# Topgolf Callaway Brands Corp.

## Virtual Investor Event

## Thursday, June 01, 2023, 2:00 PM Eastern

**CORPORATE PARTICIPANTS**

**Chip Brewer** - *President and Chief Executive Officer*

**Artie Starrs** - *Chief Executive Officer, Topgolf*

**Brian Lynch** - *Chief Financial Officer*

**Lauren Scott** - *Director of Investor Relations*

**PRESENTATION**

**Operator**
Welcome to the Topgolf Callaway Brands Virtual Investor Event with Topgolf's CEO, Artie Starrs. All participants will be in a listen-only mode. You may submit online questions at any time today using the window on the webcast. Please note, this event is being recorded.

I would now like to turn the conference over to your host, Ms. Lauren Scott, Director of Investor Relations. Please go ahead, madam.

**Lauren Scott**
Thank you. Hi everyone, and thank you for joining us today. I am Lauren Scott, Director of Investor Relations for Topgolf Callaway Brands. Today's session will last approximately an hour and a half and will consist of a presentation followed by Q&A.

During the presentation, Chip Brewer, our President and CEO will provide a brief introduction and hand the call to Artie Starrs, Topgolf's CEO for a deep dive on the brand new business. After the presentation, we'll hold a live Q&A session with Chip, Artie, and Brian Lynch, our CFO.

We will be taking questions from our covering research analysts over the phone and will also be addressing questions that are entered via the webcast portal which I will relay to our speakers. Please note that this call is intended to focus on the Topgolf's business that we ask that you keep your questions focused largely on this segment.

Before turning the call to Chip, I want to call our safe harbor slide. As a reminder, comments today will include forward-looking statements regarding our future plans and projected performance, and our actual performance may differ from the statements made today. Information on our risk factors that could affect our business are available in our SEC filings. We will refer to certain non-GAAP measures today, which you can find reconciliations following the appendix with the presentation.

And with that, I'll turn the call to Chip for introductory remarks.

**Chip Brewer**
Thank you, Lauren. Hello everyone and thanks for joining us today. I'm Chip Brewer, President and CEO of Topgolf Callaway Brands, the leader in modern golf. Modern golf is an exciting and growing space made-up of traditional on course golf combined with the dynamic and inclusive off course golf phenomenon. At Topgolf Callaway Brands we're proven operators with attractive and unique assets, and we have an unrivaled competitive position and structural growth.

Our business is comprised of three segments that feed on and support each other. First is our legacy golf equipment business, approximately $1.4 billion in revenues last year, a proven business with strong profitability. Second is our active lifestyle segment. This segment was approximately $1 billion in revenues in 2022, and is made-up of three primary brands, Callaway, Jack Wolfskin and TravisMathew. It's both high growth and generates positive cash flow.

Last but not least is Topgolf, our largest segment from both the revenue perspective and growth. A business that is transforming both our company and the game of golf at large. An amazing business that we're going to dive deeply into today with the help of its CEO, Artie Starrs.

Looking at this slide, it's clear that we have a growth story with strong competitive dynamics and compelling financials. The chart shows our April 2021 Investor Day growth targets for the years 2021 through 2025. These are 10% to 12% annual revenue growth and 15% to 18% EBITDA growth, delivering at least $800 million in total company EBITDA by 2025 and we're tracking at or above these targets. Within this, Topgolf is expected to be approximately one half of this year's projected EBITDA and is the biggest part of our growth and profitability story long term.

And with that, I'll turn the presentation over to Artie Starrs to dig deeper into this exciting business.

**Artie Starrs**
Thanks, Chip. Good morning, everybody. I'm Artie, and I'm excited to talk to you today about Topgolf. I'll give you a general overview of our business, specifically our venue business. It's improving unit economics, our short…and our short and long term growth levers. I've led the business and had this privilege to do so for the last two years, proud of our team and the improvements that we've made. But I really just believe we're just getting started.

At Topgolf, we're on a mission, as a brand we're on a mission to grow, evolve and expand access to player participation in the game of golf. Through creating a more fun, a more simple and easier ways to play this great game. We track our success through balls, hit a very simple measurement, and have statistically found that this is a measurement of player satisfaction or joy highly correlated with revenue per player and likeliness to return. And it's a call to action that informs our game innovation and player hospitality commitments on the T-line every single day. We track this daily and just last week reported at our Global Company Summit. We are on track to meet this robust 50 billion balls hit goal.

Now we're a driving force at Topgolf and all of us playmakers here are proud of the role that we're playing in the game. Approximately 40% of our players are female. 40% of our players are nonwhite, and this is adding to the diversity of the modern golf ecosystem that Chip talks about as we are representative of the communities we serve. Half our players are non-golfers, defined as those who otherwise would play once…at least once a year. And as we shared on our last earnings call, a growing number of golfers, 10% of new golfers are attributing off course golf as their entry point into picking up the game and entering the modern golf ecosystem. We tend to build in highly visible and desirable retail dense locations. And while our frequency levels are currently relatively low, we view this as a significant opportunity which is informing our digital strategy, which I'll talk about in more detail shortly.

On the venue business, as I mentioned, this is the focus for today and specifically our U.S., venue business. Our overall venue business today constitutes 95% of revenues. The growth model is fairly simple, same venue sales margin expansion and our development pipeline. Our confidence in the growth model has increased over the past year as the strategy of focusing on the bay experience. What you see right behind me is working and we have significant runway ahead as evidenced by our enhanced new venue return Targets.

We believe we have a proven and repeatable model and one of the drivers of these improved returns is driven by Topgolf benefiting from being a part of Topgolf Callaway Brands. It has allowed us to achieve scale benefits and create synergies among the brands and accelerate growth. We currently have 82 owned and operated venues opened one in the first quarter in Charleston, South Carolina and expect to open two more over the next month. We're on track to have 92 open at year end toting totaling 11 openings for this year. And the returns we're seeing are strong. The improved returns targets are a result of the continued success we are seeing in new venue openings combined with actual venue performance in our venues with longer operating history. I want to highlight specifically the 2.5 years payback, two and half years, when we review venues internally. When I sit in underwriting meetings, we are specifically citing a fully loaded month payback as a key determinant of financial success.

Now looking back on 2022, I'd like to take a moment to just underscore last year's results as they provided key learning's of what this business is capable of achieving in '23 and beyond. Last year, we built and successfully opened 11 venues. In fact, we had six open in six weeks. This is a tough putt using golf language, but we did it. We can grow comp sales with a balance of traffic and price with approximately a third of our growth coming from traffic. And throughout the year, we made improvements in bay utilization. Measured at peak times when we are on a weight and digital, these are linked and the roll out of PIE, our popularity inventory engine had a lot to do with this, but we have significant runway ahead to improve both and we are.

Perhaps most exciting is the continued growth in EBITDAR margin despite increasing our investment in marketing broad inflation pressure. And specifically, a significant increase in wages and while not relying on price to do so, we improved EBITDAR margin significantly. That said, we believe we have room to take more price in 2023 as we have seen little to no resistance to-date specifically at peak demand.

As I mentioned earlier, I'm going to walk you through our growth pillars. comp growth same venue sales, margin expansion in our development pipeline. Let me go into each one of these in a bit more detail.

On sales and comp growth, if we look back a few years ago at Topgolf, the business and strategy was focused on walk in which was really walk up players. The concept started, we started selling a bucket of balls, and we built the corporate events business selling and executing larger events.

Over the last couple of years, we've listened to our players, studied the consumer and developed a comprehensive strategy to allow for reservations and their desire to plan ahead and to serve smaller group occasions. We started offering a smaller group event as an extension of our event sales team and we are in the process of migrating that into a digital product.

PIE our popularity inventory engine enabled us to better cater to the needs of our players. We can offer easier access, provide more value and better meet more of our player's needs. And we are seeing this with our digitally booked two bay players returning more often than through traditional events booking. This also frees up our events team to go after the largest, most profitable bay utilizing events. 2-bay bookings are now 10% of our business and growing. And broadly, all of its corporate and social 2-bay we view as our Happy Meal. It's like the introduction to the brand and the Topgolf experience in the same way we all got at McDonald's when we were kids.

Now, specifically on PIE as you can see is a key unlock and let me provide a bit more detail on where it came from, what it's currently doing and what it will enable in the future. As a reminder, our most prevalent player complaint is wait times. I hear this all the time. In most venues, this is Friday and Saturday nights and Sunday afternoons. And it's not uncommon to experience two, three and even four hour plus wait times at Topgolf. Because of the various channels of access, we've built large events, small events, walk in, reservations, and walk up. Managing this inventory, especially when players…when all players were allowed to extend their time, is extremely complex.

In addition, we sell our game play in the form of time. And while many players were walking up the cost, group size and specialness of the Topgolfer occasion, it's clear players were planning. We just weren't allowing them to do so. There had to be a digital solution for this. That's a win for the player, a win for our playmakers and our teams. That would also provide incremental economics and allow us to grow faster with greater flow through.

In the restaurant world where I came from previously you just turn digital ordering on and connect it to your point of sale. In this business, we needed business rules and logic to develop an algorithm and follow on in venue training to allow our directors of operations to manage demand better. That's what PIE is, an internally developed tool based on years of operating these venues informed by the operators themselves that connects the player to the occasion. With bay utilization as the primary output function, it's paying off now and setting us up for the long term to do much more.

Currently, we are seeing just north of 2% sales lift as venues roll on to PIE. We had PIE at 36 venues by the end of Q1 and we'll be in all venues by your end. It immediately drives digital mix as more reservations are available. And gives us the ability to charge different reservation fees based on time of day, and provides more predictability for our operators and how to staff.

We are thrilled with how it's going, but we're much more excited about what it will enable in terms of comp growth and margin expansion in the future, immediately expands our digital mix and thus digital engagement having relevant communication with our players. It will allow for demand smoothing by using price to minimize wait times during peak and sell bays when demand is less, such as earlier in the week on Mondays, Wednesdays and Thursdays specifically. It allows for pricing opportunities for premium experiences, such as a middle bay on the third floor on a Friday night and perhaps most importantly, variable length reservations shorter times for smaller groups, longer times for larger groups.

Let me touch on the marketing piece for a moment. And there's a lot that we're doing to capitalize on better…bay utilization, but one of the biggest areas of opportunity is continuing to increase our brand awareness. Our marketing campaign with the tagline 'come play around' plus the buzz on social media we create with new openings both locally and nationally and with our brand ambassadors, we are driving significant improvement in our brand awareness.

Our in Venue Media partnerships model is also evolving where we are moving from a large number of small local or regional partners to a select group of brand building national partners. Late last year we announced a multiyear agreement with Honda Acura as our national auto partner. These deals are win-wins. Honda is a long time PGA to our sponsor and has been long embedded in the game of golf. They saw the opportunity to present their brand in a unique way to potential customers. We saw a world class brand that develops automobiles relevant to our player base. You can expect more of these deals and selected large verticals that will be complementary to our brand identity and accretive to our unit economics.

And a bit on the fun side, you may have seen Marcus Smart and Al Horford, the Boston Celtics tell the story of what drove there down three games to the Miami Heat comeback to tie the series up last week. They referenced in interviews and social media canceling a team film session to reset their team dynamic by going to Topgolf in Miami before game four of the

Eastern Conference Finals.  There's a lot of buzz happening in a very organic way here at Topgolf.

All that being said, half of our players in our markets still don't know who we are, and we are going to continue to invest in building our brand awareness authentically.  We'll launch a second wave of the campaign in Q3 of this year and you'll begin to see more retail like messaging from us where we highlight specific existing promotions like our 50 off game play on Tuesdays, which we run in most markets, and periodic game and food and beverage innovation.  That said, the focus right now is driving awareness.

Looking ahead, we have a clear road map.  This growth in top line coupled with improved margins has created a step change in our venue economics.  We've materially improved the venue margins over the last two years through a more efficient labor model, simplifying our menu, which proved especially prudent during supply chain disruptions and focusing on the core F&B offerings our players want, that our playmakers can make well and quickly.

All of this while turning marketing on funding a significant increase in wages in the second-half of '22 and lapping unsustainable staffing levels across hospitality as we came out of the pandemic.  Today, we are tracking well against the 35% target, the majority of the improvement from our prior 32% plus guidance to 35% we are already seeing through continued labor and menu optimization.  And what I would generally call benefits of scale, both the scale of Topgolf and the scale of Topgolf Callaway Brands, between supplier contracts adding talent to key positions and engineering and food and beverage and our broader Topgolf Callaway Brands operating partners.  We are realizing the benefits.  But it's just the beginning.

When we add on to this the impact of digital as we roll out PIE across all venues and the immediate reservation fee mix, higher visibility into demand which impacts staffing levels and the opportunity to more dynamically price and adjust bay time per occasion which improves bay utilization.  We are confident in our ability to achieve our 35% target.

These economics are extremely attractive and revisiting them 35% margins across a variety of venue sizes, two and half year paybacks which we underwrite to and the 18% to 22% gross returns, many of our larger venues are already performing at or above these levels.  But I'd like to take a moment to discuss our real estate program for a minute, which has been a key enabler of our venue economics and allowed us to make this 35% target across the entire portfolio.

At the highest level, we are just getting started in building Topgolf both domestically and internationally.  Our progress of venue design and market fit, which I'll discuss shortly, is not only enabling our improved returns and paybacks, but has also expanded our addressable market.  We see 250 opportunities today with our current formats leaving just shy of 170 markets that we are tracking and working opportunities to build at various stages.  We see a similar opportunity internationally.  We're outside the UK and Canada.  We have franchise partners doing the same work.

On our pipeline our track record over the last two years has been strong and we've delivered on our commitments.  Beyond the 21 openings since the beginning of 2021 through the end of Q1 2023, we've expanded our presence in major West Coast markets like Los Angeles, San Francisco, bay Area and Seattle.  In these markets, development is much more complex and more expensive, but our performance has been outstanding.  And we've done this in smaller markets like Boise, Idaho, Fort Myers, Florida and Knoxville, Tennessee to name a few, where our performance has also been outstanding.

We're opening two new venues over the next month in King of Prussia, just outside of Philadelphia, Pennsylvania and St. Petersburg, Florida. And we remain on track to open 11 venues this year. And some examples of our venues. We're confident our suite have proven small, medium and large market designs, chosen based on our significant experience today balancing location, site visibility, growth rate of the trade area and cost position us very well to build out this addressable market. And we're particularly excited about our newest venue format. We're calling it internally the hybrid, the term we're borrowing from golf. This format maintains the key features that as a player you'd expect from Topgolf, but through a more efficient footprint that is optimized for market demand.

On the financing front, let me talk about the financing of these venues. We've long had a small group of trusted and outstanding real estate partners who have supported Topgolf and financed our venue construction and land purchase. The universe of partners has expanded in recent years as our business has grown. Our venue economics have improved since joining Topgolf Callaway Brands. This has allowed us to maintain competitive cap rates and successfully finance improvements on ground leases. Notwithstanding our balance sheet is in a position where we can sell finance venues if necessary. This gives us a significant competitive advantage to continue to develop our long term pipeline with credibility in the marketplace while actioning on the best sites we see for brand representation and long term venue economics.

Now, we're on track to be self-funding and free cash flow positive here at Topgolf in 2023. Our guidance for 2023 CAPEX is $190 million, which approximately 75% of this invested towards adding new venues, remodeling venues that have been open for some period of time eight, nine years and maintaining existing venues in a brand building way. Over the long term, this CAPEX will grow as new venues open. And in the short term, it may vary with the timing of reimbursements. Most importantly, we are confident our growth model of building new venues combined with the overall venue economics will result in improving free cash flow characteristics going forward. We're clearly at a tipping point in 2023.

Let me close by recapping our short and long term growth opportunities. First on 2023, which we believe will outperform our long term targets. On same venue sales PIE is working and driving 2% of comp growth and also helping us to continue to grow our walk in and two bay event business. We have the opportunity to take more base price and optimize pricing at peak demand. All of this leads to higher bay utilization when we met last year at Investor Day, we are running in the low 70s. We ended the year at 75%. We're now approaching 80% with still room to grow.

On the margin front, they have and will continue to significantly improve most of the actions needed to drive margins from 32% to 35%. we began to see late last year in the first part of this year, and we continue to see the benefits of scale I mentioned earlier. And digital growth enabled from PIE is only going to help. On the pipeline, we opened 11 last year, we'll open 11 this year, 2 more in the next 30 days and our multi-year pipeline is strong. I was just in market earlier this week.

Our new venues continue to perform very well against our target returns and we have ready enabled financing partners and can self-finance if necessary. And on the long term on same venue sales growth. We are in the early innings of brand awareness and digital significant upside. Our focus today is on bay utilization at peak, but over time awareness and digital will allow us to drive full week utilization. We're still at well less than 40% utilization looking at all hours across the week of a venue.

On margin expansion, one thing I cannot stress enough is we are still in the relatively early innings and maximizing the economics here.  Most of the work to-date over the last couple of years has been of the blocking and tackling nature, and we will continue to see the benefits of scaling in particular with our partnerships and large vendor contracts.

And on the development side, our track record is clear and building a venue…venues of this size is complex and challenging.  It takes real expertise, time, talent and a long term view.  Our development program is a material competitive advantage.  And oh, by the way, we're just talking about the addressable market today with our current venue designs.  I'm confident we'll have more and better iterations in the years to come.

Thank you for your time and back to you, Lauren.

**QUESTION AND ANSWER**

**Lauren Scott**
Great, Thanks Artie.  So now we'll move on to the Q&A portion of the call.  For our research analyst on the line to ask the question, you press "*" and then "1" on your telephone keypad and if you're using a speakerphone, please pick up your handset before pressing the keys.  To withdraw your question, you can press "*" and then "2." We ask that you limit your questions initially to one and a follow-up and then you can get back in the queue if you have additional questions.  For all other participants, please continue to use the webcast portal to submit questions and we will address as many as we can.  I've seen some coming in.  So thank you for submitting us already.  Operator, I'll hand it to you to take our first question from our analysts.

**Operator**
Thank you very much.  Our first question today will be from Joe Altobello from Raymond James. Please go ahead.

**Joe Altobello**
Thanks.  Hey guys.  Appreciate the question.  I guess first question not surprising, maybe kind of give us some insight into how you know trends are progressing here quarter to-date in April/May overall, and maybe kind of talk about you know walk-ins versus small events and corporate events and maybe any signs that the corporate business starting to recover at all?

**Artie Starrs**
Lauren you want me to take it?

**Lauren Scott**
Yes Artie you can.

**Artie Starrs**
Great.  Yes, you know we're not going to give intra quarter trend guidance, I think we'll just reiterate what we said in the last earnings call which you know we feel…we feel good about. What I'd say about balance of year, and we feel good about our plans for the balance of the year and our walk in business is very strong.  We are experiencing a little bit of softness.  We believe it's short term in the corporate events, but Chip…which Chip mentioned, but we've got ample opportunity to take some price.  And we're really excited about what's happening on digital.  You know as we get PIE on all these venues, it's just going to enable us to do a lot more for the player and have a more meaningful impact on [indiscernible].

**Joe Altobello**
I certainly appreciate that already. I guess just follow up on that, in the small events business, I think you guys talked about that being down year-over-year in 2Q. Maybe help us understand what the drivers of that are, you know, given all the…all the work you've done there.

**Artie Starrs**
I am sorry. The small events business was down.

**Joe Altobello**
It was supposed to be down in second quarter. Yes.

**Artie Starrs**
The walk in plus the 2 bay business is extremely strong. I guess is the 1-2 bay businesses is comping nicely.

**Joe Altobello**
Okay. Yes, alright.

**Chip Brewer**
Artie on the earnings call I had mentioned that the we were had to lap a big surge last year in the small events for the 2 bay. You're correctly identifying the better way to look at this is the combination of walk in and that 2 bay, and that we're very strong on that…that individual 2 bay was a surge coming out of Omnicron, early last year that extended into the first half of Q2 and gave us a little bit of headwind on that.

**Artie Starrs**
That's right.

**Chip Brewer**
You're identifying the bigger picture issue here.

**Joe Altobello**
Okay, super. Thank you guys.

**Chip Brewer**
Thank you, Joe.

**Operator**
And the next question will be from Alex Perry from Bank of America Merrill Lynch. Please go ahead.

**Alex Perry**
Hi, thanks for taking my questions and thanks for the presentation here. So just to clarify the mid to high single-digit same penny sales guides include the 2% comp lift from PIE for the year. What is sort of the per venue comp lift that you're seeing from PIE maybe sort of venues with PIE, how are they comping versus in the margins of those that do not. How much of the PIE benefit is from dynamic pricing versus better bay utilization? And I just to clarify, are you already doing dynamic pricing or is that…you know is that still the come? And then sorry multiple part question, but the implied acceleration, the high single-digits comps in the second-half like, is there…what's in there, what's driving that? Is that just there's more, there's a four

point benefit from PIE or something that's driving that in the back half or is that implied acceleration and corporate events?

**Artie Starrs**
Yes, I'll answer the last part first. So, we don't really have comps on the PIE venues yet. We've just been rolling it out, but we have controls, we're able to control the portfolio that's on it versus not on it and we're seeing two plus points of lift. So, for balance of the year that's where two of the points is coming from. As I mentioned we do have…we see an opportunity to take both base pricing. And do more at peak so whether it be reservation fees or different base pricing on Friday and Saturday nights. And then you may recall that...and we would expect that to be you know low to mid-single-digits in terms of pricing.

And you may recall Chip mentioned in Q4 of last year the winter storms were particularly acute and we had a significant portion of our portfolio was shut down for three days and it was a two point headwind last year which will be a two point tailwind and that gives us confidence that in the mid to high single-digit guidance that we provided.

In terms of where we are on PIE, I cannot stress enough how early we are. We are not doing [indiscernible], we're doing the basics. We're really just opening up and allowing our players and playmakers to have more reservations at this point. So, we are seeing some more reservation fees the base number was so low, the percentage if I shared it is not really relevant, but we're just so early with this to see the lift that we're already seeing. And you mentioned dynamic pricing and mentioned it as well. The things that we're going to be able to do to present potentially lower prices to drive people to come in on Monday, Tuesdays and Wednesdays and Thursdays and higher prices on Friday and Saturday, you know some early testing we're very bullish on it, but we have…we need to get the basic platform out to the entire Topgolf venue system.

**Alex Perry**
Got you. And then so…oh yes, sorry go ahead.

**Artie Starrs**
Alex, I'll just add that we don't have to do high single-digit to hit our guide for the second-half of the year. Just the math on that we can do mid to high second-half and hit our guide. So, the…it is just a math equation clarification because there seems to be some angst out there that whether we're going to be able to hit our second-half guide and as you can gather where we believe we can to articulate that. But the math is not such that you have to be accelerate at the to the high single-digit level.

**Alex Perry**
Got you. And then so just one clarifier and then my follow up question. So the dynamic pricing would be sounds like more of a 2024 unlock. Is that correct? And then I wanted to ask about a slide that you had in a prior Topgolf deck where you know called out eight venues that are outperforming and three that were sort of, you know, underperforming your expectations. So, what's driving, I think that was the 2022 cohort of openings, what's driving the performance or underperformance of those venues?

**Artie Starrs**
Yes, that's a great question. So, of the 11…if I recall the slide correctly, you know eight of the eleven were we’ll call it new market entry, and the sort of the revenue path that venues take

when we bring Topgolf to a market we're finding are a little bit different and it's really a reflection of improving our own forecasting underwriting internally, but just wanted to be transparent.
The other three venues are doing well, but the way they ramp, what you can think about if you open a second Topgolf in a market and the market is broadly exposed to Topgolf, there might be less immediate demand to show up they've been before versus it's the first time that they've been. But I would tell you, you know, the cohort of the 11 venues are doing well, just the opening how the first 6 to 12 months ramps up is a little bit different.

And then on dynamic pricing. Yes, I'm not going to tell you exactly when we're going to have or if exactly we're going to do what the airlines do. I'm just telling you with three to four hour of waits we have a significant opportunity to provide more certainty to players and can use price to do that. But we're very early but we're seeing really nice lift which is the basics right now.

**Alex Perry**
Perfect. That's really helpful. Best of luck going forward.

**Artie Starrs**
Thank you.

**Operator**
And our next question is from Noah Zatzkin from Keybanc Capital Markets. Please go ahead.

**Noah Zatzkin**
Hi, thanks for taking my questions. Just a couple quick ones for me. I think you called; you called out 80% bay utilization. Are you thinking of any kind of target utilization number? How should we think about the opportunity from a utilization perspective with PIE?

And then second, I know you reiterated the kind of 11 venues for this year target, but could you provide any color how do you think about like the potential risk for any of those slipping or what's your degree of confidence there? Thank you.

**Artie Starrs**
Sure. So, bay utilization reference kind of separating it into two categories, one is at peak which is the 70%, 75% and 80% that we've talked about and that basically is a measurement of when we're on a wait and it's an operating measure of how well we are effectively filling the bays with the demand. 100% is not possible, because of turning over bays. But I think a stretch target for us will be somewhere in the high 80s certainly, and we have some venues that are able…that have done that and are able to do it. So that's how I talk about peak. But overall utilization which is the longer term opportunity is massive. I mean we've got you know less than 40% on average overall utilization in our venues, and this is where the PIE work and presenting different prices that can maybe move someone from a Friday night occasion to a Monday or a Wednesday and see a different price presented to them it can significantly smooth demand and the experience that our playmakers can provide, and it not only improves comp but improves the unit economics as well.

And I'm sorry, the other question, Lauren.

**Lauren Scott**
He was asking about the risk for 11…

**Noah Zatzkin**

Risk of the 11 venues?

**Artie Starrs**
Yes, we feel, I mean I was on site this week and saw a couple projects that are under construction. We feel really good about the 11 venues that we're going to open this year. We expect to and all the information we have construction is well underway and based on our experience to-date of where projects need to be at certain points in time, we think we're going to open 11.

**Noah Zatzkin**
Thank you, very helpful.

**Lauren Scott**
Operator, I'm going to jump in with a couple that we've been getting through the chat. Artie, can you provide some more detail on the unit economics, in particular, how should investors think about average maintenance CAPEX, refresh CAPEX and cadence for the venues and free opening expense?

**Artie Starrs**
Yes, so maintenance CAPEX, we estimate somewhere between $300,000 and $500,000, it kind of varies with the size of the venue and we have venues as big as Topgolf, Las Vegas and obviously smaller venues. So, there's a bit of a range there. Refresh which we're once again it kind of depends upon the traffic that venues has, the weather that it might sit in, but that's approximately $3 million to $4 million and that's every eight, nine maybe even 10 years based on the venue. And then preopening approximately 2 million per venue.

**Lauren Scott**
Great. And then one more. Yes.

**Artie Starrs**
One thing that I'll want to say about preopening, because I'm sure it sounds like a big number. This is a key part of our success, and these venues open really well because we're so ready to open, and it's embedded in our month's payback. So, we've analyzed that, and we look at the two and half years the pre-openings in there, and we think the returns are super compelling and are proud of what the work that our preopening teams do.

**Lauren Scott**
Artier another one from the chat, is there any risk of refinancing drying up or do you feel confident future units can be financed, and that's similar terms, and how much visibility do you have on future unit refinancing?

**Artie Starrs**
Yes, I mean the market conditions are have changing or changing and will always change and I'm whatever speculation I have in the long term isn't I don't think is relevant. I can tell you the market today is good. We have ample partners ready, willing and able to support our financing. Some venues are a little more complex than others, but we have the benefit of we're not going to compromise on sites, and we have the balance sheet where we're underwriting to gross returns in addition to the month's payback, and if we have to self-finance we will. But I was with one of our financing partners earlier this week and there's a very competitive market out there to finance Topgolf. And I think they're seeing the unit economic…many of our financing partners have done a deal with us before and they're seeing the returns in the venue economics live and

they're excited to be our partner.

**Lauren Scott**
Great. One more for me, and then I'm going to go back to the queue. This is from Randy Konik at Jefferies. Two part question. First, how do you unlock frequency at the venues and what's been the hold back other than wait time? And then second part of the question is, how do you think about kind of the Monday through Thursday utilization? You talked about that a little bit already, but can you give us a perspective on how things like half off Tuesdays have increased utilization rates, maybe one that was introduced. And yes.

**Artie Starrs**
Yes. So, the frequency number, it's obviously it's a massive opportunity and I look at it as only upside. We're obviously considering various longer term things like loyalty and membership and things that adjacent businesses have done. But the focus is really getting digital stood up in all venues so that when you want to come to Topgolf you know what you're getting. And that's going to be the biggest move we make is just being able to in every venue when I want to go, get on your app and go. You all may be surprised that you can't do that today across all Topgolf venues, but you can't. You can do it in some, but we're in the process of rolling that out and I just can't understate how based on my experience in the restaurant industry and studying retailers, just how important that is. Our model is a little bit more complex managing these multiple channels, but we're seeing the benefits pay off and there's just…just being digitally enabled with the consumer, with the players big.

The other thing is, I think we have an opportunity with traditional golfers. We're rolling out our coaching platform with top tracer in the PGA. We have at least one and some venues multiple directors of instruction. I mean the most likely people that are going to come to Topgolf a lot are golfers and being a part of Callaway and all the things, we're doing in the venues and being on Jon Rahm's sleeve and [indiscernible] all this stuff gives us more and more equity with people who are more inclined to want to come hit golf balls and have a burger and a beer, and you know, sometimes it gets lost. But golfers like are fanatical. We're the only place you can play at night. And I really think that we have a long term opportunity to continue our equity with hardcore golfers. And Lauren. I was getting so excited I forget the other half.

**Lauren Scott**
I think he was asking about half price Tuesdays and kind of off peak, yes.

**Artie Starrs**
Yes. So, value is always a, it's a delicate balance. We…every brand sort of has their own opportunity and how they message it, half price Tuesdays has been a tremendous success. Our focus is driving awareness on it. The utilization is meaningfully higher on Tuesdays.
Meaning our business on Tuesday is much bigger than on Monday and Wednesday, but we have not fully communicated it. So, like if you think about our awareness levels, just think about what our 50 off awareness levels are. So, before we roll out a big…an additional Wednesday or Monday promotion this this company, this brand is going to be focused on maximizing Tuesday. How do we make Tuesday look like a Friday, but what PIE enables for Monday, Wednesday and Thursday is, if you've ever booked a ticket on Southwest Airlines for instance, envision a world where you see, okay, I can go to Topgolf on a Friday night for $70 an hour. But if I choose to go on Wednesday, I could go for $45 or $50. And just the transparency of that and for the player and for the consumer to see it, the early signs are it is going to enable us to smooth demand, reduce some of the wait times on Friday night and increase utilization and off peak.

**Lauren Scott**
Thanks Artie. Chad, back to you. I know we have a couple more in the queue.

**Operator**
Yes, we do. And the next question from the phone will be John Kernan from Cowen. Please go ahead.

**John Kernan**
Excellent. Thanks for the presentation Artie. Very helpful.

**Artie Starrs**
Hi, John.

**John Kernan**
Yes. I think a lot of questions have been on the top line profile of Topgolf, which has been, you know, quite impressive since you bought the business back in 2020. I guess, our questions are more on the bottom line impact that the business is having, and how do we think about deferred landlord financing going forward. It is a line item on the income statement moving higher. I think the variance in a lot of people's models for the consolidated business has been more on the EPS line than and the sales line or the EBITDA line. So, when we think about the financing of Topgolf's, future unit growth, which seems like it's going to be quite significant, how do we think about team landlord financing and how to run that through the model.

**Artie Starrs**
Brian, you want me to say something…I hand it to you.

**Brian Lynch**
Sure, you can start, I'll jump in.

**Artie Starrs**
Yes, I think one thing that I didn't want to use this call to clarify is just regardless of how that a lease or a venue financing might work, the unit economics are identical, and I'll let Brian kind of go through the specifics of the DLF.

**Brian Lynch**
Okay. You want me to just walk through the having how it works.

**Artie Starrs**
Yes, we're just, I think he's trying to model it. So, he wants to know, like, how much DLF will go up as you add a venue.

**Brian Lynch**
Sure, if you could…that so. Take a representative right medium sized venue, $30 million development cost example. John, you would increase the debt by 30 million that's what hits our books for the construction and the land, and you'd have about $2.2 million of interest related to DLF, $1.9 million of that is non-cash, I mean it's cash you have the other small piece for non-cash, and then you'd have $600,000 of interest related to the land. So, $2.8 million or so of interest for that.

That answer your question?

**John Kernan**
Yes, that that's definitely helpful. And then just as capital expenditures relates to the financing CAPEX on a net basis came way down this year or down pretty significantly versus where it was in 2022. Is this kind of the net CAPEX run rate we should keep in our models the next couple years as you open a similar amount of units?

**Artie Starrs**
It's probably a little bit higher than that. It does vary year-to-year depending on the timing of the reimbursement. And that's what you see last year was probably too high because of just the timing. This year was a little bit lower, but it's around $200 million.

**John Kernan**
Okay. Got it. Thank you.

**Operator**
And the next question will be from George Kelly from Roth MKM. Please go ahead.

**George Kelly**
Hi everybody. Thanks for taking…

**Artie Starrs**
Hi, George. Thanks George.

**George Kelly**
And this has been super helpful. So, two for you, I'll start with a question on your international business, the franchise, the partner business. Curious why hasn't that location base expanded faster and what can you do to kind of accelerate your openings internationally?

**Artie Starrs**
Yes, so I think the biggest opportunity we have internationally is in Asia. And COVID was particularly challenging there. I'll also say that it's hard to get a Topgolf up and running. So, you know I think one of the things we're, you know we maybe benefit from in scale in the U.S., what are international partners is not that dissimilar from what Topgolf experienced 10/12/14 years ago. What they are benefiting from, is the improved economic model that we are now producing versus what they might have expected in the…when they signed the franchise agreements.

And of the six venues that are open, you know, three of them are performing very well at or above U.S. targets. If you've been to Dubai, if you've been to Germany, if you've been to Australia, I mean, these venues are pretty inspiring. So, we had the franchisees in Dallas last week, we had a Global Summit. I think the enthusiasm was extremely high, I talked in the former life about franchisees are enthusiastic and the economics are good. Things will take care of themselves, and we have terrific partners, and we we've got shovels in the ground that have started earlier this year and more to come later this year. So, I expect the next couple years for it to really pick up.

**George Kelly**
Okay, thanks. And then second question for me on in your prepared remarks you mentioned that the West Coast venues in bigger metros are outperforming the average unit economics that

you've disclosed. Can you just maybe high level. What is the AUV? What is the margin? Anything you can provide on some of those locations?

**Artie Starrs**
Yes, I'm not going to get into the specifics by market for competitive reasons in terms of volumes and margins. But what I will say is a lot of these more densely populated markets on the West Coast and the Northeast, the costs are different. And I think there's some resistance historically around looking at what labor might cost, what construction might cost. And I think one of the benefits of being part of Topgolf Callaway Brands is we were able to jump right in a couple of these markets and we're seeing returns above what I shared today in these markets. I'm not going to get into the precise specifics, but you've got an avid player base, you got people who love Topgolf, you have strong incomes, you have diverse populations, and in some markets obviously in California you benefit…you got good weather, and that doesn't hurt either, but we do well in bad weather also so.

**George Kelly**
Thank you.

**Operator**
Thank you. And the next question will be from Daniel Imbro from Stephens. Please go ahead.

**Joe Enderlin**
Hi guys. This is Joe Enderlin on for Daniel.

**Artie Starrs**
Hi Joe.

**Joe Enderlin**
Yes, we wanted to ask what the implementation of PIE looks like to the consumer. Does scheduling on the app look different for venues with and without it? Does the implementation show up to the consumer at all? Is it a different display or how should we think about that? And then?

**Artie Starrs**
No, it's.

**Joe Enderlin**
I'm sorry, go on.

**Artie Starrs**
Yes. So, it's the consumer wouldn't know other than they're going to see a lot more reservations. So, they're going to see a lot more access. Think of it as in a non-PIE venue, you might see less than half of the access that you would see in a PIE venue in terms of number of reservations we're offering.

**Joe Enderlin**
Got it. That makes sense. As a follow up, wanted to ask about the cost to implement. Is there a notable cost for each incremental venue you're adding PIE to?

**Artie Starrs**

The only real cost is in venue training, and while it's on the heavier end of training. We do training all year. When we got a new F&B product, we got a new technique. This is on the heavier side, but it's…training is loaded into our P&L. It's part of our unit economics. It's just part of what we do every day.

**Joe Enderlin**
Got it. That's helpful. Thank you, guys. That's all for us.

**Lauren Scott**
Great. So, I think we've made it through our analyst queue. If there's other analysts on the line, you just hit "*", "1" to ask questions. But we have a number of questions coming in through the chat. So, I'm going to start…going through some of these. Artie are you concerned at all about emerging competition in the Topgolf inspired marketplace with other entertainment golf concepts?

**Artie Starrs**
I mean, I think any executive is looking at the competition all the time. We look at the competition probably a bit more broadly. I mentioned we sell time, we sell a good time, and you know we look at restaurants, we look at golf entertainment venues, we look at non golf entertainment venues. Yes, I wouldn't say that golf entertainment specifically has me concerned, but I would say other brands, other businesses that are occupying people's times and providing joy and value, yes, we, we want to win that war, but I'm not particularly concerned about what's happening inside, you know, outdoor golf entertainment. That's the question.

**Lauren Scott**
One kind of higher level more strategic actually for Chip and Brian in the room, just given the disconnect between your strong operating performance and your stock price of late, are you considering any strategic alternatives to unlock value and how are you thinking about adjusting that?

**Brian Lynch**
Geez, that's a doozy. I'll take that one. Yes, of course we would, and we do. We recognize that it's our fiduciary responsibility to regularly evaluate strategic options that could enhance shareholder value, including changes in portfolios such as spins or sales and we regularly do this both with the engagement of our board of directors and outside advisors, and we'll continue to do this. Having said that, we also fundamentally believe our current structure provides a competitive advantage for our company's long term growth and financial performance. And thus, any alternative strategic option would need to be viewed as superior to what we believe is a compelling position and a promising future.

**Lauren Scott**
Artie, this one's for you. This is Casey Alexander at Compass Point, of the 160 plus venues still to be developed? What is the breakdown of large, medium and small venues?

**Artie Starrs**
It would be premature to say exactly because these markets are going to change, we're not going to be able to build, it's going to take we said we're going to build…we're going to build 11 this year, we built 11 last year. You roll that out, we've got many years of growth and how big a market is and the site we specifically get beyond two or three years. It would be premature to say what percentages is what. What we can say is we have the venue prototypes today that will economically work in those markets that currently have the population in the demographics

that'll drive the experience in the economics and shareholder value for us at Topgolf Callaway. Over the next two to three years, it's a mixed bag of small, medium and large, the next two that we're opening happen to be large.  So…

**Lauren Scott**
Great.  I'm going to combine two questions, both synergy related.  So probably more for Chip and Brian.  How do you…how do the other businesses within Topgolf Callaway Brands help the Topgolf business specifically what synergies are there that are benefiting the overall company? And then potentially what stage are we in respect to integrating the Topgolf user profiles with a Callaway user profile or TravisMathew profile for cross selling purposes?

**Brian Lynch**
Okay, I'll take a crack at it, and Artie jump in if you choose to.  But you know we're obviously in the very early innings on the synergy front with the exception of the really significant synergy on the scale and access to capital and strategic clarity that we've provided to Topgolf to allow them to scale their business and improve their business at a much faster rate.  So, you're seeing a very clear and certain synergy in terms of the fundamental improvement and the scaling of that Topgolf business that has happened over the last several years, the credit really needs to go to Artie and the playmakers and the team there.  But there's a strong enabler there on the scale that we've been able to provide with the combination Topgolf Callaway.

In terms of what the other brands, and obviously I guess it's kind of obvious with the reach that we have now in modern golf.  There's really no competitor that can match our reach to golfers of all levels.  It's a fundamental competitive advantage over time that will increasingly provide us market share advantages and awareness advantages and something that nobody could hope to really match out there.  And so, the other brands covet that reached Topgolf provides.  In terms of the things that other brands, TravisMathew and Callaway most specifically provide for Topgolf, there's some reach and credibility within the golf category, right?  It's not a coincidence that Jon Rahm has a Topgolf logo on his sleeve that Rose Jiang [ph] in her pro-debut this week, which we're very excited about adding her to our staff that Topgolf is on the side of her headwear the relationships that were able to leverage jointly, whether that be Saint Andrews or the PJ of America they're coaching platforms on top tracer, the sales of products at the venues, the pros, they had a teaching pro.  They have directors of instruction, directors of golf at each of the venues.  They're on the Callaway staff one just qualified and played in the PG of America, a major and it's a Callaway staff professional.  He's going back and teaching lessons.  He didn't have the same success Michael Block did, but he is a wonderful player and a wonderful teacher, and you know we're developing products for him to introduce people to the game of golf and it's a really cool synergy that we're excited about.  We're early innings on this, but it's really a unique and exciting different maker for our company.

**Lauren Scott**
Great.  Brian, I'm going to direct this one to you.  The current financing model for Topgolf seems to run the business at over 3 1/2 times leverage.  As Topgolf gets to be a bigger and bigger part of the overall business, how does this impact the consolidated companies leverage trajectory over time?  And is there a leverage target for the overall company we should think about to go along with the 2025 EBITDA and sales targets?

**Brian Lynch**
Sure.  As they as they continue to develop as you mentioned then the leverage ratio will trend down on that.  We'll be able to leverage that.  I think that we said that by 2025 we'd like to be down below three times or below, and I still think we're on…we're on track for that.

**Lauren Scott**
Great.  Artie back to you, in terms of the reimbursements, can you talk about kind of how that process works, how long the lags can be, and just kind of give some context there around you know how it impacts CAPEX?

**Artie Starrs**
Yes, it varies by deal.  Sometimes it's real time, sometimes it's 30, 60, 90 days, and sometimes we don't finance and that's throughout the course of the project and sometimes we won't finance the project until after the venue is open.  So, if you're looking at it in terms of dollars in and when we get reimbursed, it could be anywhere from close to real time.  Or if you take…if it takes 12 months to open up…to build a project in the midpoint of your capital in is six months and you don't do it until the very end, it could be six to nine months net lag.

**Lauren Scott**
Artie, what's your confidence in the resiliency of Topgolf demand in a macro downturn, and what are you embedding in the guidance for the year?

**Artie Starrs**
Yes.  So, we don't have significant data where the brand has been through a downturn or a prolonged downturn if that's what the question is.  We can look back to '07, '08, '09 and our venues in the UK and they performed well.  It is a different experience, but in terms of people wanting to go out, pick golf balls and have a beer, I believe we are in one of the categories that is a break from what might be tough times.  So, I was in the movie business at one point in time. I was in the pizza [ph] business for a while and those businesses have similar attributes to this one where they're a bit of a break and a time to get together and it doesn't necessarily require travel.  So, I'm optimistic, but it's ultimately going to be incumbent on us providing value to the player at that point in time.  And I think when we look at our utilization levels, our digital penetration and our relatively low awareness, I feel really good about our ability to grow even in a difficult environment.

**Lauren Scott**
Regarding the new venue pipeline, and looking out 18 months, are you seeing any change in the number of new development kind of mixed-use projects that you're being considered for, any change in reap behavior given the higher interest rate environment?

**Artie Starrs**
I wouldn't say materially, I mean there are individual partners that are ebbing and flowing but in aggregate the market is pretty good and we're seeing a lot of new sites as I mentioned I was in market earlier this week I had breakfast this morning with a city that you know wants a Topgolf. And…one thing that we didn't talk about is we'll have our second sort of formal city partnership in Montebello, California in Q1 of next year.  And that's an area that'll be our second one in addition to El Segundo.  There's a lot of golf courses across the country that have…are underutilized and putting a Topgolf on them, like El Segundo has proven to be an economic win that's been well reported.  How the golf course was doing is doing now in terms of the tax revenue that the city is receiving.  And we think we have an outstanding story to tell.  So, there's…if anything, there's more channels for us to put Topgolf's on versus mixed-use or fee simple land purchase.  So, if anything we're seeing more opportunities not less.  Yes, there's

individual partners that ebb and flow [ph] but in aggregate the pipeline is strong…pipeline is strong.

**Lauren Scott**
Great. Just kind of looking back at our 2022 Investor Day guidance for Topgolf for 2025, you know we had some targets put out there. Is that guidance still intact? Any updates there? That might be a Chip question.

**Chip Brewer**
What was the question again?

**Artie Starrs**
Are we expecting an Artie question?

**Lauren Scott**
Are there any changes to the 2025 guidance that we put out about today?

**Chip Brewer**
Artie are you changing the guidance?

**Artie Starrs**
I'm not changing my guidance, but I think I can share that number embedded for 2022 and 2023 against that guidance we are ahead of.

**Chip Brewer**
Yes. And I thought you raised your EBITDAR targets, so that should help the cause as well, right.

**Artie Starrs**
Yes.

**Chip Brewer**
Yes, we feel good about our 2025 guides as stated we're on track or ahead.

**Lauren Scott**
Great. I know where I want to leave some a little bit of time for Chip to do some closing remarks. I'm going to do one more from one of our Research Analysts, Eric Wold with B Riley. Can you give us a sense of how dynamic the variable pricing can be within the venue, how often and kind of how much could or would that change heading into a day. For example, on a Wednesday, would that be relatively fixed or if reservations are lagging heading into the day, would you toggle pricing lower or higher to see if it's first demand?

**Artie Starrs**
Yes, the, I mean the player is going to guide what we do. I mean we don't…we don't want to go all the way to maybe airline pricing, but there are some things that we're studying with what airlines have done. I think we're studying what hotels have done. We're kind of in a unique category in between some of those characteristics, and traditional restaurant or maybe even fine dining in terms of the reservation element. We can do whatever the player wants, I mean, with PIE we'll be able to do whatever works for the player and works for our teams in the venues. But it would be premature to say exactly what we're going to do on a Wednesday.

What I'm communicating today is that we have upside in our business model. Based on the significant wait times that we are seeing in the demand for Topgolf and the relatively low utilization this institution of putting PIE into all venues it does take some time, and but by the end of this year we'll have it complete, and we'll let…we'll follow the player, and how they want to interact with us.

**Lauren Scott**
Thank you, Artie. I know we have a couple more questions in here and folks if we didn't get to your question or we'll do our best to get back to you after the call, but I do want to leave a little bit of time for Chip just to give some closing remarks.

**Chip Brewer**
Alright. Well, thank you, Lauren, and Artie great job. It's a pleasure to have you on here. I speak for the entire team. We really appreciate you and your team making this…

**Artie Starrs**
My pleasure. Thank you, Chip.

**CONCLUSION**

**Chip Brewer**
So, looking at this last slide, a little summary, talks about the Topgolf and business unit and just how excited we are about the future of this business providing exciting growth to Topgolf Callaway Brands portfolio is really an understatement. It is providing growth in revenue, profitability and cash flow. It's a highly relevant brand with differentiated experience. I had the advantage of being around this business for a long time prior to the merger, including being on the board for 10 years. And the consumer loves this brand. It has not had a consumer issue in its existence. And I know from running businesses that's an awfully good place to start with a business.

The brand has strong momentum and it has clear runway for continued growth Artie talked today about three growth drivers, pretty simple, pretty compelling, same venue sales, operating margins, and new venues. We've got runway on all three of those growth drivers. We look at point three, proven and repeatable venue model. We feel really good about the venue business and how proven and repeatable it is. We're confident in our pipeline. We're confident in our ability to operate these venues. And we're unique in the marketplace and our ability to do that. It's also developing very, very compelling unit economics. Artie talks about a two and a half year fully loaded payback. We talk about 50% to 60% cash on cash returns, that's an awfully good place to be allocating capital. And it's an awfully good place to be allocating capital because of it's just got an exceptional competitive mode.

It also provides exciting synergies with Topgolf Callaway Brands. And it's not only just transforming our company, it's transforming the sport of golf. Off course golf is already larger than on course golf. It'll be the greatest growth driver of the total golf ecosystem that we've seen in our lifetime. And we're excited to be part of it. We appreciate your time today. Great job. Thank you for doing this, and we look forward to continue to engage with you and hopefully continuing to drive results like we have over the last couple of years.

**Operator**
And thank you, sir. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.