**6,264**
Common Equity	3,053	3,015	3,028	3,042	3,056	3,066	3,066	3,066	3,066	3,066	3,066
Retained earnings (accumulated deficit)	682	853	946	999	1,081	1,200	1,353	1,570	1,831	2,153	2,508
Accumulated other comprehensive income (loss)	(27)	(62)	(62)	(62)	(62)	(62)	(62)	(62)	(62)	(62)	(62)
Less: common stock held in treasury, at cost	(25)	(31)	(46)	(61)	(76)	(91)	(106)	(121)	(131)	(136)	(136)
Total shareholders' equity	**3,683**	**3,774**	**3,866**	**3,918**	**4,000**	**4,113**	**4,251**	**4,453**	**4,704**	**5,021**	**5,376**
Total liabilities and shareholders' equity	**7,748**	**8,590**	**9,182**	**9,272**	**9,728**	**9,870**	**10,183**	**10,440**	**10,805**	**11,224**	**11,640**

TopGolf Callaway Brands

Historical Cash Flow Statement

in millions (mm), except share data

Fiscal Years Ending Dec. 31	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Cash flows from operating activities:										
Net income (loss)	(19)	16	15	190	42	105	79	(127)	322	158
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:										
Depreciation & amortization	26	21	17	17	18	20	35	40	156	193
Lease amortization expense	-	-	-	-	-	-	31	33	80	94
Amortization of debt discount & issuance costs	-	-	-	-	-	-	3	11	19	10
Inventory step-up amortization from acquisitions	-	-	-	-	3	-	11	-	-	-
Impairment loss	-	-	-	-	-	-	-	174	-	6
Deferred taxes, net	(2)	1	0	(141)	25	22	(1)	(13)	8	(31)
Non-cash share-based compensation	4	6	8	9	13	14	13	11	39	47
Loss (gain) on disposal of long-lived assets & deferred loss (gain) amortization	2	(1)	(1)	(0)	1	(0)	0	0	0	-
Loss (gain) on Topgolf International, Inc. investment	-	-	-	-	-	-	-	-	(253)	-
Loss (gain) on conversion of note receivable	-	-	-	-	-	-	-	(1)	-	-
Loss (gain) on sale of investments in golf-related ventures	-	-	-	(18)	-	-	-	-	-	-
Unrealized net losses on hedging instruments & foreign currency	-	-	-	(1)	1	(5)	4	3	0	18
Acquisition costs	-	-	-	-	-	-	-	-	(16)	-
Net income attributable to non-controlling interests	-	-	-	1	-	-	-	-	-	-
Discount amortization on convertible notes	1	1	1	-	-	-	-	-	-	-
Other adjustments	-	-	-	-	-	-	-	-	12	11
Change in assets and liabilities, net of effect from acquisitions:										
Accounts receivable, net	(7)	(23)	(12)	(17)	52	(2)	(44)	10	38	(76)
Inventories	(61)	47	(5)	24	(52)	(78)	(34)	117	(177)	(442)
Leasing receivables	-	-	-	-	-	-	-	-	(23)	(22)
Other assets	(0)	3	7	0	(7)	(10)	(12)	20	(52)	(21)
Accounts payable & accrued expenses	35	(31)	5	13	15	22	35	(10)	97	110
Deferred revenue	-	-	-	-	-	-	-	-	25	1
Accrued employee compensation & benefits	12	6	(3)	(0)	7	3	(2)	(17)	54	8
Change in operating leases, net	-	-	-	-	-	-	(30)	(29)	-	-
Payments on operating leases	-	-	-	-	-	-	-	-	(57)	(87)
Income taxes receivable or payable, net	3	(4)	(0)	2	(2)	0	1	2	9	(11)
Accrued warranty expense	(1)	(1)	0	(0)	1	1	(0)	(0)	-	-
Other liabilities	0	(4)	(0)	(1)	1	0	(1)	5	(2)	1
Net cash flows from operating activities	**(9)**	**37**	**31**	**78**	**118**	**92**	**87**	**228**	**278**	**(35)**
Cash flows from investing activities:										
Cash acquired in merger	-	-	-	-	-	-	-	-	171	-
Capital expenditures	(13)	(11)	(14)	(16)	(26)	(37)	(55)	(39)	(322)	(532)
Investment in golf-related ventures	(14)	(15)	(1)	(1)	(21)	(2)	(18)	(20)	(30)	-
Acquisition of intangible assets	-	-	-	-	-	-	-	-	-	(3)
Acquisitions, net of cash acquired	-	-	-	-	(183)	-	(463)	-	-	-
Proceeds from sale of investment in golf-related ventures	4	0	0	23	1	0	0	0	19	0
Note receivable	-	-	(3)	3	-	-	-	-	-	-
Net cash flows from investing activities	**(23)**	**(25)**	**(18)**	**9**	**(231)**	**(39)**	**(536)**	**(59)**	**(162)**	**(535)**
Cash flows from financing activities:										
Proceeds from (repayments of) long-term debt	-	-	-	-	-	(2)	(37)	(12)	(201)	(97)
Proceeds from borrowings on long-term debt	-	-	-	-	12	-	493	38	26	177
Proceeds from (repayments of) credit facilities, net	26	(10)	(0)	(3)	76	(47)	106	(122)	(13)	213
Proceeds from issuance of convertible notes	-	-	-	-	-	-	-	259	-	-
Premium paid for capped call confirmations	-	-	-	-	-	-	-	(32)	-	-
Debt issuance costs	-	-	-	-	-	-	(19)	(9)	(5)	(0)
Payment on contingent earn-out obligation	-	-	-	-	-	-	-	-	(4)	(6)
Repayments of financing leases	-	-	-	-	-	-	(1)	(1)	(1)	(3)
Proceeds from lease financing	-	-	-	-	-	-	-	-	89	176
Purchase of non-controlling interest	-	-	-	-	-	-	(19)	-	-	-
Exercise of stock options	2	2	7	3	5	2	0	0	22	1
Distributions to non-controlling interest	-	-	-	-	(1)	(1)	-	-	-	-
Dividends paid	(6)	(3)	(3)	(4)	(4)	(4)	(4)	(2)	(0)	-
Credit facility amendment costs	-	(1)	-	-	(2)	-	-	-	-	-
Equity issuance costs	(0)	(0)	-	-	-	-	-	-	-	-
Acquisition of treasury stock	-	(1)	(2)	(5)	(17)	(22)	(28)	(22)	(38)	(36)
Other financing activities	(0)	(0)	-	0	-	-	-	-	-	-
Net cash flows from financing activities	**21**	**(13)**	**1**	**(9)**	**69**	**(75)**	**493**	**96**	**(124)**	**425**
Effect of exchange rate changes on cash, cash equivalents & restricted cash	(5)	2	(1)	(1)	3	(0)	(1)	(6)	(1)	(9)
Net increase (decrease) in cash, cash equivalents & restricted cash	(15)	1	12	76	(40)	(22)	43	259	(8)	(154)
Cash, cash equivalents & restricted cash at beginning of period	52	37	38	50	126	86	64	107	366	358
Cash, cash equivalents & restricted cash at end of period	37	38	50	126	86	64	107	366	358	203
Less: restricted cash	-	-	-	-	-	-	-	-	(6)	(23)
Cash & cash equivalents at end of period	**37**	**38**	**50**	**126**	**86**	**64**	**107**	**366**	**352**	**180**

TopGolf Callaway Brands

Forecasted Cash Flow Statement

Fiscal Years Ending Dec. 31	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Cash flows from operating activities:									
Net Income	**93**	**53**	**83**	**118**	**154**	**217**	**261**	**322**	**355**
Adjustments to reconcile Net Income (Loss):									
Depreciation	199	241	256	265	267	268	268	266	264
Amortization	14	11	11	11	11	11	11	11	1
Deferred Taxes, net	37	7	5	1	2	3	3	4	4
Changes in working capital accounts:									
Changes in accounts receivable	(34)	(3)	(17)	(18)	(22)	(19)	(19)	(17)	(14)
Changes in inventories	166	(68)	(94)	(77)	(90)	(74)	(82)	(73)	(59)
Changes in prepaid expenses	(11)	(4)	(6)	(6)	(8)	(7)	(7)	(6)	(5)
Changes in other current assets	(14)	(9)	(13)	(14)	(17)	(14)	(15)	(13)	(11)
Changes in operating leases	(20)	(27)	(51)	(11)	(9)	2	12	11	20
Changes in accounts payable & accrued expenses	37	40	78	48	67	55	62	55	45
Changes in accrued employee compensation & benefits	10	22	14	4	17	14	15	13	11
Changes in deferred revenue	25	7	20	(4)	13	11	11	10	8
Changes in other current liabilities	8	2	4	4	5	4	4	4	3
Net cash flows from operating activities	**511**	**273**	**290**	**323**	**389**	**471**	**525**	**586**	**622**
Cash flows from investing activities:									
Capital Expenditures	(482)	(280)	(330)	(280)	(280)	(265)	(250)	(250)	(235)
Capitalization of Intangible Assets	0	(0)	0	0	0	(0)	0	0	0
Changes in other assets	(39)	(14)	(33)	(35)	(33)	(36)	(37)	(33)	(27)
Net cash flows from investing activities	**(521)**	**(294)**	**(363)**	**(315)**	**(313)**	**(301)**	**(287)**	**(283)**	**(262)**
Cash flows from financing activities:									
Changes in asset-based credit facilities	(89)	5	13	12	14	12	13	11	9
Changes in operating lease liabilities, short-term	(0)	1	3	1	0	(0)	(1)	(1)	(1)
Changes in construction advances	6	1	1	0	0	(0)	(0)	(0)	(1)
Changes in long-term debt, net	342	(36)	60	36	40	29	26	23	14
Changes in operating lease liabilities, long-term	11	27	51	11	9	(2)	(12)	(11)	(20)
Changes in deemed landlord financing obligations, long-term	90	(45)	85	(56)	4	(47)	(6)	(5)	(9)
Changes in other liabilities	23	5	40	(28)	2	(23)	(2)	(2)	(3)
Stock Repurchases	(15)	(15)	(15)	(15)	(15)	(15)	(10)	(5)	0
Changes in common stock	14	14	14	10	0	0	0	0	0
Net cash flows from financing activities	**381**	**(42)**	**253**	**(30)**	**55**	**(47)**	**8**	**11**	**(10)**
Net increase (decrease) in cash and cash equivalents	**372**	**(63)**	**180**	**(23)**	**131**	**123**	**246**	**314**	**350**
Cash and cash equivalents at beginning of period	199	571	508	688	666	797	920	1,166	1,479
Cash & cash equivalents at end of period	**571**	**508**	**688**	**666**	**797**	**920**	**1,166**	**1,479**	**1,829**

TopGolf Callaway Brands

Common Size Income Statement

Fiscal Years Ending Dec. 31	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Net Revenues											
Net revenues - products	65.7%	61.7%	58.9%	56.7%	54.4%	52.5%	50.4%	49.2%	47.8%	46.7%	46.0%
Net revenues - services	34.3%	38.3%	41.1%	43.3%	45.6%	47.5%	49.6%	50.8%	52.2%	53.3%	54.0%
Total net revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Costs and expenses											
Cost of products	55.2%	56.8%	57.4%	58.0%	57.4%	58.0%	57.8%	57.5%	57.5%	57.5%	57.5%
Cost of services, excluding depreciation & amortization	12.4%	12.0%	11.6%	11.6%	11.3%	11.5%	11.4%	11.3%	11.2%	11.1%	11.1%
Gross margin	**59.5%**	**60.3%**	**61.4%**	**62.1%**	**63.6%**	**64.1%**	**65.2%**	**66.0%**	**66.7%**	**67.2%**	**67.5%**
Other venue expenses	68.1%	70.4%	66.0%	65.0%	65.0%	64.0%	64.0%	64.0%	63.5%	63.5%	63.5%
Depreciation & amortization	5.0%	4.8%	5.0%	5.6%	5.4%	5.2%	4.8%	4.5%	4.2%	3.9%	3.6%
Selling, general & administrative expense	22.1%	19.5%	20.0%	20.5%	20.5%	20.0%	20.0%	19.5%	19.5%	19.0%	19.0%
Research & development expense	2.2%	1.9%	2.2%	2.2%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Goodwill & intangible asset impairment	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Venue pre-opening costs	0.9%	2.0%	2.0%	1.1%	1.3%	0.8%	0.7%	0.5%	0.4%	0.2%	0.2%
Total costs & expenses	93.5%	93.6%	93.7%	94.8%	94.6%	93.9%	93.7%	92.8%	92.4%	91.7%	91.4%
Income (loss) from operations (Operating Margin)	**6.5%**	**6.4%**	**6.3%**	**5.2%**	**5.4%**	**6.1%**	**6.3%**	**7.2%**	**7.6%**	**8.3%**	**8.6%**
Interest income	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Interest expense, net	-3.7%	-3.6%	-3.6%	-3.7%	-3.3%	-3.3%	-3.0%	-2.8%	-2.6%	-2.5%	-2.4%
Gain on sale of investments in golf-related ventures	8.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other income (expense), net	0.3%	0.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Income (loss) before income taxes	11.2%	3.6%	2.7%	1.5%	2.1%	2.8%	3.4%	4.4%	5.0%	5.8%	6.1%
Income tax provision (benefit)	0.9%	-0.4%	0.6%	0.3%	0.4%	0.6%	0.7%	0.9%	1.0%	1.2%	1.3%
Net income (loss) (Net Margin)	**10.3%**	**4.0%**	**2.2%**	**1.2%**	**1.7%**	**2.2%**	**2.7%**	**3.5%**	**3.9%**	**4.6%**	**4.9%**

TopGolf Callaway Brands
Common Size Balance Sheet (% of Net Revenues)

Fiscal Years Ending Dec. 31	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
ASSETS											
Current Assets											
Cash, cash equivalents, & restricted cash	11.3%	5.0%	13.3%	11.2%	14.0%	12.6%	13.8%	14.8%	17.6%	21.1%	25.0%
Accounts receivable, less allowance of doubtful accounts	3.4%	4.2%	4.7%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Inventories	17.0%	24.0%	18.5%	19.0%	19.5%	19.5%	19.4%	19.3%	19.3%	19.3%	19.3%
Prepaid expenses	1.7%	1.4%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%
Deferred taxes, net	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Income taxes receivable	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other current assets	3.8%	3.4%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Total current assets	**37.2%**	**38.0%**	**41.6%**	**39.8%**	**43.1%**	**41.7%**	**42.8%**	**43.7%**	**46.5%**	**50.0%**	**53.9%**
Property, plant & equipment, net	46.3%	45.3%	48.8%	47.0%	45.0%	42.0%	38.6%	36.0%	33.4%	31.4%	29.7%
Operating lease right-of-use assets, net	44.2%	35.5%	33.6%	32.3%	31.0%	28.9%	26.6%	24.8%	23.0%	21.6%	20.4%
Tradenames & trademarks	45.5%	35.4%	33.0%	31.2%	28.8%	26.7%	24.4%	22.8%	21.3%	20.2%	19.3%
Other intangible assets, net	3.3%	2.3%	1.8%	1.5%	1.1%	0.8%	0.6%	0.4%	0.2%	0.0%	0.0%
Goodwill	62.6%	49.6%	46.3%	43.8%	40.5%	37.5%	34.3%	32.0%	30.0%	28.3%	27.1%
Deferred taxes, net	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other assets, net	8.2%	8.9%	9.2%	9.0%	9.0%	9.0%	8.8%	8.8%	8.8%	8.8%	8.8%
Total assets	**247.3%**	**215.0%**	**214.3%**	**204.6%**	**198.6%**	**186.5%**	**176.1%**	**168.5%**	**163.2%**	**160.3%**	**159.3%**
LIABILITIES AND SHAREHOLDERS' EQUITY											
Current Liabilities											
Accounts payable & accrued expenses	15.7%	14.5%	14.4%	14.5%	15.0%	14.8%	14.7%	14.6%	14.6%	14.6%	14.6%
Accrued employee compensation & benefits	4.1%	3.4%	3.4%	3.7%	3.7%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Asset-based credit facilities	0.3%	5.5%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Operating lease liabilities, short-term	2.3%	1.9%	1.8%	1.7%	1.6%	1.5%	1.4%	1.3%	1.2%	1.1%	1.1%
Construction advances	0.7%	0.9%	1.0%	0.9%	0.9%	0.8%	0.8%	0.7%	0.7%	0.6%	0.6%
Deferred revenue	3.0%	2.4%	2.8%	2.8%	3.0%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%
Current Portion of long-term debt	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred taxes	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other current liabilities	1.5%	0.9%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Total current liabilities	**27.6%**	**29.4%**	**27.4%**	**27.6%**	**28.2%**	**27.4%**	**27.1%**	**26.8%**	**26.7%**	**26.6%**	**26.5%**
Long-term debt, net	32.7%	29.4%	35.4%	32.7%	31.5%	29.8%	28.0%	26.6%	25.3%	24.2%	23.4%
Operating lease liabilities, long-term	44.2%	36.0%	33.8%	32.6%	31.2%	29.1%	26.8%	24.9%	23.1%	21.7%	20.6%
Deemed landlord financing obligations, long-term	14.7%	16.5%	17.5%	15.5%	16.1%	13.9%	12.8%	11.1%	10.3%	9.7%	9.2%
Income taxes payable	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred taxes, net	5.2%	2.9%	3.6%	3.6%	3.4%	3.2%	2.9%	2.8%	2.7%	2.6%	2.5%
Other long-term liabilities	5.2%	6.3%	6.5%	6.5%	6.5%	6.3%	6.0%	6.0%	6.0%	6.0%	6.0%
Total liabilities	**129.7%**	**120.5%**	**124.1%**	**118.1%**	**116.9%**	**108.8%**	**102.6%**	**96.6%**	**92.1%**	**88.6%**	**85.7%**
Common Equity	97.4%	75.4%	70.7%	67.1%	62.4%	57.9%	53.0%	49.5%	46.3%	43.8%	42.0%
Retained earnings (accumulated deficit)	21.8%	21.3%	22.1%	22.0%	22.1%	22.7%	23.4%	25.3%	27.7%	30.8%	34.3%
Accumulated other comprehensive income (loss)	-0.9%	-1.5%	-1.4%	-1.4%	-1.3%	-1.2%	-1.1%	-1.0%	-0.9%	-0.9%	-0.8%
Less: common stock held in treasury, at cost	-0.8%	-0.8%	-1.1%	-1.4%	-1.6%	-1.7%	-1.8%	-2.0%	-2.0%	-1.9%	-1.9%
Non-controlling interest in consolidated entity	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total shareholders' equity	**117.5%**	**94.5%**	**90.2%**	**86.5%**	**81.6%**	**77.7%**	**73.5%**	**71.9%**	**71.0%**	**71.7%**	**73.6%**
Total liabilities and shareholders' equity	**247.3%**	**215.0%**	**214.3%**	**204.6%**	**198.6%**	**186.5%**	**176.1%**	**168.5%**	**163.2%**	**160.3%**	**159.3%**

TopGolf Callaway Brands

Value Driver Estimation

Fiscal Years Ending Dec. 31	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
NOPLAT:											
Net Revenues	3,133	3,996	4,285	4,532	4,899	5,292	5,784	6,197	6,622	7,000	7,307
Cost of products	(1,137)	(1,401)	(1,449)	(1,489)	(1,531)	(1,613)	(1,686)	(1,751)	(1,820)	(1,879)	(1,933)
Costs of services	(134)	(184)	(204)	(228)	(252)	(289)	(327)	(354)	(387)	(414)	(438)
Other venue expenses	(732)	(1,077)	(1,162)	(1,277)	(1,451)	(1,607)	(1,835)	(2,017)	(2,195)	(2,371)	(2,505)
Depreciation	(143)	(178)	(199)	(241)	(256)	(265)	(267)	(268)	(268)	(266)	(264)
Amortization	(13)	(15)	(14)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(1)
SG&A	(694)	(778)	(857)	(929)	(1,004)	(1,058)	(1,157)	(1,208)	(1,291)	(1,330)	(1,388)
R&D	(68)	(76)	(94)	(100)	(98)	(106)	(116)	(124)	(132)	(140)	(146)
Venue pre-opening costs	(9)	(30)	(35)	(22)	(29)	(21)	(20)	(14)	(14)	(8)	(6)
Add: Implied Interest on Operating Leases	10	78	79	81	82	85	86	86	86	85	85
EBIT	**215**	**334**	**350**	**316**	**349**	**407**	**452**	**535**	**590**	**667**	**710**
Income Tax Provision	29	(16)	25	14	22	31	41	57	69	85	94
Add: Tax Shield on Interest Expense	23	27	32	35	34	36	36	37	36	37	37
Add: Tax Shield on Goodwill and Intang Asset Impairment	-	-	-	-	-	-	-	-	-	-	-
Add: Tax Shield on Implied Interest on Operating Leases	2	15	17	17	17	18	18	18	18	18	18
Less: Tax on Interest Income	-	-	-	-	-	-	-	-	-	-	-
Less: Tax on Investment Gain of Golf Ventures	(50)	-	-	-	-	-	-	-	-	-	-
Less: Tax on Other Income	(2)	(5)	-	-	-	-	-	-	-	-	-
Total Adjusted Taxes	**2**	**21**	**73**	**66**	**73**	**85**	**94**	**112**	**123**	**139**	**148**
Change in Deferred Taxes	**8**	**(31)**	**37**	**7**	**5**	**1**	**2**	**3**	**3**	**4**	**4**
NOPLAT	**222**	**282**	**314**	**257**	**282**	**324**	**359**	**426**	**470**	**532**	**566**
Invested Capital (IC):											
Operating current assets											
Normal Cash	156	199	214	226	244	264	288	309	330	349	364
Accounts receivable	105	167	201	204	220	238	260	279	298	315	329
Inventories	533	959	793	861	955	1032	1122	1196	1278	1351	1410
Prepaid expenses	54	57	68	72	77	84	91	98	105	111	115
Income taxes receivable	-	-	-	-	-	-	-	-	-	-	-
Other current assets	119	136	150	159	171	185	202	217	232	245	256
Less: Operating current liabilities											
Accounts payable & accrued expenses	(491)	(580)	(617)	(657)	(735)	(783)	(850)	(905)	(967)	(1,022)	(1,067)
Accrued employee compensation & benefits	(129)	(135)	(146)	(168)	(181)	(185)	(202)	(217)	(232)	(245)	(256)
Deferred revenue	(94)	(95)	(120)	(127)	(147)	(143)	(156)	(167)	(179)	(189)	(197)
Other current liabilities	(48)	(35)	(43)	(45)	(49)	(53)	(58)	(62)	(66)	(70)	(73)
Net Operating Working Capital	**207**	**674**	**500**	**524**	**557**	**639**	**698**	**748**	**799**	**845**	**882**
Non-current operating assets											
Property, plant & equipment, net	1451	1810	2093	2132	2206	2221	2235	2232	2214	2198	2169
Operating lease right-of-use assets, net	1385	1419	1439	1466	1517	1528	1537	1535	1522	1512	1492
Tradenames & trademarks	1,425	1413	1413	1413	1413	1413	1413	1413	1413	1413	1413
Other intangible assets, net	103	91	77	66	55	44	33	22	12	1	0
Other assets, net	257	355	394	408	441	476	509	545	583	616	643
Less: Non-current operating liabilities											
Income taxes payable	-	-	-	-	-	-	-	-	-	-	-
Invested Capital	**4829**	**5762**	**5915**	**6009**	**6188**	**6320**	**6424**	**6495**	**6542**	**6584**	**6599**
Free Cash Flow (FCF):											
NOPLAT	222	282	314	257	282	324	359	426	470	532	566
Change in IC	3,595	933	154	93	180	132	104	70	48	42	14
FCF	**-3374**	**-650**	**160**	**164**	**102**	**192**	**255**	**356**	**422**	**490**	**552**
Return on Invested Capital (ROIC):											
NOPLAT	222	282	314	257	282	324	359	426	470	532	566
Beginning IC	1234	4829	5762	5915	6009	6188	6320	6424	6495	6542	6584
ROIC	**17.97%**	**5.85%**	**5.44%**	**4.35%**	**4.69%**	**5.23%**	**5.68%**	**6.63%**	**7.24%**	**8.13%**	**8.60%**
Economic Profit (EP):											
Beginning IC	1234	4829	5762	5915	6009	6188	6320	6424	6495	6542	6584
x (ROIC - WACC)	10.20%	-1.92%	-2.33%	-3.42%	-3.09%	-2.54%	-2.09%	-1.14%	-0.53%	0.36%	0.83%
EP	**126**	**-93**	**-134**	**-203**	**-185**	**-157**	**-132**	**-73**	**-35**	**23**	**54**

TopGolf Callaway Brands
Weighted Average Cost of Capital (WACC) Estimation

Cost of Equity:		*ASSUMPTIONS:*
Risk-Free Rate	4.30%	*YTM on 10-year Treasury*
Beta	1.26	*Average of 1Y, 2Y, and 3Y weekly returns*
Equity Risk Premium	5.00%	*Henry Fund consensus*
Cost of Equity	**10.60%**	
Cost of Debt:		
Risk-Free Rate	4.30%	*YTM on 10-year Treasury*
Implied Default Premium	3.13%	
Pre-Tax Cost of Debt	7.43%	*YTM on 10-year B+ Rated Corporate Bonds (Bloomberg)*
Marginal Tax Rate	21%	
After-Tax Cost of Debt	**5.88%**	

Market Value of Common Equity:		**MV Weights**
Total Shares Outstanding	184.36	
Current Stock Price	$14.24	
MV of Equity	**2,625.25**	40.10%
Market Value of Debt:		
Asset-based credit facilities	130	
Operating lease liabilities, short-term	76	
Long-term debt, net	1,518	
Operating lease liabilities, long-term	1,449	
DLF obligations, long-term	748	
MV of Total Debt	**3,921.38**	59.90%
Market Value of the Firm	**6,546.63**	100.00%

Estimated WACC	**7.77%**

TopGolf Callaway Brands

Discounted Cash Flow (DCF) and Economic Profit (EP) Valuation Models

Key Inputs:	
CV Growth of NOPLAT	5.00%
CV Year ROIC	8.60%
WACC	7.77%
Cost of Equity	10.60%

Fiscal Years Ending Dec. 31	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
DCF Model:								
Free Cash Flow (FCF)	164	102	192	255	356	422	490	
Continuing Value (CV)								8547
PV of FCF	152	88	153	189	245	269	290	5062
Value of Operating Assets:	6448							
Add: Excess Cash	*357*							
Less: Asset-based credit facilities	*(130)*							
Less: Operating lease liabilities, S-T	*(76)*							
Less: Long-term debt, net	*(1518)*							
Less: Operating lease liabilities, L-T	*(1449)*							
Less: DLF financing obligations, L-T	*(748)*							
Less: PV of ESOP	*(6)*							
Value of Equity	2878							
Shares Outstanding	184.36							
Intrinsic Value of Last FYE	$ 15.61							
Implied Price as of Today	$ 15.90							
EP Model:								
Economic Profit (EP)	-203	-185	-157	-132	-73	-35	23	54
Continuing Value (CV)								1963
PV of EP	-188	-160	-126	-98	-51	-22	14	1163
Total PV of EP	533							
Invested Capital (last FYE)	5915							
Value of Operating Assets:	6448							
Add: Excess Cash	*357*							
Less: Asset-based credit facilities	*(130)*							
Less: Operating lease liabilities, S-T	*(76)*							
Less: Long-term debt, net	*(1518)*							
Less: Operating lease liabilities, L-T	*(1449)*							
Less: DLF financing obligations, L-T	*(748)*							
Less: PV of ESOP	*(6)*							
Value of Equity	2878							
Shares Outstanding	184.36							
Intrinsic Value of Last FYE	$ 15.61							
Implied Price as of Today	$ 15.90							

TopGolf Callaway Brands

Dividend Discount Model (DDM) or Fundamental P/E Valuation Model

Fiscal Years Ending	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
EPS	$ 0.29	$ 0.45	$ 0.64	$ 0.84	$ 1.19	$ 1.44	$ 1.77	$ 1.96
Key Assumptions								
CV growth of EPS	5.00%							
CV Year ROE	7.07%							
Cost of Equity	10.60%							
Future Cash Flows								
P/E Multiple (CV Year)								5.23
EPS (CV Year)								$ 1.96
Future Stock Price								$ 10.25
Dividends Per Share	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
Discounted Cash Flows	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 5.06
Intrinsic Value as of Last FYE	$ 5.06							
Implied Price as of Today	$ 5.16							

TopGolf Callaway Brands

Relative Valuation Models

Ticker	Company	Price	EPS 2024E	EPS 2025E	P/E 24	P/E 25	EV (M) 2024	EBITDA (M) 2024E	EV/EBITDA 2024E	Sales/Share 2024E	Sales/Share 2025E	P/S 24	P/S 25	*Weight*
GOLF	Acushnet Holdings Corp.	$ 69.30	$ 3.26	$ 3.64	21.26	19.04	5248	373.0	14.07	36.72	37.66	1.89	1.84	*0.32*
BOWL	Bowerlo Corp.	$ 12.31	$ (0.06)	$ 0.39		31.56	3078	376.0	8.19	7.71	8.42	1.60	1.46	*0.21*
PLAY	Dave & Buster's	$ 63.90	$ 3.21	$ 4.42	19.91	14.46	3844	530.0	7.25	55.06	58.62	1.16	1.09	*0.21*
DKS	Dick's Sporting Goods	$ 172.67	$ 12.41	$ 12.91	13.91	13.37	14403	1722.0	8.36	157.65	160.47	1.10	1.08	*0.09*
COLM	Columbia Sportswear	$ 82.73	$ 3.68	$ 4.36	22.48	18.97	4251	408.0	10.42	56.19	59.61	1.47	1.39	*0.09*
NKE	Nike	$ 105.66	$ 3.60	$ 4.22	29.35	25.04	160600	7131.0	22.52	34.02	36.15	3.11	2.92	*0.09*
				Average	**21.38**	**20.71**			**11.35**			**1.44**	**1.37**	
MODG	TopGolf Callaway Brands	$ 14.24	$0.29	$ 0.45	49.3	31.7	5,976	487.3	12.26	24.64	26.69	0.58	0.53	

Implied Relative Value:

P/E (EPS24)	**$ 6.18**	
P/E (EPS25)	**$ 9.31**	
EV/EBITDA	**$ 11.82**	
P/S (Sales 24)	**$ 35.54**	***excludes NKE*
P/S (Sales 25)	**$ 36.60**	***excludes NKE*

Weights were dervied from MODG's revenue decomposition.
A weighted average was used for relative valuations in which no outliers or missing values were present (P/E 25, EV/EBITDA).

TopGolf Callaway Brands
Key Management Ratios

Fiscal Years Ending Dec. 31	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Liquidity Ratios:											
Current Ratio (CA/CL)	1.3	1.3	1.5	1.4	1.5	1.5	1.6	1.6	1.7	1.9	2.0
Quick Ratio ((Cash + A/R)/CL)	0.5	0.3	0.7	0.6	0.7	0.6	0.7	0.7	0.8	1.0	1.1
Cash Ratio (Cash/CL)	0.4	0.2	0.5	0.4	0.5	0.5	0.5	0.6	0.7	0.8	0.9
Asset-Management Ratios:											
Inventory Turnover (COGS/Inventory)	2.4	1.7	2.1	2.0	1.9	1.8	1.8	1.8	1.7	1.7	1.7
Days Sales Outstanding ((Beg. A/R / Sales)*365)	16.1	9.6	14.3	16.2	15.2	15.2	15.0	15.3	15.4	15.5	15.7
Fixed Asset Turnover (Sales/Beg. Net PPE)	21.4	2.8	2.4	2.2	2.3	2.4	2.6	2.8	3.0	3.2	3.3
Financial Leverage Ratios:											
D/E Ratio (TL/TSE)	1.1	1.3	1.4	1.4	1.4	1.4	1.4	1.3	1.3	1.2	1.2
Debt/Capital (Total Debt/Total Capital)	44.5%	48.6%	50.4%	49.7%	50.5%	49.9%	49.5%	48.2%	47.0%	45.5%	43.8%
Interest Coverage (EBIT/Interest Expense)	1.8	1.8	1.8	1.4	1.6	1.9	2.1	2.6	2.9	3.3	3.5
Profitability Ratios:											
Operating Margin (EBIT/Sales)	6.5%	6.4%	6.3%	5.2%	5.4%	6.1%	6.3%	7.2%	7.6%	8.3%	8.6%
Profit Margin (NI/Sales)	10.3%	4.0%	2.2%	1.2%	1.7%	2.2%	2.7%	3.5%	3.9%	4.6%	4.9%
Return on Equity (NI/Beg TSE)	47.7%	4.3%	2.5%	1.4%	2.1%	3.0%	3.7%	5.1%	5.9%	6.8%	7.1%
Return on Assets (NOPLAT/Beg TA)	11.2%	3.6%	3.7%	2.8%	3.0%	3.3%	3.6%	4.2%	4.5%	4.9%	5.0%
Payout Policy Ratios:											
Dividend Payout Ratio (Dividend/EPS)	0.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Payout Ratio ((Divs. + Repurchases)/NI)	12.4%	22.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

TopGolf Callaway Brands

Present Value of Operating Lease Obligations

Fiscal Years Ending Dec. 31	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Operating lease ROU assets, net	**1385**	**1419**	**1439**	**1466**	**1517**	**1528**	**1537**	**1535**	**1522**	**1512**	**1492**
Weighted Avg Discount Rate	5.30%	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%
Interest on Oper. Leases	**10.3**	**77.5**	**79.5**	**80.6**	**82.1**	**85.0**	**85.5**	**86.1**	**85.9**	**85.3**	**84.7**

TopGolf Callaway Brands
Effects of ESOP Exercise and Share Repurchases on Common Stock Account and Number of Shares Outstanding

Number of Options Outstanding (shares):	1.9
Average Time to Maturity (years):	3.72
Expected Annual Number of Options Exercised:	0.51
Current Average Strike Price:	$ 26.97
Cost of Equity:	10.60%
Current Stock Price:	$14.24

Fiscal Years Ending Dec. 31	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Increase in Shares Outstanding:	0.51	0.51	0.51	0.37	0.00	0.00	0.00	0.00	0.00
Average Strike Price:	$ 26.97	$ 26.97	$ 26.97	$ 26.97	$ 26.97	$ 26.97	$ 26.97	$ 26.97	$ 26.97
Increase in Common Stock Account:	**13.8**	**13.8**	**13.8**	**9.9**	**-**	**-**	**-**	**-**	**-**
Share Repurchases ($)	15	15	15	15	15	15	10	5	0
Expected Price of Repurchased Shares:	$14.24	$ 15.75	$ 17.42	$ 19.27	$ 21.31	$ 23.57	$ 26.06	$ 28.83	$ 31.88
Number of Shares Repurchased:	**1.1**	**1.0**	**0.9**	**0.8**	**0.7**	**0.6**	**0.4**	**0.2**	**-**
Shares Outstanding (beginning of the year)	184.9	184.4	183.9	183.6	183.2	182.5	181.8	181.4	181.3
Plus: Shares Issued Through ESOP	0.51	0.51	0.51	0.37	0.00	0.00	0.00	0.00	0.00
Less: Shares Repurchased in Treasury	1.1	1.0	0.9	0.8	0.7	0.6	0.4	0.2	0.0
Shares Outstanding (end of the year)	**184.4**	**183.9**	**183.6**	**183.2**	**182.5**	**181.8**	**181.4**	**181.3**	**181.3**

TopGolf Callaway Brands
Valuation of Options Granted under ESOP

Current Stock Price	$14.24
Risk Free Rate	0.60%
Current Dividend Yield	0.00%
Annualized St. Dev. of Stock Returns	55.10%

Range of Outstanding Options	Number of Shares	Average Exercise Price	Average Remaining Life (yrs)	B-S Option Price	Value of Options Granted
$6.52 - $35.14	1.9	26.97	3.72	$ 3.33	$ 6
Total	1.9	$ 26.97	3.72	$ 3.33	**$ 6**

TopGolf Callaway Brands

Sensitivity Tables

Beta (columns) vs. Equity Risk Premium (rows)

15.90	1.11	1.16	1.21	1.26	1.31	1.36	1.41
4.70%	22.16	20.61	19.18	17.86	16.62	15.46	14.38
4.80%	21.41	19.90	18.49	17.18	15.96	14.83	13.76
4.90%	20.70	19.20	17.82	16.53	15.33	14.22	13.17
5.00%	20.00	18.53	17.17	15.90	14.73	13.63	12.60
5.10%	19.34	17.89	16.55	15.30	14.14	13.06	12.04
5.20%	18.69	17.27	15.94	14.72	13.57	12.51	11.51
5.30%	18.07	16.66	15.36	14.15	13.03	11.98	11.00

CV Cost of Products (columns) vs. CV Cost of Services (rows)

15.90	56.9%	57.1%	57.3%	57.5%	57.7%	57.9%	58.1%
10.8%	19.12	18.43	17.74	17.05	16.36	15.67	14.98
10.9%	18.74	18.05	17.36	16.67	15.98	15.29	14.60
11.0%	18.36	17.67	16.98	16.29	15.60	14.91	14.22
11.1%	17.97	17.28	16.59	15.90	15.22	14.53	13.84
11.2%	17.59	16.90	16.21	15.52	14.83	14.14	13.45
11.3%	17.21	16.52	15.83	15.14	14.45	13.76	13.07
11.4%	16.82	16.14	15.45	14.76	14.07	13.38	12.69

Risk-Free Rate (columns) vs. Pre-Tax Cost of Debt (rows)

15.90	3.85%	4.00%	4.15%	4.30%	4.45%	4.60%	4.75%
7.13%	20.41	19.49	18.62	17.79	17.00	16.23	15.51
7.23%	19.66	18.78	17.94	17.14	16.37	15.64	14.93
7.33%	18.94	18.10	17.29	16.51	15.77	15.06	14.38
7.43%	18.25	17.43	16.65	15.90	15.19	14.50	13.84
7.53%	17.58	16.80	16.04	15.32	14.62	13.96	13.32
7.63%	16.94	16.18	15.45	14.75	14.08	13.43	12.81
7.73%	16.31	15.58	14.87	14.20	13.55	12.92	12.32

CV Other Venue Expenses (columns) vs. CV SG&A (rows)

15.90	63.2%	63.3%	63.4%	63.5%	63.6%	63.7%	63.8%
18.4%	21.34	20.95	20.55	20.16	19.77	19.38	18.98
18.6%	19.92	19.53	19.13	18.74	18.35	17.96	17.56
18.8%	18.50	18.11	17.72	17.32	16.93	16.54	16.15
19.0%	17.08	16.69	16.30	15.90	15.51	15.12	14.73
19.2%	15.66	15.27	14.88	14.49	14.09	13.70	13.31
19.4%	14.24	13.85	13.46	13.07	12.67	12.28	11.89
19.6%	12.83	12.43	12.04	11.65	11.26	10.86	10.47

CV New Topgolf Locations/yr (columns) vs. CV Growth Revenue/Venue (rows)

15.90	0	1	2	3	4	5	6
0.50%	15.70	15.61	15.52	15.43	15.34	15.25	15.16
1.50%	15.85	15.77	15.68	15.59	15.50	15.41	15.32
2.50%	16.01	15.92	15.83	15.75	15.66	15.57	15.48
3.50%	16.17	16.08	15.99	15.90	15.82	15.73	15.64
4.50%	16.32	16.23	16.15	16.06	15.98	15.89	15.81
5.50%	16.48	16.39	16.31	16.22	16.14	16.05	15.97
6.50%	16.63	16.55	16.46	16.38	16.30	16.21	16.13

CV Inventory (columns) vs. CV Accounts Payable (rows)

15.90	18.0%	18.5%	19.0%	19.5%	20.0%	20.5%	21.0%
14.0%	16.38	16.04	15.70	15.36	15.02	14.69	14.35
14.2%	16.52	16.18	15.84	15.50	15.16	14.82	14.48
14.4%	16.65	16.31	15.97	15.63	15.29	14.96	14.62
14.6%	16.79	16.45	16.11	15.77	15.43	15.09	14.75
14.8%	16.92	16.58	16.24	15.90	15.57	15.23	14.89
15.0%	17.06	16.72	16.38	16.04	15.70	15.36	15.02
15.2%	17.19	16.85	16.51	16.17	15.84	15.50	15.16

IQR Price Range

	Q1	Q3
Beta vs. ERP	$13.95	$18.28
Rf vs. Rd	$14.56	$17.36
CV Topgolf vs. CV G	$15.63	$16.19
CV CoP vs. CV CoS	$14.68	$17.13
CV OVE vs. CV SG&A	$13.38	$18.43
CV Inv vs. CV A/P	$15.16	$16.38
Average	$14.56	$17.29
Median	$14.62	$17.25