



Pitch: Long DriveShack

11/8/2019
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The Pitch Team



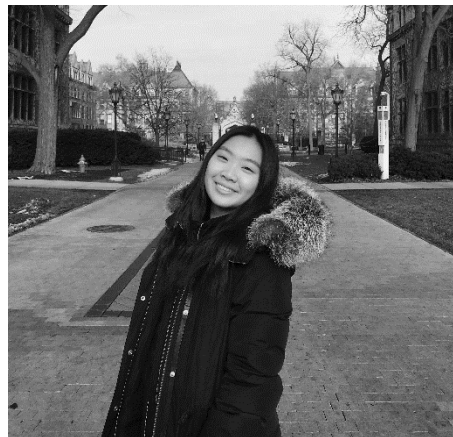
Larry Wang
Senior Analyst
Class of 2021



Simran Korpai
Junior Analyst
Class of 2022



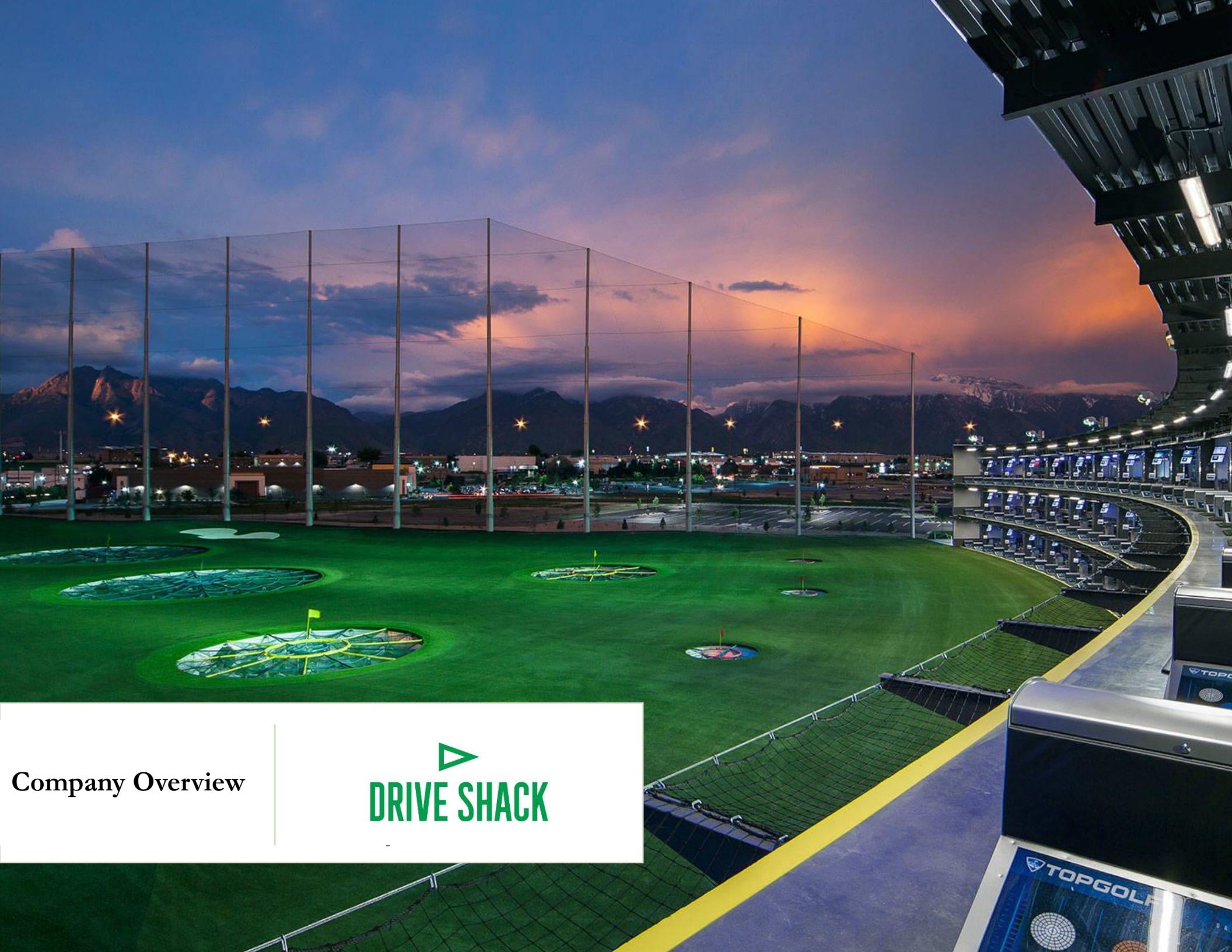
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Company Overview


DRIVE SHACK



Company Overview

Introduction Video



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Company Overview

Entertainment Driving Ranges

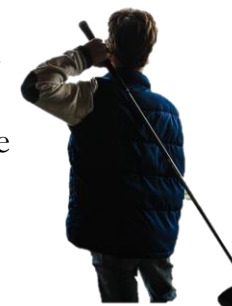
Business Segments

- **Entertainment Golf** – combination of golfing, dining and a fun experience. Three opening in 2019, 3-5 in 2020, and 30 more in the pipeline. Currently have 4 open venues.
- **Traditional Golf** – Owns and operates 66 properties through American Golf. Operates in three categories
 - **Public Properties** – revenue comes from daily operation fees
 - **Private Properties** – revenue comes from membership
 - **Managed Properties** – management fees with high margin

Demographic Shift

Not the Typical Golf Player

Entertainment Golf attracts a younger crowd and more families
68% of males who go are 34 years or younger
23% of women golf versus 35% go to Entertainment Golf venues



More than Just Golf

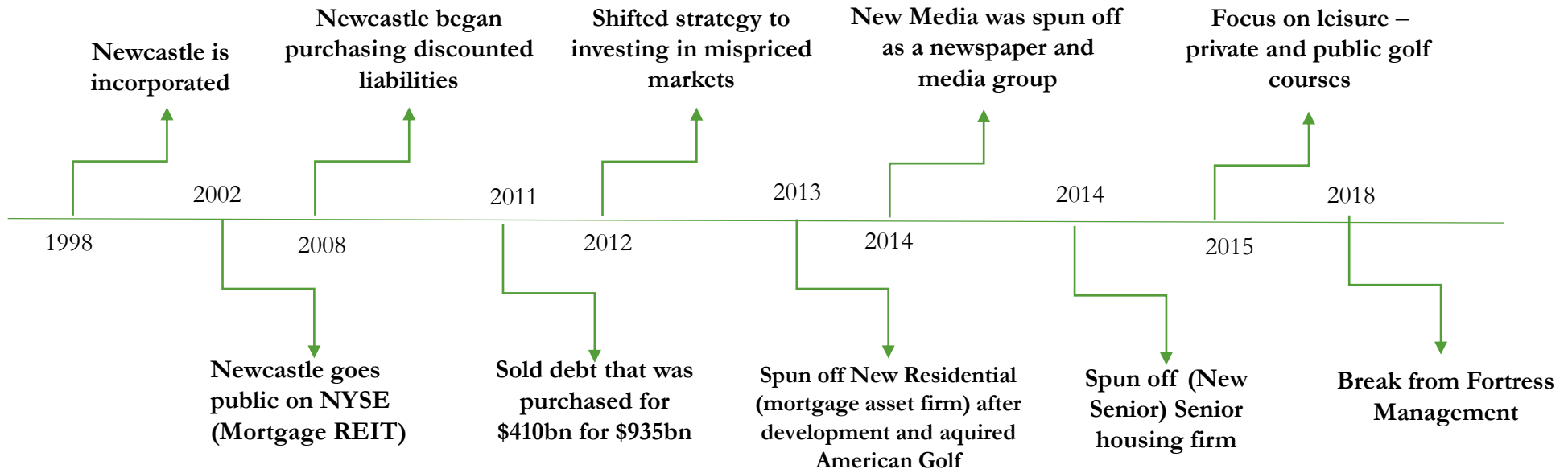


- 60 dollar cost per person despite the actual cost of the game being ~ \$40 per person – **38% of revenue**
- Upselling with food and drinks
- Food and Entertainment provides more of a family orientated entertainment business (unlike typical golf)
- Technological Tracking brings consumers in on weekdays as well as weekends

Team Slide

History and Management

History Timeline



Residential REIT that was spun off in May of 2013



Owns 146 daily newspaper and 331 weekly, spun off off in Feb of 2014



Senior Housing REITs, well positioned and spun off in Nov of 2014

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Management and Recent Trends

Management

Kenneth May

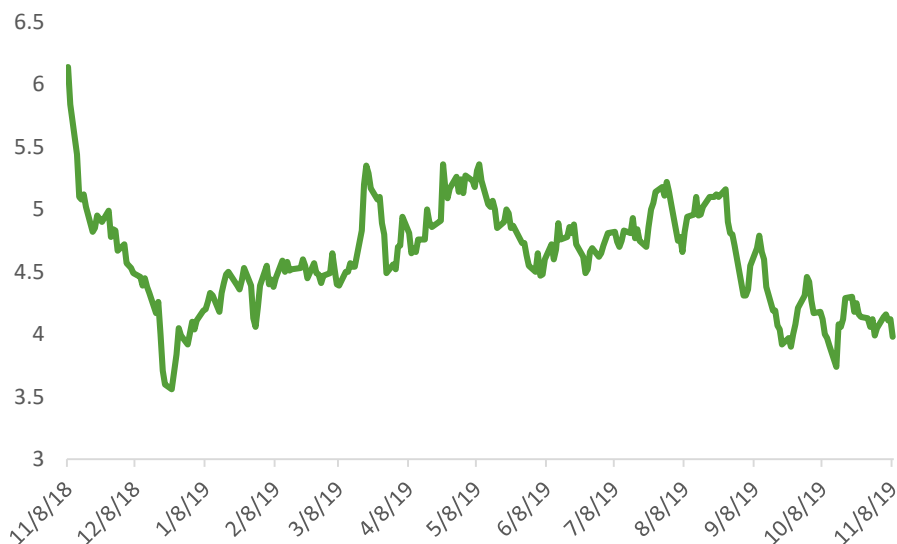


Hana Khouri



- Former CEO of Topgolf during period of incredible expansion
- Brought in to help guide the expansion of Drive Shack into new markets
- Hana Khouri became president after Q2 miss and was also part of Topgolf team
- Currently, CEO on leave of absence

Recent Developments



- Moving into Urban Boxes and Management Contracts
- Shifting away from Traditional Golf to Entertainment Golf
- Kenneth May took a indefinite personal leave of absence
- Trading down for the past few months

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How Does Drive Shack Make Money?

Drive Shack generates revenue through several channels and seeks improved margins through F&B sales.

Hourly Pricing Model

Open - 1PM 1PM - 5PM 5PM – Close
\$25 bay/hour **\$35** bay/hour **\$45** bay/hour

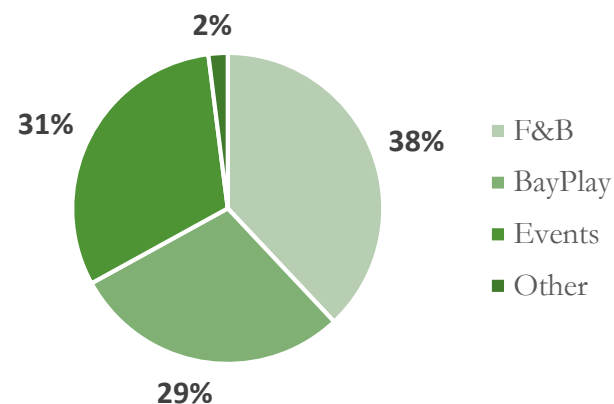


- A full-size facility needs 375k customers annually an average spend of \$60 per customer.
- In Orlando (ITM), the average customer spends \$40 per trip, with total visitors of 160k.

Leagues, Events, and More

- Social leagues with roster of regular players
- Usually run for 5 weeks, any range of experience
- Paid upfront with tickets
- Reserved events priced similarly to hourly rates

Orlando Drive Shack Revenue Breakdown



Sign-Up Type	Orlando DS	Raleigh DS
Solo League	\$35 per person	\$45 per person
4-6 Player Social League	\$150 per team	\$225 per team

Revamped Menu Offerings Capitalize on High Margins of F&B

- Revamped menu rolled out starting in June
- Regionalized food and beverage
- Local and seasonal offerings
- Hired a experienced veteran in the hospitality industry to improve food operations and menu
- “He is totally all over this.” –Ken May



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Proprietary Technology Gives a Competitive Edge

Through heavy investments in technology, Drive Shack significantly enhances the customer's experience.

TrackMan Range is Industry-Leading Technology

An exclusive partnership between TrackMan and Drive Shack implemented cutting-edge radar technology (TM Range) into Drive Shack Facilities. Every Drive Shack bay has been outfitted with this state-of-the-art product.

Doppler-based dual-radar system covers entire range of field. This radar closely monitors the shot and path of the ball in real time.

Precise, thorough data provided via tablet. This data is extensively used in PGA tours to provide real-time data for the audience.

Signaling chip implanted in ball. Top Golf uses RFID-chipped golf balls that lack the flight characteristics of real golf balls.

CARRY
163
YDS

TOTAL
172
YDS

LAUNCH ANGLE
14.3
DEG

LAUNCH DIRECTION
0.7
R

BALL SPEED
125.6
MPH

HEIGHT
103
YDS



Redesigned Driving Range

- Redesigned outfield to further interactive gaming capabilities, state-of-the-art design
- Complements gaming platform, has capabilities to consistently refresh, update, and roll out new games

Game and Virtual Reality Offerings

- Five different games (classic golf, shackjack, monster hunt, s-h-a-c-k, pro practice)
- Five different courses (teton pines, linfield national, willow crest, blue bayou, broken tree)

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Industry Overview

The Transition from Traditional Golf to Entertainment Golf

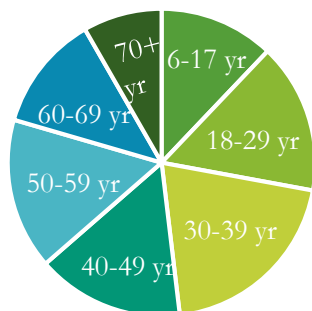
Traditional Golf

- Conventional golf courses
- Revenue generate by membership and/or per round and some country clubs have restaurant
- Public and private properties

Entertainment Golf

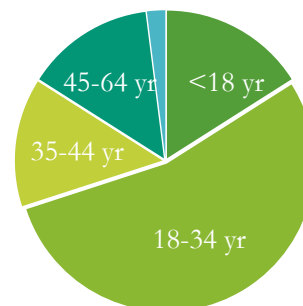
- A social, fun, and lighthearted approach to golf
- Includes full bar, restaurant, and lounge space
- 70% of profits are generated through food and beverage sales

Demographics



The traditional golf customer profile follows an older median age and the memberships tend to be higher commitment and more expensive membership rates.

Demographics



The industry targets customers who want a social experience. They offer non-binding entrance offers and offers restaurant/bar service while customers play golf.

Transition into the Sports Entertainment Industry

It is a lot more expensive to maintain a traditional golf course and draw in new customers, therefore the Entertainment Golf sector looks a lot of promising – a trendier location targeted towards younger clients



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Industry Overview

Largest Player in Entertainment Golf: Top Golf

History of Top Golf

- Founded in September 2008
- offers amenities and services, including hitting bays, food and beverage services, monthly memberships, gift cards, space for events, games, leagues, live music, mini golf, online games, and tournaments.
- Cross between a driving range and a leisure club
- Primary player in this industry
- Introduced a very different approach to golf and leisure

Top Golf Locations in the US



Top Golf has 54 locations in total, holding roughly 90% of market share based upon the number of venues.

The Emerging Industry and Top Golf's Success

Wide range of golf technology which can capture high volumes of new customers

- ❖ Traditional driving range with distance sensors
- ❖ Electronic golf games
- ❖ Has different brands within Top Golf

Revenue generated through selling an experience

Top Golf works towards creating an ambient setting, while catering to different levels of engagement to the sport.



THEIR BRANDS

- Top Golf
- Top Tracer
- Swing Suite
- Lounge by TopGolf
- World Golf Tour
- Top Golf Live
- Top Golf Media
- Top Golf TV





Thesis Points



Thesis 1: Expansion to Drive Shack Entertainment Golf

Transformation of Drive Shack portfolio to unlock significant value

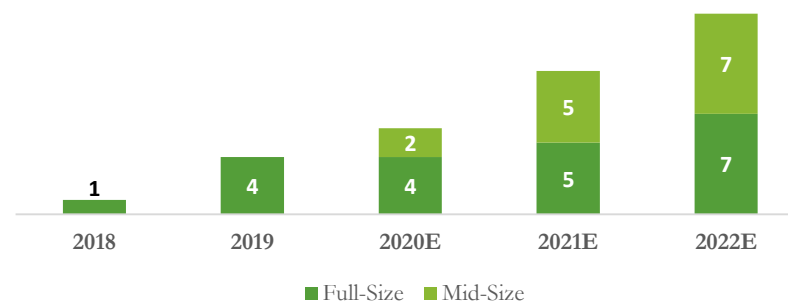
Drive Shack Facilities Expansion

- By 2022, the company is expected to deliver 13 Drive Shack locations, which will represent the core of the Entertainment Golf Business
- These facilities will be constructed as specialized driving ranges that are similar to TopGolf facilities

Development Pipeline

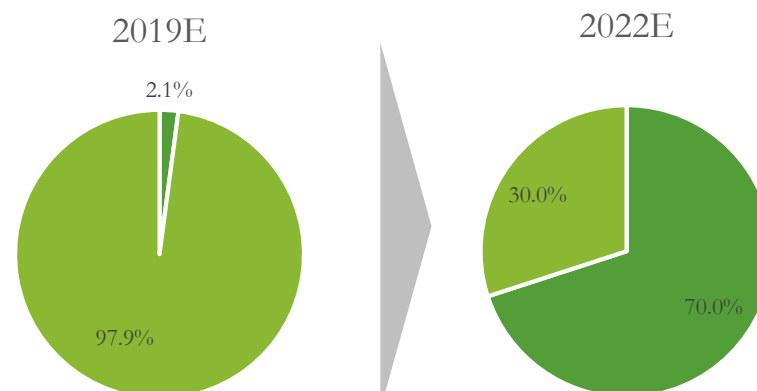
- New Openings – Raleigh, Richmond, and West Palm Beach to open 2019
- Development – Expect to open an additional 3-5 new sites in 2020
- Active Pipeline – 30 sites identified, analyzing economics and negotiating initial terms

Assumptions on Drive Shack Openings

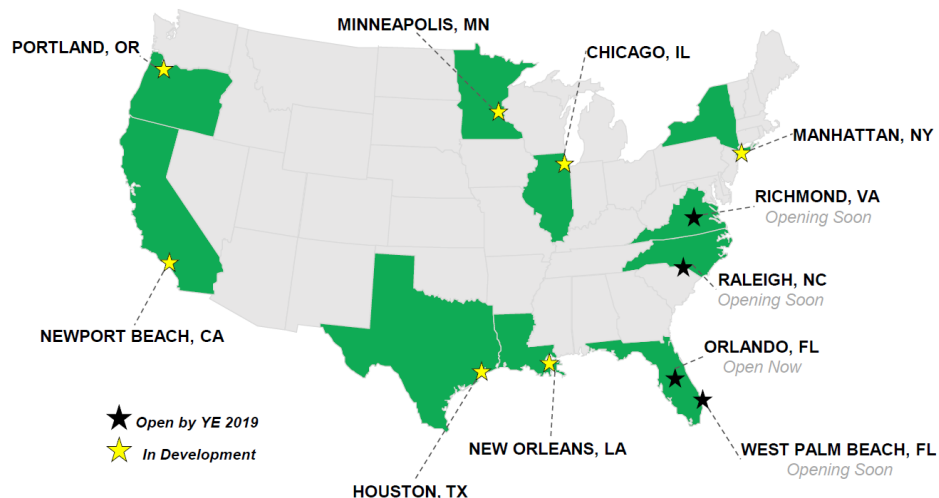


■ Full-Size ■ Mid-Size

Revenue Mix



■ Entertainment Golf ■ Traditional Golf ■ Entertainment Golf ■ Traditional Golf



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Thesis 1: Expansion to Drive Shack Entertainment Golf

Highly attractive unit economics to drive ROIC

Drive Shack Unit Economics

Economics & Metrics	Full Size			Mid-Sized			Traditional Golf
Number of Bays	90			72			N/A
Square Feet	60,000			50,000			N/A
Facility Cost (\$mm)	\$35			\$25			\$7
Cost Per Bay	\$388,889			\$347,222			N/A
Number of Annual Customers	375,000			375,000			N/A
Avg. Revenue Per Customer	\$53	\$61	\$67	\$40	\$48	\$53	N/A
Annual Revenue (\$mm)	\$20	\$23	\$25	\$15	\$18	\$20	\$4
EBITDA Margin	25%	25%	25%	25%	25%	25%	11%
EBITDA (\$mm)	\$5.0	\$5.8	\$6.3	\$3.8	\$4.5	\$5.0	\$0.4
Unlevered ROI	14.3%	16.4%	17.9%	15.0%	18.0%	20.0%	6.1%

Reasons for an Attractive Business

Brand Shift from Golf to Entertainment



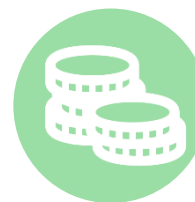
Strategic fit For Customer Base

80% of Drive Shack's Customers consider themselves as "social golfers"



Limited Competition

TolfGolf has been operating with almost no competition



Food & Beverage Monetization

majority of profits are generated from food and beverage sales with 70%+ margin



Technological Differentiation

Technological advanced driving range offering unique customer experience

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Urban Boxes

There is no tee box for this one, just the putter and some fun

What is an Urban Box?

- It is essentially a smaller facility compared to a typical driving range and is focused on putting
- In contrast to the traditional driving range, it is entirely indoors and much more accessible for consumers.
- The facility again has a heavy focus on entertainment with bars and food options.

Economics of Urban Box

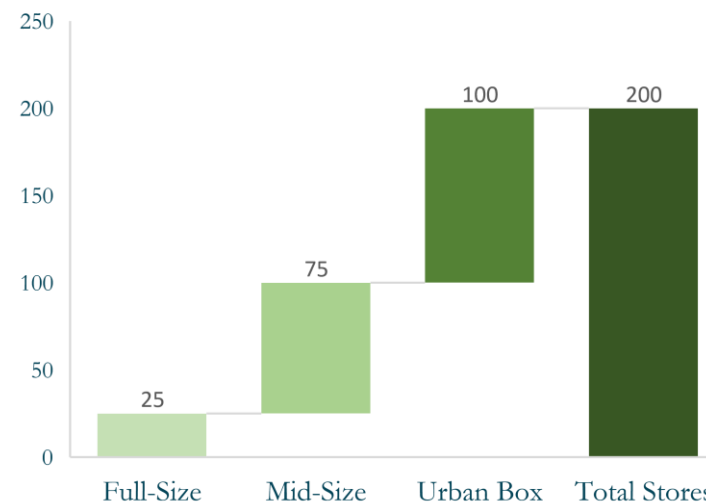
Size (sq feet)	20,000
Cost to Build	5-8mm
Total Revenue	7-9mm
EBITDA Margin	27-30%

Other Players in Mini-Golf and Their Results



Puttshack

Potential Market Expansion



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Mini-Golf Entertainment

A lot of small guys, but still early in the game

Monster Mini-Golf

- Chain of 28 entertainment mini-golf courses mostly in the Tri-State Area
- Has a focus on glow in the dark
- One of the larger chains, yet no entertainment available



Urban Putt

- Restaurant style mini-golf experience
- One location in San Francisco that has experienced heavy traffic
- Chain is expanding to other localities including Denver



Puttshack

- U.K. based company with multiple locations
- Heavy use of technology throughout including interactive games
- Still very localized, but has experienced great success with current locations



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Management Contracts

Owning something is not a fun time

Golf Course Business

High Capex

Golf courses are huge investment, inefficient land usage per customer

More Risk

Golf course owners take on all losses from rained out days, weather, winter

Subject to Large Scale Golf Trends

Golf courses are forced to face the pressure of an industry wide golf decline

Decline in Fees and Loss of Value

Golf courses have experienced oversaturation and over competition leading to an industry with pricing pressure

Course Management Business

Low Capex

Oftentimes, equipment already available and little cost to enter

Less Risk

Contract is locked in for a set number of years and golf course operator reluctant to change

Recurring Revenue

No matter what, receive monthly fee with some margins going as high as 50%

Economies of Scale

Company's purchasing power provides customers with discounts and national accounts with suppliers such as Titleist, TaylorMade, Nike, Sysco, Coca-Cola

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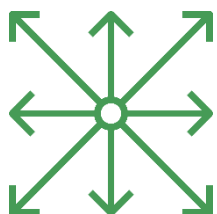


Risks and Catalysts



Risks and Catalysts

Risks



Risk of Expansion into New Markets despite expertise from CEO & President

Increased Competition with TopGolf in the duopoly



Decreased spending on entertainment during economic downturn

Catalyst



Successful Roll out of Urban Boxes and move into higher margin business

Influx of Cash from the Expansion into New Markets. More Potential than anticipated



New Potential Management Contracts unlocks revenue



Valuation



Sum-of-the-Parts Valuation

Unit Economics	2019E	2020E	2021E	2022E
Full Size				
Facility Openings	3	-	1	1
Base	3	-	1	1
Downside	2	-	1	-
Upside	3	-	1	1
Revenue (\$mm)	\$23	\$23	\$23	\$23
Base	\$23	\$23	\$23	\$23
Downside	\$21	\$21	\$21	\$21
Upside	\$25	\$25	\$25	\$25
EBITDA Margin %	25%	25%	25%	25%
Base	25%	25%	25%	25%
Downside	24%	24%	24%	24%
Upside	25%	25%	25%	25%
Mid-Size				
Facility Openings	-	2	3	2
Base	-	2	3	2
Downside	-	2	2	1
Upside	-	2	4	2
Revenue (\$mm)	\$18	\$18	\$18	\$18
Base	\$18	\$18	\$18	\$18
Downside	\$16	\$16	\$16	\$16
Upside	\$20	\$20	\$20	\$20
EBITDA Margin %	25%	25%	25%	25%
Base	25%	25%	25%	25%
Downside	23%	23%	23%	23%
Upside	25%	25%	25%	25%
Urban Box				
Facility Openings	-	2	4	4
Base	-	2	4	4
Downside	-	2	3	3
Upside	-	2	5	5
Revenue (\$mm)	\$8	\$8	\$8	\$8
Base	\$8	\$8	\$8	\$8
Downside	\$7	\$7	\$7	\$7
Upside	\$9	\$9	\$9	\$9
EBITDA Margin %	29%	29%	29%	29%
Base	29%	29%	29%	29%
Downside	28%	28%	28%	28%
Upside	29%	29%	29%	29%

Segment Build-Up	2019E	2020E	2021E	2022E
Full-Size Drive Shack				
BoP Courses	1	4	4	5
(+) Additions	3	-	1	1
EoP Courses	4	4	5	6
Revenue Per Course	\$23	\$23	\$23	\$23
EBITDA Margin %	25%	25%	25%	25%
Existing EBITDA	\$6	\$23	\$23	\$29
Growth EBITDA Additions	\$17	\$0	\$6	\$6
Total EBITDA	\$23	\$23	\$29	\$35
Growth Capex	(\$105)	\$0	(\$35)	(\$35)
Maintenance Capex	(\$3)	(\$4)	(\$4)	(\$4)
Total Capex	(\$108)	(\$3)	(\$39)	(\$39)

Mid-Size Drive Shack	2019E	2020E	2021E	2022E
BoP Courses	-	-	2	5
(+) Additions	-	2	3	2
EoP Courses	-	2	5	7
Revenue Per Course	\$18	\$18	\$18	\$18
EBITDA Margin %	25%	25%	25%	25%
Existing EBITDA	\$0	\$0	\$9	\$23
Growth EBITDA Additions	\$0	\$9	\$14	\$9
Total EBITDA	\$0	\$9	\$23	\$32
Growth Capex	\$0	(\$50)	(\$75)	(\$50)
Maintenance Capex	\$0	(\$1)	(\$3)	(\$4)
Total Capex	\$0	(\$51)	(\$78)	(\$54)

Urban Box	2019E	2020E	2021E	2022E
BoP Courses	-	-	2	6
(+) Additions	-	2	4	4
EoP Courses	-	2	6	10
Revenue Per Course	\$8	\$8	\$8	\$8
EBITDA Margin %	29%	29%	29%	29%
Existing EBITDA	\$0	\$0	\$5	\$14
Growth EBITDA Additions	\$0	\$5	\$9	\$9
Total EBITDA	\$0	\$5	\$14	\$23
Growth Capex	\$0	(\$13)	(\$26)	(\$26)
Maintenance Capex	\$0	(\$0)	(\$1)	(\$1)
Total Capex	\$0	(\$13)	(\$27)	(\$27)

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Sum-of-the-Parts Valuation

Assumption Summary		Dashboard (\$mm)				
Growth Assumptions		2019E	2020E	2021E	2022E	
Case Scenario	Base	Entertainment Golf				
		BoP Facilities	1	4	8	16
		(+) Additions	3	4	8	7
		EoP Facilities	4	8	16	23
Capex Assumptions		Existing EBITDA	\$6	\$23	\$37	\$65
Facility Lifetime	7	Growth EBITDA Additions	\$17	\$14	\$29	\$24
Growth Unit Capex (\$mm)		Total EBITDA	\$23	\$37	\$65	\$89
Full-Size	\$35.0	(-) D&A	(\$15)	(\$24)	(\$43)	(\$59)
Mid-Size	\$25.0	(-) Interest Expense	(\$2)	(\$5)	(\$8)	(\$12)
Urban Box	\$6.5	Earnings Before Taxes	\$6	\$8	\$14	\$18
Maintenance Unit Capex (% of Cost)		(-) Cash Taxes @ 22%	(\$1)	(\$2)	(\$3)	(\$4)
Full-Size	2.0%	Net Income	\$5	\$6	\$11	\$14
Mid-Size	2.0%	(+) D&A	\$15	\$24	\$43	\$59
Urban Box	2.0%	(+) Debt Additions / (Repayments)	\$53	\$29	\$64	\$48
Financing Assumptions		(-) Growth Capex	(\$105)	(\$63)	(\$136)	(\$111)
Existing Interest	5.2%	(-) Maintenance Capex	(\$3)	(\$5)	(\$7)	(\$5)
Growth Financing		(-) Change in NWC	\$0	\$1	\$1	\$2
LTV	50.0%	Levered Free Cash Flow	(\$35)	(\$8)	(\$24)	\$8
Interest Rate	7.0%	Discount Period	0.5	1.5	2.5	3.5
Amortization %	5.0%	PV of LFCF	(\$33)	(\$6)	(\$17)	\$5
		Memo:				
		Debt / EBITDA	0.4x	0.5x	0.4x	0.5x
		Cash from Golf Course Sales	\$35	\$20	\$25	\$0
		Debt Schedule				
		2019E	2020E	2021E	2022E	
		Growth Financing				
		Opening Balance	\$0	\$53	\$81	\$145
		(+) New Debt Issued	\$53	\$32	\$68	\$56
		(-) Amortization	\$0	(\$3)	(\$4)	(\$7)
		Closing Balance	\$53	\$81	\$145	\$194
		Interest Expense (Avg. Balance)	\$2	\$5	\$8	\$12

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Sum-of-the-Parts Valuation

Valuation Summary

Stock Price (11/08/2019)	\$3.98
Discount Rate (CoE)	15.0%

Entertainment Golf

Sum of PV	(\$51)
2022 EBITDA	\$89
Assumed Multiple	12.0x
Terminal Value	\$612
(-) Debt Outstanding	(\$194)

PV of Entertainment Golf \$367

Traditional Golf

2020 EBITDA	\$30
Assumed Multiple	8.0x

Traditional Golf Asset Value \$238

Total Drive Shack

Traditional Golf Asset Value	\$238
PV of Entertainment Golf	\$367

(+) Cash	\$45
(+) PV of NOLs	\$20
(-) Debt	(\$286)
(-) Preferred Stock	(\$62)

Total Equity Value \$323

Diluted Shares Outstanding	67
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Equity Value Per Share \$4.82

Upside / (Downside)	21.1%
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Sensitivity Analysis (Upside/Downside)

Entertainment Golf Multiple

	10.0x	11.0x	12.0x	13.0x	14.0x	
LTV	70%	-26.3%	-7.2%	11.9%	31.1%	50.2%
	60%	-21.7%	-2.6%	16.5%	35.6%	54.8%
	50%	-17.2%	1.9%	21.1%	40.2%	59.3%
	40%	-12.6%	6.5%	25.6%	44.8%	63.9%
	30%	-8.1%	11.1%	30.2%	49.3%	68.4%

Entertainment Golf Multiple

	10.0x	11.0x	12.0x	13.0x	14.0x	
Traditional Golf Multiple	6.0x	-39.5%	-20.3%	-1.2%	17.9%	37.0%
	7.0x	-28.3%	-9.2%	9.9%	29.1%	48.2%
	8.0x	-17.2%	1.9%	21.1%	40.2%	59.3%
	9.0x	-6.0%	13.1%	32.2%	51.3%	70.5%
	10.0x	5.1%	24.2%	43.3%	62.5%	81.6%

Base Case: \$4.82
Implied Upside: 21.1%

Upside Case: \$6.67
Implied Upside: 67.6%

Downside Case: \$2.33
Implied Downside: (41.4)%



THANK YOU!

