

Topgolf Callaway Brands Corp

PGA Show: Expect efficiencies & improved utilization at Topgolf, share gains in equip.

Maintain Rating: BUY | PO: 18.00 USD | Price: 14.02 USD

We recently hosted an investor meeting at the PGA Show with Topgolf Callaway Brands CEO Chip Brewer, and VP of IR & Corporate Communications Katina Metzidakis. We maintain Buy and our \$18 PO given we see 2024 as a return to positive comps at Topgolf, continued growth and share gains in golf equipment, and positive free cash flow.

Topgolf focused on utilization, efficiencies, and events

We believe MODG is still in nascent stages of unlocking the margin improvement and same-venue sales uplift from the implementation of its new digital reservation system (PIE) as 2024 will be the first full year with all venues on the platform. We believe the digital reservation system continues to be refined (generation 2.0 has been rolled out) but has significantly improved labor cost optimization and scheduling, while also improving bay utilization, with future opportunity for more dynamic pricing, and customized marketing with the integration of a customer data platform. While PIE is driving better peak utilization, we believe there could be further improvements in off-peak utilization through the use of more gameplay promos which are still accretive to same-venue sales and overall venue margins (including the recently announced half off gameplay Mon.-Wed.). We believe the events business is stabilizing and MODG is “very confident” in the unit whitespace opportunity, especially as it hasn’t seen a long-term traffic headwind from the rise of competing leisure entertainment concepts. We also believe Topgolf’s next key initiative will be the cross-selling of Callaway branded equipment merchandise at venues.

Expect growth and share gains in golf equipment in 2024

We expect growth and share gains for MODG’s equipment business in 2024 given strong new product launches across golf balls and clubs, and especially in the backdrop of a less competitive launch year. For Golf Clubs, MODG should benefit from the launch of its new Paradym Ai Smoke family of clubs, which include learnings from Ai and machine learning to create more forgiving products that are “sweeter from every spot.” While MODG expects to have the number one driver in 2024, its irons business should be supported by a more price accessible line for the core (less advanced) golfer at \$1,000 per set and should drive stronger unit volume vs. last year’s original Paradym line (\$1,400 per set) which was priced too high given the market environment. For Golf Balls, MODG should benefit the launch of its next generation Chrome Soft line for core golfers, but also the introduction of its Chrome Tour line for the avid golfer, against the backdrop of a less competitive environment (Titleist Pro V1 launched last year). We expect immaterial impact from Red Sea disruption for MODG, with only a small amount of Jack Wolfskin apparel product moving through the transit route.

TravisMathew momentum continues

We believe momentum at TravisMathew continues, especially given the broader rollout of its women’s line to its owned DTC channel and wholesale (led by a large expansion of its SKU/door count at JWN). We also believe TravisMathew continues to sell well at Dick’s Sporting Goods (& House of Sport), Scheel’s, and see the expansion of owned doors from 47 to 75 in the short term.

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Stock Data

Price	14.02 USD
Price Objective	18.00 USD
Date Established	9-Nov-2023
Investment Opinion	C-1-9
52-Week Range	9.84 USD - 25.96 USD
Mkt Val (mn) / Shares Out (mn)	2,587 USD / 184.5
Free Float	76.5%
Average Daily Value (mn)	51.90 USD
BofA Ticker / Exchange	MODG / NYS
Bloomberg / Reuters	MODG US / MODG.N
ROE (2023E)	1.8%
Net Dbt to Eqty (Dec-2022A)	31.7%
ESGMeter™	Medium

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Exhibit 1: MODG Golf Equipment Product Launch Schedule (since 1Q19)

We believe MODG took price on golf balls vs. prior generation product but cut price on irons

Launch Product	Category	Launch Date (available at retail)	Quarter	Price	% change vs. prior generation product
Epic Flash Drivers	Drivers	2/1/2019	1Q19	\$530	
Epic Flash Fairway Woods	Woods	2/1/2019	1Q19	\$300	
Odyssey Stroke Lab Putter	Putters	2/8/2019	1Q19	\$250	
Epic Forged Irons	Irons	8/2/2019	3Q19	\$1,800	
Epic Flash Hybrids	Hybrids	8/2/2019	3Q19	\$300	
Epic Flash Star Hybrid	Hybrids	8/2/2019	3Q19	\$325	
Epic Forged Star Irons	Irons	8/2/2019	3Q19	\$2,600	
Epic Flash Star Driver	Drivers	8/2/2019	3Q19	\$700	
Epic Flash Star Fairway Wood	Woods	8/2/2019	3Q19	\$400	
JAWS MD5 Wedges	Wedges	9/20/2019	3Q19	\$160	
MAVRIK Drivers	Drivers	1/23/2020	1Q20	\$500	
MAVRIK Fairway Woods	Woods	1/23/2020	1Q20	\$300	
MAVRIK Hybrids	Hybrids	1/23/2020	1Q20	\$250	
Odyssey Triple Track Putter	Putters	1/30/2020	1Q20	\$300	
Odyssey Stroke Lab Putter	Putters	1/30/2020	1Q20	\$200	
MAVRIK Irons	Irons	2/6/2020	1Q20	\$800	
Chrome Soft Golf Ball	Balls	3/12/2020	1Q20	\$48	
Big Bertha Driver	Drivers	9/10/2020	3Q20	\$500	
Big Bertha Fairway Woods	Woods	9/10/2020	3Q20	\$300	
Big Bertha Hybrids	Hybrids	9/10/2020	3Q20	\$250	
Big Bertha Irons	Irons	9/10/2020	3Q20	\$900	
Apex Irons (Steel)	Irons	2/11/2021	1Q21	\$1,480	
Odyssey White Hot OG Putter (Steel)	Putters	1/28/2021	1Q21	\$220	
Odyssey White Hot OG Putter (Stroke Lab)	Putters	1/28/2021	1Q21	\$270	
Supersoft Golf Balls	Balls	2/4/2021	1Q21	\$23	
Apex Irons (Graphite)	Irons	2/11/2021	1Q21	\$1,600	
Apex Hybrids	Hybrids	2/11/2021	1Q21	\$270	
Epic Drivers	Drivers	2/18/2021	1Q21	\$530	
Epic Fairway Woods	Woods	2/18/2021	1Q21	\$300	
Erc Soft Golf Balls	Balls	2/25/2021	1Q21	\$35	
Chrome Soft X LS Golf Balls	Balls	3/18/2021	1Q21	\$48	
Chrome Soft Golf Balls	Balls	1/28/2022	1Q22	\$50	4.2%
Odyssey Golf Tri-Hot 5K Putter	Putters	2/4/2022	1Q22	\$400	
Odyssey Eleven Putter	Putters	2/4/2022	1Q22	\$300	
Odyssey Golf Toulon Putter	Putters	2/4/2022	1Q22	\$450	
Odyssey Golf White Hot OG Putter	Putters	2/4/2022	1Q22	\$270	
Rogue Drivers	Drivers	2/18/2022	1Q22	\$550	
Rogue Fairway Woods	Woods	2/18/2022	1Q22	\$350	
Rogue Hybrids	Hybrids	2/18/2022	1Q22	\$280	
Rogue Irons	Irons	2/18/2022	1Q22	\$1,000	
Supersoft Golf Balls	Balls	2/24/2023*	1Q23	\$25	8.7%
ERC Soft Golf Balls	Balls	2/24/2023*	1Q23	\$40	14.3%
REVA 2023 Golf Ball	Balls	2/24/2023*	1Q23	\$25	
REVA 2023 ERC Soft Golf Ball	Balls	2/24/2023*	1Q23	\$40	
Warbird 2023 Golf Ball	Balls	2/24/2023*	1Q23	\$20	
Paradym Driver	Driver	2/24/2023	1Q23	\$600	
Paradym Fairway Woods	Woods	2/24/2023	1Q23	\$350	
Paradym Hybrids	Hybrids	2/24/2023	1Q23	\$300	
Paradym Irons	Irons	2/24/2023	1Q23	\$1,400	
Big Bertha Driver	Drivers	5/26/2023	2Q23	\$500	0.0%
Big Bertha Woods	Woods	5/26/2023	2Q23	\$300	0.0%
Big Bertha Hybrids	Hybrids	5/26/2023	2Q23	\$260	4.0%
Big Bertha Irons	Irons	5/26/2023	2Q23	\$1,000	11.1%
Big REVA Bertha Driver	Drivers	4/28/2023	2Q23	\$500	
Big REVA Bertha Woods	Woods	4/28/2023	2Q23	\$300	
Big REVA Bertha Hybrids	Hybrids	4/28/2023	2Q23	\$260	
Big REVA Bertha Irons	Irons	4/28/2023	2Q23	\$1,000	
Odyssey ai-ONE Putter	Putters	11/3/2023	3Q23	\$300	
Odyssey Ai-ONE Milled Putter	Putters	11/3/2023	3Q23	\$450	
Chrome Tour Golf Balls	Balls	2/2/2024	1Q24	\$55	
Chrome Tour X Golf Balls	Balls	2/2/2024	1Q24	\$55	
Chrome Soft Golf Balls	Balls	2/2/2024	1Q24	\$55	10.0%
Paradym Ai Smoke Drivers	Drivers	1/26/2024	1Q24	\$600	0.0%
Paradym Ai Smoke Fairway Woods	Woods	1/26/2024	1Q24	\$350	0.0%
Paradym Ai Smoke Hybrids	Hybrids	1/26/2024	1Q24	\$280	-6.7%
Paradym Ai Smoke Irons	Irons	1/26/2024	1Q24	\$1,000	-28.6%

Source: BofA Global Research Estimates

BofA GLOBAL RESEARCH

Price objective basis & risk

Topgolf Callaway Brands Corp (MODG)

Our \$18 price objective is based on an enterprise value of 8-9x our C2024 adj. EBITDA estimate of \$620MM, a premium to other Leisure Brands & Experience models (trading at 7x) reflecting stickiness in new customer acquisition and pricing opportunity across both golf equipment and Topgolf.

Risks to the downside are: 1) tough comparisons as MODG laps surge in demand for golf equipment, (2) slowdown in golf participation as consumers return to other forms of entertainment in a post-COVID environment, (3) resurgence in COVID-19 cases could pressure recovery trends for Topgolf, and (4) risk from increasing supply chain headwinds including from Vietnam Factory shutdowns, elevated freight costs, & rising raw material input costs.

Analyst Certification

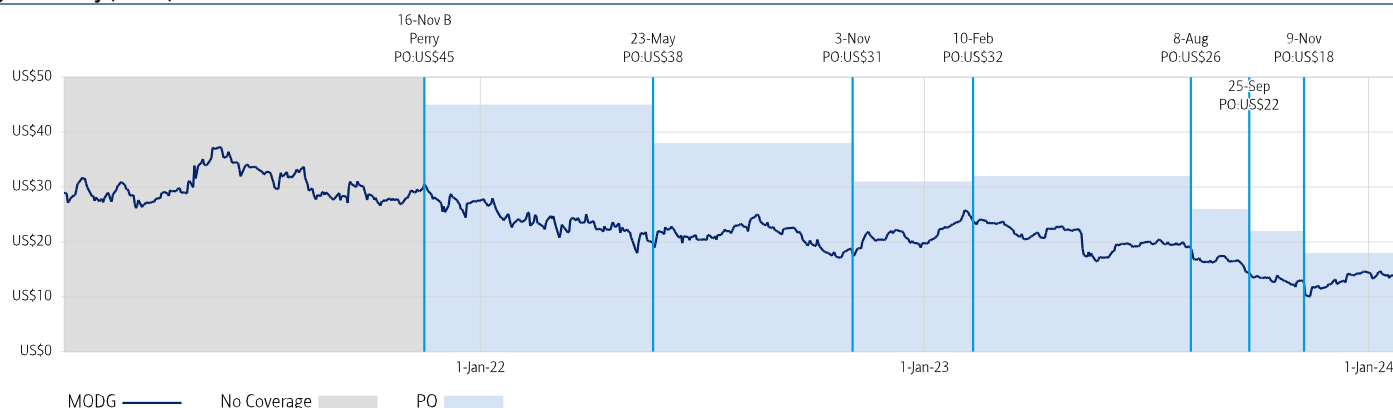
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Topgolf Callaway (MODG) Price Chart



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Equity Investment Rating Distribution: Leisure Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	16	55.17%	Buy	9	56.25%
Hold	7	24.14%	Hold	5	71.43%
Sell	6	20.69%	Sell	4	66.67%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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