

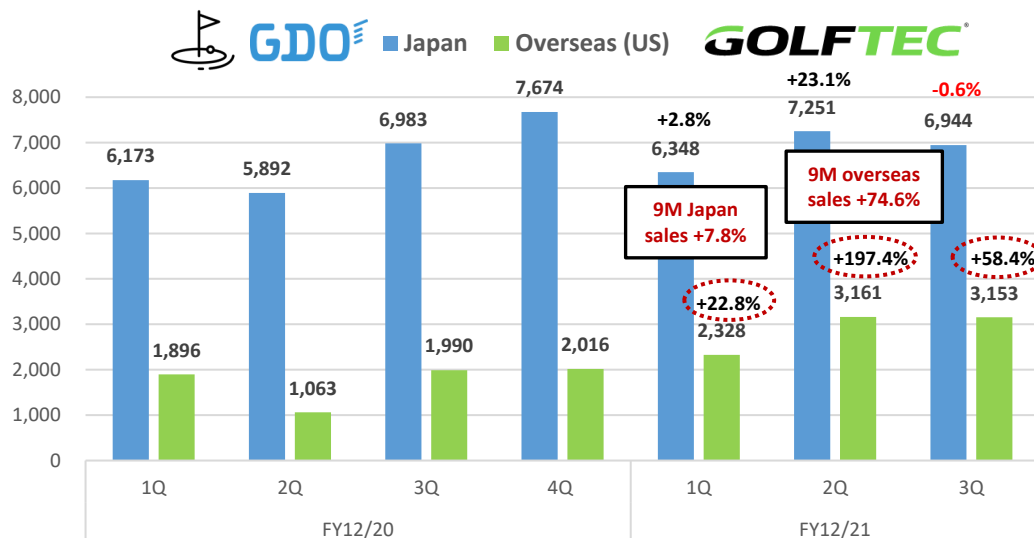
GOLFTEC business is taking off

High growth in high margin US business is driving profit growth

SUMMARY

- 9M headline numbers were net sales +21.6% YoY, EBITDA +88.8% YoY, and OP +510.6% YoY. Growth was mainly driven by high growth overseas: net sales +74.6% (71.2% of the total increase), EBITDA turned into the black, improving ¥1,044mn YoY (87.1% of total increase), and OP loss virtually disappeared, improving ¥898mn YoY (89.1% of total increase). These are impressive results considering the high level of investment in both the US and Japan. In the first 9M, US subsidiary GOLFTEC acquired 16 FC centers and opened 8 new centers, raising the number of corporate centers from 116 → 140 (+24), already topping the full-term target of +22.
- The day after the results announcement, the share price closed down -12.9%, reacting negatively to 3Q-only headline numbers of net sales +12.5%, and OP -61.7%, as well as implied Q4 OP -46.0%. First, this ignores the high 9M progress ratios of OP 83.1% and profit ATOP 99.5%, leaving room for an overshoot. Second, the profit declines are a result of deploying a high level of investment, in the US in GOLFTEC corporate centers, and in Japan in targeted advertising. These will contribute to growth going forward.
- When GDO made the decision to acquire a majority stake in GOLFTEC Enterprises LLC (GTE) in 2018, at the time it was viewed as a long-dated out-of-the-money call option, offering a clean way to enter the enormous US market with a highly recognized blue-chip name. After resolving a number of internal issues and equipped with a clear growth plan, GOLFTEC business is now taking off. The share price dropping back to the 1,000-yen level has likely shed all gains associated with the thematic driver of golf as popular escape vehicle from the pandemic. The current P/E of 24.3x is on a 33% discount to historical average.

GDO Consolidated Net Sales Trend by Quarter (JPY mn, % YoY)



Source: compiled by SESSA Partners from company IR FACT SHEET.

3Q Follow-up



Focus Points:

'Only one' golf specialist online gear retail, course reservations and media platform operator entering a new growth phase on acquiring the world's largest golf lessons operator in the US.

Key Indicators

Share price (11/18)	1,051
YH (21/7/13)	1,793
YL (21/1/15)	814
10YH (21/7/13)	1,793
10YL (12/10/16)	70.4
Shrs out. (mn shrs)	18.274
Mkt cap (¥ bn)	19,206
Shr equity ratio (9/30)	33.6%
21.12 P/E (CE)	24.2x
21.12 EV/EBITDA (CE)	5.6x
21.12 P/B (2Q act)	2.70x
20.12 ROE (act)	4.12%
21.12 DY (CE)	0.90%

6M stock price (weekly)



Source: SPEEDA data

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Q3 results summary

In addition to points highlighted on the cover page, it is also important to note that revised full-term OP guidance for ¥1,450mn will renew a record high for the first time since FY12/17. Also, given the high 9M OP progress ratio of 83.1%, it is likely to be achieved.

The lower table shows the strong progress of GOLFTEC corporate centers, already topping the full-term target of +22 in 9 months with +24. The obvious question is what is going on with Q3 and Q4 profits declining by high double-digits? Our OP factor analysis on the next page provides details.

GDO Summary of 12.21 Q3 Consolidated Financial Results

JPY mn, %	Net Sales	YoY	Operating Profit	YoY	Ordinary Profit	YoY	Profit ATOP	YoY
17.12 FY	21,574	11.7	1,214	13.1	1,226	12.5	707	15.7
18.12 FY	26,739	23.9	805	(33.7)	823	(32.9)	381	(46.1)
19.12 FY	34,274	28.2	979	21.7	972	18.1	359	(5.8)
20.12 FY	33,691	(1.7)	650	(33.6)	839	(13.7)	908	153.0
21.12 FYe	40,200	19.3	1,450	123.1	1,440	71.6	795	(12.4)
17.12 Q1	4,233	0.6	(36)	TR	(32)	TR	(43)	TR
17.12 Q2	5,412	7.8	345	5.9	346	4.9	203	(1.8)
17.12 Q3	5,632	13.8	419	6.0	420	4.4	271	6.0
17.12 Q4	6,296	22.8	485	65.7	491	66.1	276	115.7
18.12 Q1	5,199	22.8	45	TB	44	TB	(20)	RS
18.12 Q2	6,728	24.3	276	(20.2)	264	(23.6)	157	(22.7)
18.12 Q3	6,303	11.9	134	(68.1)	168	(60.1)	178	(34.4)
18.12 Q4	8,509	35.1	350	(27.9)	347	(29.4)	66	(76.1)
19.12 Q1	7,553	45.3	(147)	TR	(153)	TR	(204)	RE
19.12 Q2	9,175	36.4	410	48.6	409	54.8	284	80.8
19.12 Q3	8,874	40.8	230	72.0	228	36.2	124	(30.6)
19.12 Q4	8,672	1.9	487	39.1	487	40.4	155	135.3
20.12 Q1	8,071	6.8	43	TB	39	TB	(45)	RS
20.12 Q2	6,955	(24.2)	(488)	TR	(479)	TR	(565)	TR
20.12 Q3	8,973	1.1	643	179.7	706	209.4	468	278.7
20.12 Q4	9,692	11.8	453	(7.0)	573	17.6	1,050	578.0
21.12 Q1	8,677	7.5	228	432.8	232	493.5	106	TB
21.12 Q2	10,413	49.7	731	TB	731	TB	526	TB
21.12 Q3	10,097	12.5	247	(61.7)	258	(63.4)	159	(66.0)
21.12 Q4e	11,013	13.6	245	(46.0)	219	(61.8)	4	(99.6)
<i>progress ratios</i>								
9M 5Y AVG	71.8%		56.2%		55.7%		43.5%	
21.12 9M	72.6%		83.1%		84.8%		99.5%	
<i>profit margins</i>								
Q3 5Y AVG	—		5.2%		5.5%		3.7%	
21.12 Q3	—		2.4%		2.6%		1.6%	

Source: compiled by Sessa Partners from TANSBIN financial statements

Note: profit ATOP = profit attributable to owners of parent. TR: turn red. TB: turn black, RE: red expands, RS: red shrinks

GOLFTEC expansion running ahead of MTP annual target of 22 Corp. Centers

	Corporate Centers	FC Centers	Total Studios
12.20 Q4 end	116	91	207
New openings	4	0	4
Acquire FC	3	-3	0
Closure	0	0	0
12.21 Q1 end	123	88	211
New openings	1	0	1
Acquire FC	5	-5	0
Closure	0	0	0
12.21 Q2 end	129	83	212
New openings	3	0	3
Acquire FC	8	-8	0
Closure	0	0	0
12.21 Q3 end	140	75	215
9M change	24	-16	8

Source: compiled by Sessa Partners from IR results briefing materials.





Why did Q3-only OP decline -61.7% despite net sales up +12.5%?

Looking at GPM, we can see that high growth in high margin GOLFTEC business has resulted in higher GPM, so the cause of the profit decline is clearly higher costs.

As mentioned on the cover page, the higher costs are a direct result of faithfully executing MTP initiatives, and they are therefore as **planned**. The first is marketing expense in Japan, which came under pressure last year due to the pandemic. Note that the % of sales rose to 9.2% in Q2 and 9.8% in Q3. Also in Japan, investment in core systems infrastructure has associated depreciation.

Labor cost is up due to the increase in GOLFTEC corporate centers (see the trend of employees on P4). Also, 'Others' in SG&A includes increases in rent associated with rapid growth in the number of directly managed corporate centers. **These will contribute to future growth.**

GDO Operating Profit Factor Analysis

JPY mn, %	20.12 Q1	20.12 Q2	20.12 Q3	20.12 Q4	21.12 Q1	21.12 Q2	21.12 Q3
Net sales	8,070	6,855	8,973	9,691	8,677	10,412	10,097
• Japan	6,173	5,892	6,983	7,674	6,348	7,251	6,944
• Overseas (US)	1,896	1,063	1,990	2,016	2,328	3,161	3,153
Net sales YoY					7.5	51.9	12.5
• Japan					2.8	23.1	(0.6)
• Overseas (US)					22.8	197.4	58.4
Net sales CHG AMT					607	3,557	1,124
• Japan					175	1,359	(39)
• Overseas (US)					432	2,098	1,163
Gross profit	3,138	2,339	3,559	4,039	3,494	4,526	4,314
GPM	38.9%	34.1%	39.7%	41.7%	40.3%	43.5%	42.7%
Gross profit YoY					11.3	93.5	21.2
Gross profit CHG AMT					356	2,187	755
SG&A expenses	3,095	2,827	2,916	3,397	3,267	3,795	4,067
• Labor cost	1,000	1,004	978	1,118	1,111	1,124	1,126
• Marketing expense	524	353	480	661	572	954	990
• % of net sales	6.5%	5.1%	5.3%	6.8%	6.6%	9.2%	9.8%
• IT/capital expenditure*	502	505	485	495	509	549	613
• GW amortization	85	85	84	83	85	100	125
• Other	982	878	888	1,039	988	1,065	1,211
SG&A expenses YoY					5.6	34.2	39.5
• Labor cost					11.1	12.0	15.1
• Marketing expense					9.2	170.3	106.3
• IT/capital expenditure*					1.4	8.7	26.4
• GW amortization					0.0	17.6	48.8
• Other					0.6	21.3	36.4
SG&A expenses CHG AMT					172	968	1,151
• Labor cost					111	120	148
• Marketing expense					48	601	510
• IT/capital expenditure*					7	44	128
• GW amortization					0	15	41
• Other					6	187	323
OP	42	(488)	643	641	227	730	246
• Japan	254	89	773	663	407	576	243
• Overseas (US)	(211)	(577)	(130)	(21)	(179)	154	3
OP CHG AMT					185	1,218	(397)
• Japan					153	487	(530)
• Overseas (US)					32	731	133
Depreciation	298	302	294	297	304	335	389
Depreciation YoY					2.0	10.9	32.3
Depreciation CHG AMT					6	33	95

*Note: IT/capital expenditure in SG&A includes depreciation.

Source: compiled by Sessa Partners from GDO IR FACT SHEET.

Golf Digest Online Quarterly Consolidated Financial Highlights

[J-GAAP]	FY12/18				FY12/19				FY12/20				FY12/21		
JPY mn, %	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Consol/NC ratio (x)	1.04	1.04	1.04	1.26	1.32	1.34	1.34	1.32	1.36	1.19	1.33	1.31	1.36	1.48	1.51
Net sales	5,199	6,727	6,303	8,508	7,553	9,175	8,873	8,671	8,070	6,955	8,973	9,691	8,677	10,412	10,097
• Japan	5,199	6,727	6,303	7,014	5,948	7,129	6,912	6,851	6,173	5,892	6,983	7,674	6,348	7,251	6,944
• Overseas	—	—	—	1,494	1,604	2,046	1,961	1,819	1,896	1,063	1,990	2,016	2,328	3,161	3,153
Gross profit	1,922	2,647	2,395	3,510	2,851	3,693	3,503	3,607	3,138	2,339	3,559	4,039	3,494	4,526	4,314
GPM	37.0%	39.3%	38.0%	41.3%	37.7%	40.3%	39.5%	41.6%	38.9%	33.6%	39.7%	41.7%	40.3%	43.5%	42.7%
SG&A expenses	1,876	2,371	2,261	3,160	2,999	3,283	3,273	3,121	3,095	2,827	2,916	3,397	3,267	3,795	4,067
Ratio to sales	36.1%	35.2%	35.9%	37.1%	39.7%	35.8%	36.9%	36.0%	38.4%	40.6%	32.5%	35.1%	37.7%	36.4%	40.3%
Labor cost	729	767	784	945	938	979	1,074	1,026	1,000	1,004	978	1,118	1,111	1,124	1,126
Marketing-related	309	570	465	555	472	665	594	497	524	353	480	661	572	954	990
ratio to sales	5.9%	8.5%	7.4%	6.5%	6.2%	7.2%	6.7%	5.7%	6.5%	5.1%	5.3%	6.8%	6.6%	9.2%	9.8%
IT / capex	323	321	329	478	477	489	488	519	502	505	485	495	509	549	613
Goodwill	2	2	2	87	85	84	79	85	85	85	84	83	85	100	125
Other	511	708	679	1,093	1,024	1,065	1,035	993	982	878	888	1,039	988	1,065	1,211
EBITDA	161	386	269	711	211	775	590	892	427	(102)	1,023	1,019	617	1,161	767
Ratio to sales	3.1%	5.7%	4.3%	8.4%	2.8%	8.4%	6.6%	10.3%	5.3%	-1.5%	11.4%	10.5%	7.1%	11.2%	7.6%
• Japan	197	537	359	782	292	552	471	740	383	219	904	795	538	712	408
• Overseas	(35)	(141)	(90)	(71)	(80)	222	119	151	44	(322)	119	224	78	449	358
Operating profit	45	275	133	349	(147)	409	229	486	42	(488)	643	641	227	730	246
OPM	0.9%	4.1%	2.1%	4.1%	-1.9%	4.5%	2.6%	5.6%	0.5%	-7.0%	7.2%	6.6%	2.6%	7.0%	2.4%
• Japan	87	423	231	644	164	427	343	599	254	89	773	663	407	576	243
• Overseas	(42)	(147)	(99)	(294)	(312)	(17)	(113)	(112)	(211)	(577)	(130)	(21)	(179)	154	3
Ordinary Profit	44	264	167	346	(152)	409	228	486	39	(478)	706	641	232	731	258
Profit ATOP	(20)	157	177	65	(203)	284	123	154	(45)	(564)	468	404	106	525	237
[B/S]															
Cash and deposits	1,466	1,658	1,373	1,700	1,833	1,440	1,412	1,996	2,293	2,327	2,374	2,873	3,173	2,998	2,375
ST loans	1,450	1,700	1,981	2,435	2,500	2,408	2,517	3,446	4,424	4,554	2,183	1,471	1,465	1,609	1,773
LT loans < 1Y	0	0	0	666	666	666	666	666	666	666	666	666	333	333	50
LT loans	0	0	2,002	1,335	1,000	1,000	667	666	333	333	—	—	—	—	—
Total IBD	1,450	1,700	3,983	4,436	4,166	4,074	3,850	4,778	5,423	5,553	2,849	2,137	1,798	1,942	1,823
Net cash (net debt)	16	(42)	(2,610)	(2,736)	(2,333)	(2,634)	(2,438)	(2,782)	(3,130)	(3,226)	(475)	736	1,375	1,056	552
Net assets	5,897	6,058	6,219	6,207	5,862	6,059	6,108	6,315	6,149	5,563	5,997	6,356	6,472	7,006	7,115
Total assets	11,293	11,732	17,140	18,236	18,564	17,812	18,441	19,564	19,562	18,376	17,960	17,994	19,172	20,724	21,173
Equity ratio (%)	52.2	51.6	36.3	34.0	31.6	34.0	33.1	32.3	31.4	30.3	33.4	35.3	33.8	33.8	33.6
[Supplementary info]															
'Golf Garage' shops	5	5	5	5	5	5	5	5	6	6	6	6	6	6	6
'GOLFTEC' studios	10	11	197	200	202	206	208	209	207	208	207	207	211	212	215
FC studios in Japan	10	11	11	12	12	12	12	13	13	13	13	13	13	12	12
Employees (consol)	550	586	989	1,046	1,081	1,108	1,129	1,138	1,148	1,127	1,087	1,081	1,119	1,192	1,245
Club Members (10k)	343	353	362	372	379	390	401	413	424	436	451	464	476	491	504

Source: P/L and supplementary info from IR Fact Sheet, selected B/S items compiled by Sessa Partners from TANSHIN financial statements.



Revised FY12/21 OP of ¥1,450mn will top the previous peak of ¥1,214mn in FY12/17.

21.12 Q2 GDO Revised Consolidated Financial Forecast Summary

[J-GAAP]	FY12/20	YoY	FY12/21	YoY	FY12/21	YoY	AMT	PCT
JPY mn, %	act	%	init CE	%	rev'd CE	%	revised	rev'd
Net sales	33,691	(1.7)	37,800	12.2	40,200	19.3	2,400	6.3
• Japan	26,724	(0.4)	27,800	4.0	29,000	8.5	1,200	4.3
• Overseas	6,967	(6.3)	10,000	43.5	11,200	60.8	1,200	12.0
EBITDA	2,370	(4.0)	2,850	20.3	3,250	37.1	400	14.0
• Japan	2,304	12.0	2,100	(8.9)	2,300	(0.2)	200	9.5
• Overseas	66	(84.0)	750	11.4x	950	14.4x	200	26.7
Operating profit	839	(14.3)	1,100	31.1	1,450	72.8	350	31.8
• Japan	1,780	15.9	1,500	(15.7)	1,700	(4.5)	200	13.3
• Overseas	(941)	RE	(400)	RS	(250)	RS	150	—
Ordinary profit	908	(6.6)	1,090	20.1	1,440	58.6	350	32.1
Profit ATOP	261	(27.1)	540	106.5	795	204.0	255	47.2

Source: compiled by Sessa Partners from IR results briefing materials. RE = red expanded, RS = red shrink

GDO Consolidated Financial Highlights at a Glance

[J-GAAP]	FY12/15	YoY	FY12/16	YoY	FY12/17	YoY	FY12/18	YoY	FY12/19	YoY	FY12/20	YoY
JPY mn, %	act	%	act	%	act	%	act*	%	act	%	act	%
Net Sales	18,047	12.6	19,309	7.0	21,574	11.7	26,739	23.9	34,274	28.2	33,691	(1.7)
<i>by segment</i>												
• Japan	18,047	12.6	19,309	7.0	21,574	11.7	25,245	17.0	26,842	6.3	26,724	(0.4)
• Overseas	—	—	—	—	—	—	1,495	—	7,432	397.3	6,967	(6.3)
<i>breakdown (% total)</i>												
• Japan	100.0%	—	100.0%	—	100.0%	—	94.4%	—	78.3%	—	79.3%	—
• Overseas	—	—	—	—	—	—	5.6%	—	21.7%	—	20.7%	—
<i>by business</i>												
• RETAIL (online gear sales)	12,450	12.8	13,367	7.4	14,081	5.3	16,301	15.8	17,354	6.5	17,896	3.1
• COURSE (play reservations)	4,715	14.8	5,106	8.3	5,806	13.7	6,929	19.3	7,475	7.9	6,962	(6.9)
• Other (MEDIA, new business)	812	2.0	811	(0.2)	874	7.7	971	11.1	846	(12.9)	972	14.9
• SCHOOL (plus club fitting/sales)	—	—	—	—	800	—	2,530	216.2	8,597	239.9	7,858	(8.6)
<i>breakdown (% total)</i>												
• RETAIL (online gear sales)	69.0%	—	69.2%	—	65.3%	—	61.0%	—	50.6%	—	53.1%	—
• COURSE (play reservations)	26.1%	—	26.4%	—	26.9%	—	25.9%	—	21.8%	—	20.7%	—
• Other (MEDIA, new business)	4.5%	—	4.2%	—	4.0%	—	3.6%	—	2.5%	—	2.9%	—
• SCHOOL (plus club fitting/sales)	—	—	—	—	3.7%	—	9.5%	—	25.1%	—	23.3%	—
Gross Profit	7,372	13.4	8,012	8.7	8,850	10.5	10,475	18.4	13,656	30.4	13,076	(4.3)
<i>ratio to sales (%)</i>	40.9%	—	41.5%	—	41.0%	—	39.2%	—	39.8%	—	38.8%	—
SG&A Expenses	6,544	8.0	6,939	6.0	7,636	10.0	9,671	26.6	12,677	31.1	12,237	(3.5)
<i>ratio to sales (%)</i>	36.3%	—	35.9%	—	35.4%	—	36.2%	—	37.0%	—	36.3%	—
EBITDA	1,458	36.9	1,577	8.2	1,645	4.3	1,537	(6.6)	2,469	60.6	2,370	(4.0)
<i>ratio to sales (%)</i>	8.1%	—	8.2%	—	7.6%	—	5.7%	—	7.2%	—	7.0%	—
• Japan	1,458	36.9	1,577	8.2	1,645	4.3	1,876	14.0	2,057	9.6	2,304	12.0
• Overseas	—	—	—	—	—	—	(338)	—	412	TB	66	(84.0)
Operating Profit	828	86.7	1,073	29.6	1,214	13.1	805	(33.7)	979	21.7	839	(14.3)
<i>ratio to sales (%)</i>	4.6%	—	5.6%	—	5.6%	—	3.0%	—	2.9%	—	2.5%	—
• Japan	828	86.7	1,073	29.6	1,337	24.6	1,387	3.7	1,535	10.7	1,780	15.9
• Overseas	—	—	—	—	(123)	—	(582)	RE	(556)	RS	(941)	RE
Ordinary Profit	816	86.7	1,089	33.4	1,226	12.5	823	(32.9)	972	18.1	908	(6.6)
Profit Before Income Taxes	768	82.1	1,009	31.4	1,127	11.7	765	(32.1)	786	2.7	830	5.6
Profit Attributable to Owners of Parent	430	138.3	611	42.0	707	15.7	381	(46.1)	359	(5.8)	261	(27.1)

*Raising stake in GolfTEC Enterprises LLC from 8.1% → 60.0% was completed in Jul-2018 (3Q), and its P/L was consolidated from 4Q 2018.

Selected Items from Consolidated B/S, CF/S and Per Share Data

B/S, CF, and key financial indicators	FY12/15	FY12/16	FY12/17	FY12/18	FY12/19	FY12/20
JPY mn, %	act	act	act	act*	act	act
Total Assets	9,174	8,712	10,806	18,237	19,565	17,994
Cash and Deposits	2,841	1,509	1,534	1,701	1,997	2,873
ST Loans Payable	1,000	—	950	2,435	3,446	1,472
Current Portion of LT Loans Payable	—	—	—	667	667	666
LT Loans Payable	—	—	—	1,335	667	—
Total Interest-Bearing Debt	1,000	0	950	4,437	4,780	2,138
Net Assets	4,882	5,417	6,020	6,207	6,316	6,357
Equity ratio (%)	53.2%	62.2%	55.7%	34.0%	32.3%	35.3%
Current ratio (%)	171.7%	197.7%	171.2%	94.4%	89.2%	87.0%
Net D/E ratio (x)	(0.38)	(0.28)	(0.10)	0.44	0.44	(0.12)
ROA (%)	10.1%	12.2%	12.6%	5.7%	5.1%	4.8%
ROE (%)	12.3%	11.9%	12.4%	6.2%	5.7%	4.1%
CF from Operating Activities	1,861	756	435	442	2,124	4,888
CF from Investing Activities	(720)	(994)	(1,255)	(3,527)	(1,953)	(1,285)
FCF	1,140	(238)	(820)	(3,084)	171	3,603
CF from Financing Activities	998	(1,095)	845	3,236	129	(2,704)
Shares Outstanding (000)	17,747	18,053	18,274	18,274	18,274	18,274
Avg. Shares Outstanding (000)	16,054	17,893	18,256	18,274	18,274	18,274
Basic EPS (¥)	26.80	34.16	38.73	20.84	19.63	14.31
DPS (¥)	5.50	7.00	9.00	9.50	9.50	5.50
Payout Ratio (%)	20.5%	20.5%	23.2%	45.6%	48.4%	38.4%
BPS (¥)	274.97	299.96	329.34	339.69	345.61	347.85

Source: compiled by Sessa Partners from TANSWIN financial statements and IR Fact Book. Figures reported in thou. yen are rounded to the nearest million.

Growth was mainly driven by high growth overseas: net sales +74.6%, (71.2% of the total increase), EBITDA turned into the black, improving ¥1,044mn YoY, (87.1% of total increase), and OP loss virtually disappeared, improving ¥898mn YoY (89.1% of total increase). These are impressive results considering the high level of investment in both the US and Japan.

In the first 9M, US subsidiary GOLFTEC acquired 16 FC centers and opened 8 new centers, raising the number of corporate centers from 116 → 140 (+24), already topping the full-term target of +22.

9M FY12/21 GDO Consolidated Financial Results Summary

[J-GAAP]	FY12/19	FY12/20	AMT	YoY	FY12/21	AMT	YoY
JPY mn, %	9M act	9M act	CHG	%	9M act	CHG	%
Net sales	25,602	23,998	(1,604)	(6.3)	29,187	5,189	21.6
• Japan	19,990	19,048	(942)	(4.7)	20,543	1,495	7.8
• Overseas	5,612	4,950	(662)	(11.8)	8,643	3,693	74.6
Gross profit	10,048	9,036	(1,012)	(10.1)	12,334	3,298	36.5
SG&A expense	9,556	8,839	(717)	(7.5)	11,129	2,290	25.9
EBITDA	1,577	1,348	(229)	(14.5)	2,546	1,198	88.9
• Japan	1,316	1,507	191	14.5	1,659	152	10.1
• Overseas	260	(158)	(418)	TR	886	1,044	TB
Operating profit	492	197	(295)	(59.9)	1,205	1,008	510.6
• Japan	935	1,117	182	19.5	1,226	109	9.8
• Overseas	(443)	(919)	(476)	RE	(21)	898	RS
Ordinary profit	485	266	(219)	(45.1)	1,221	955	358.5
Profit ATOP	203	(142)	(345)	TR	791	933	TB

Source: compiled by Sessa Partners from IR results briefing materials.
TR = turned red, RE = red expanded, RS = red shrank, TB = turned black.

9M FY12/21 deployed JPY 3.0 billion in IT, capex and shareholder returns

Overseas Business
New Businesses

Overseas Business: 2.17 billion yen

- ❖ Added 24 U.S. GOLFTEC corporate centers (including 16 acquired franchise centers)
- ❖ Implemented investment, including on software development

New Businesses: 0.24 billion yen

- ❖ Implemented investment, including on installations of Toptracer Range

Domestic Business

Domestic Business: 0.6 billion yen

- ❖ Expanded system infrastructure that supports the foundation of GDO's businesses
- ❖ Implemented investment for strengthening services

Shareholder Returns

Paid an interim dividend of 4.0 yen for FY2021

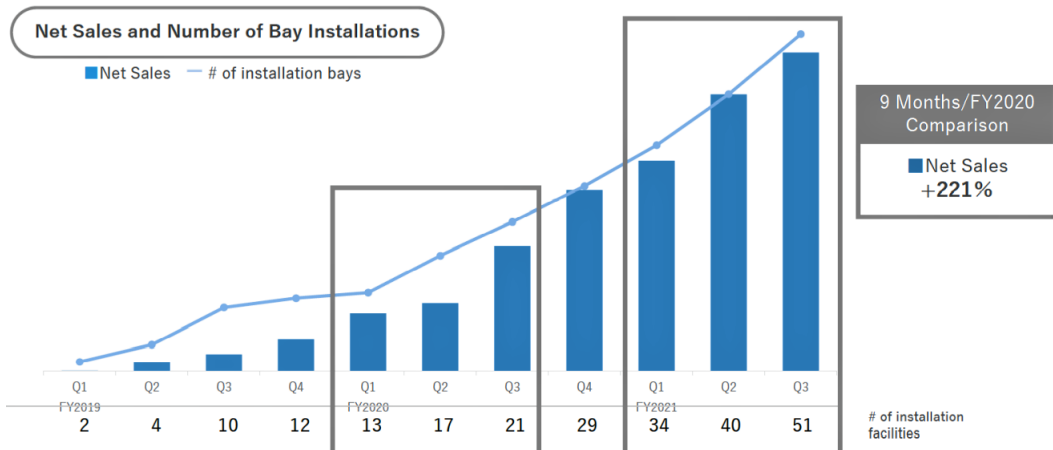
Planning to pay a year-end dividend of 5.5 yen

Source: Company IR results briefing materials.

New High-Tech Driving Ranges



Progress of Top Tracer Range Installations in Driving ranges

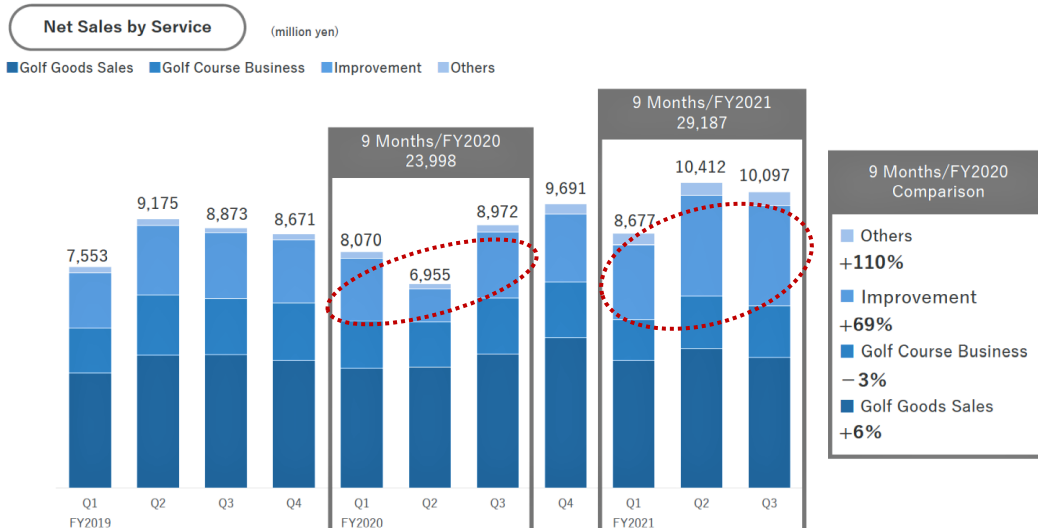


Source: Company IR results briefing materials.

GOLFTEC



9M FY12/21 Golf Improvement Business (GOLFTEC lessons and club fittings) +69%



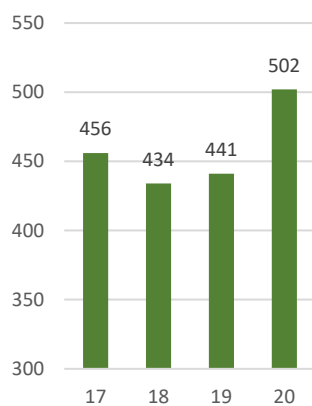
Source: Company IR results briefing materials.

The number of Top Tracer Range new installations in the 1H was +11, which was behind the MTP annual target of +50. This is attributed to driving range operators slightly pushing out installations as a result of new waves of COVID-19. New installations in Q3 were +11, including expanding into new regions Koshinetsu and Hokuriku, so the pace is picking up. In Q4, the company is planning +8, including entering Kyushu for the first time.

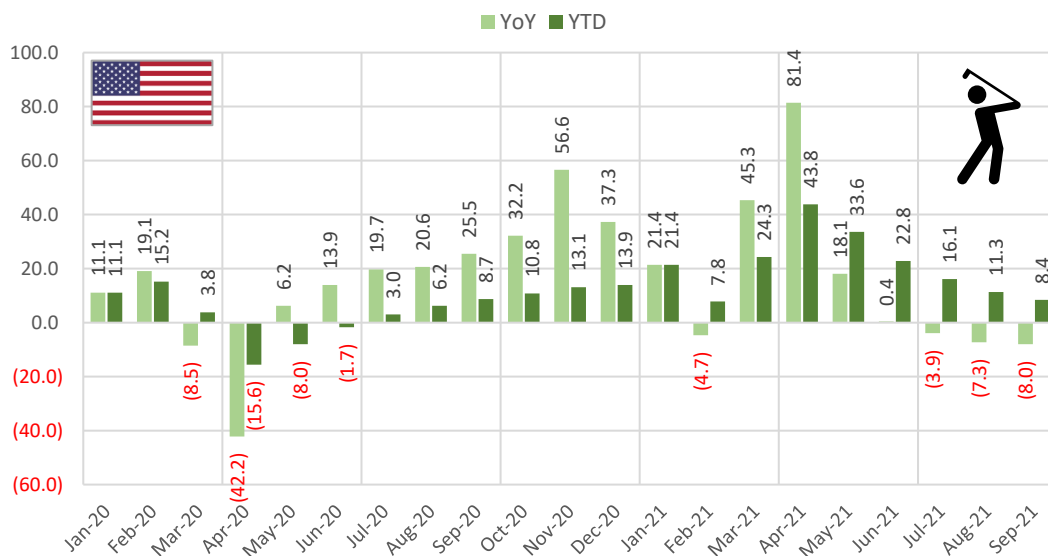
NGF monthly US rounds data below shows three consecutive monthly declines. NGF notes this is mainly due the high base last year, but that the overall level remains higher than recent years, noting the large group of new players among young people in their 20s and 30s. Declines in Japan figures shown on P.13 in August were attributed to the higher number of rainy days this year. Note that driving ranges are unaffected by the weather.

National Golf Foundation (NGF) Monthly US National Rounds Played Report

Total US rounds played (million)



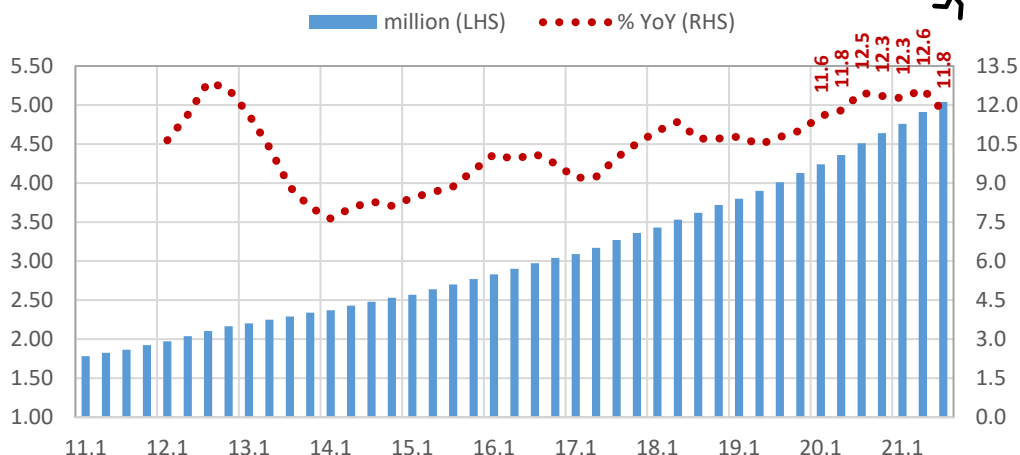
Source: NGF



Source: compiled by Sessa Partners from NGF monthly reports

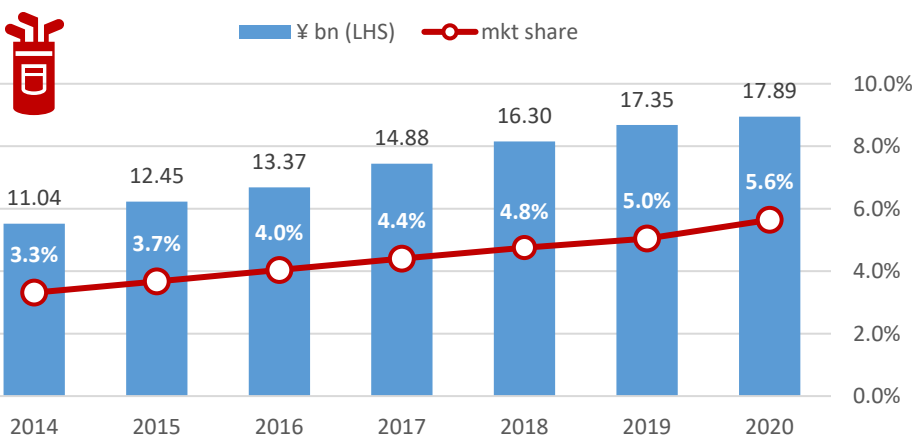


Quarterly Trend of GDO Club Members: tops 5 million in Q3!

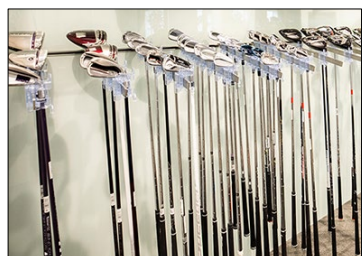


Source: compiled by Sessa Partners from GDO IR Factbook

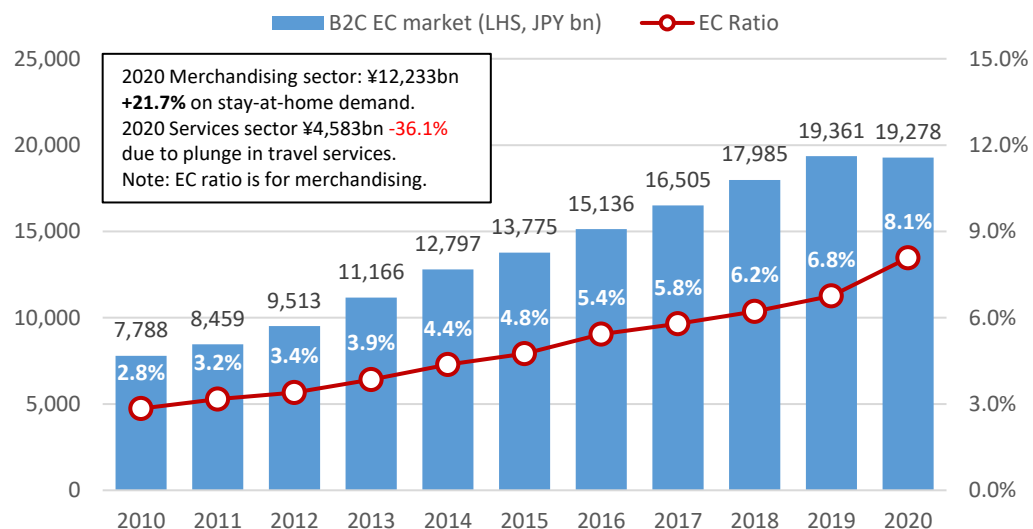
GDO SHOP Golf Gear Sales (mainly online, JPY bn), YoY Trend and Market Share



Source: Japan Productivity Center 'Leisure White Paper', GDO IR

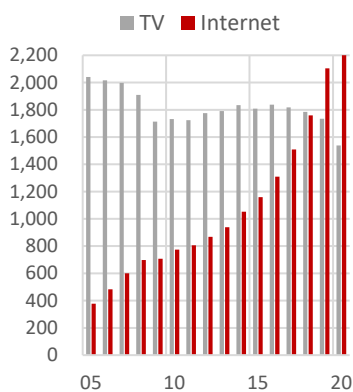


METI: Japan's B2C E-commerce Market (JPY bn) and EC Ratio



Source: Ministry of Economy, Trade and Industry (METI) '2019 E-Commerce Market Survey', July 22, 2020

Internet ads of ¥2.1trn surpass TV for the first time in 2019



Source: 'Advertising Expenditures in Japan 2020' by DENTSU Inc.



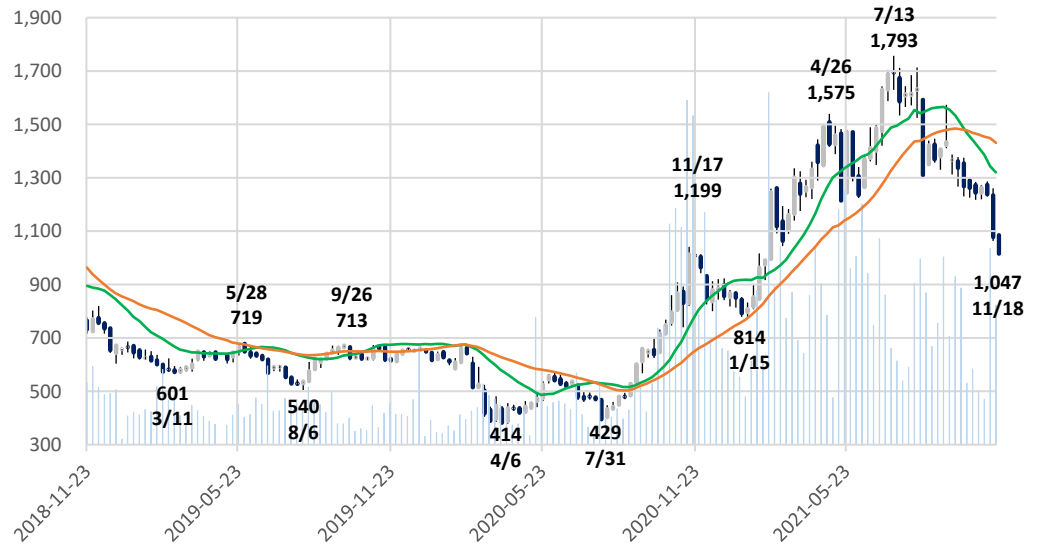
**Performance and Valuations:
SESSA Smart Charts**

- ✓ The relative performance chart on the top of page 10 shows that the thematic driver of golf as a popular escape from COVID-19 has largely washed out.
- ✓ GDO's share price dropping back to 1,000, at the middle of the range, now puts the P/E of 24.2x on a 33% discount to historical average.
- ✓ EV/EBITDA which was getting expensive is also now on a slight discount.
- ✓ The long-term chart on P10 overlaid on MTP profit targets highlights the point that, regardless of ST planned cost increases, GDO's profits are growing strongly on high growth in high margin GOLFTEC business.

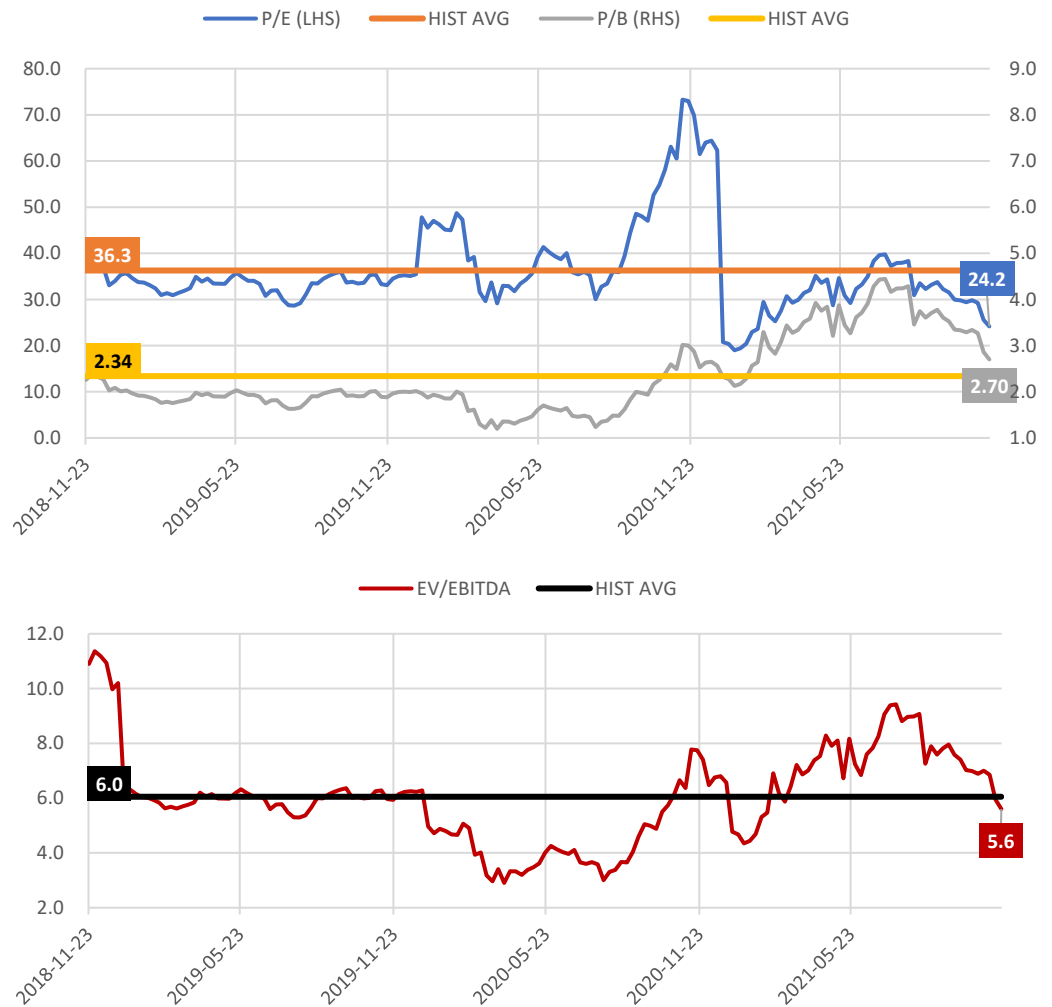


Analyst's view

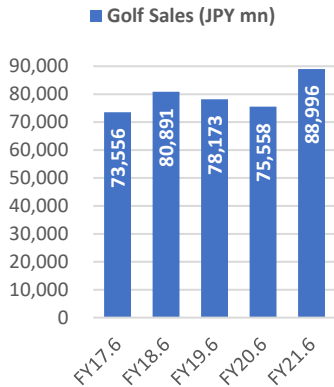
SESSA Smart Charts: 3-Year Weekly Share Price / Volume Trend



Historical P/E, P/B and EV/EBITDA (times)



Alpen Retail Golf Sales



Source: compiled by Sessa Partners from Alpen company data.

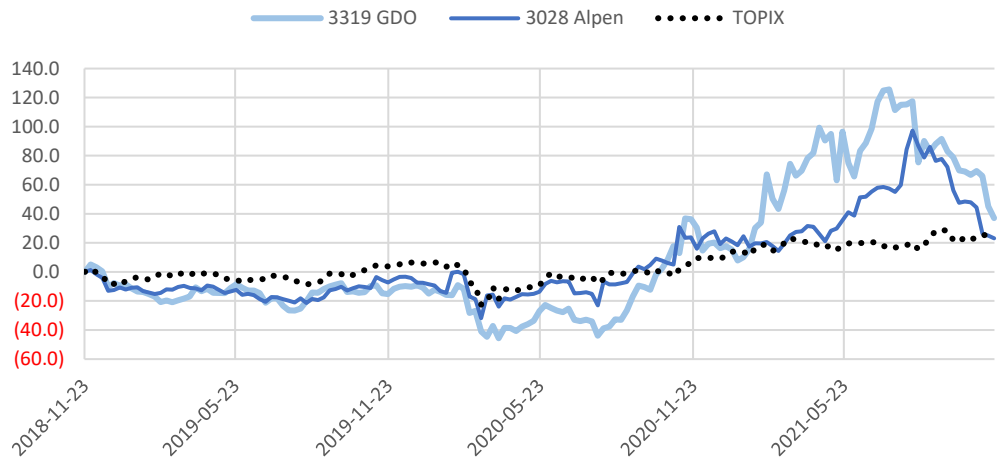
GOLFTEC Enterprises LLC 25TH Anniversary in 2020



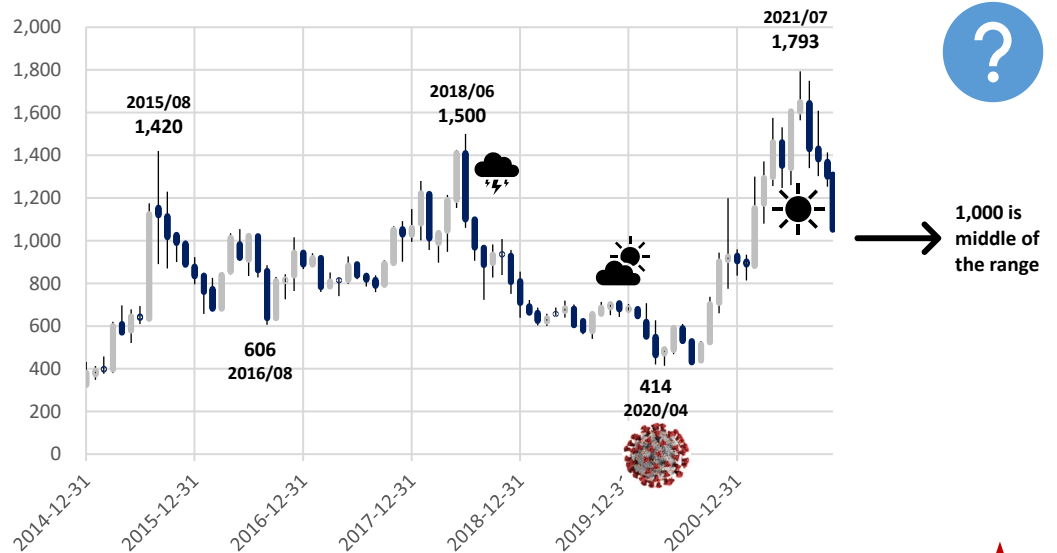
- Total Lessons since '95: 2021.3 11,127,806
- 1 million+ students
 - 7 stroke AVG improvement
 - 700+ certified personal coaches
 - #1 employer of PGA professionals
 - 200+ studios worldwide
 - 37 US states, 6 countries



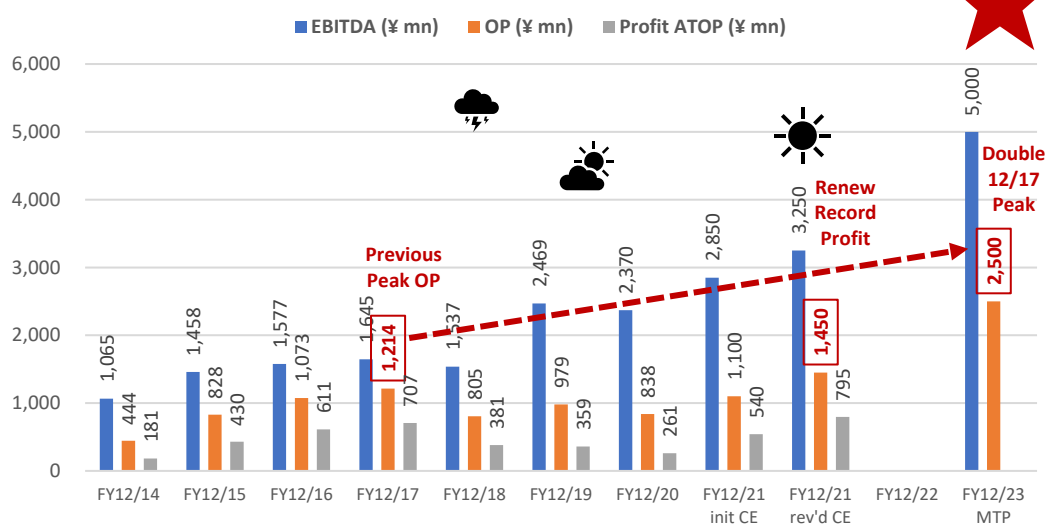
3-Year Weekly Relative Performance



GDO's share price has exceeded the level of the GTE acquisition announcement; It likely has not yet discounted 12/23 MTP OP target double the previous 12/17 peak



1,000 is middle of the range



Source: compiled by Sessa Partners from IR results briefing materials. Monthly share price from SPEEDA data.



New MTP 2021–2023 'Lead the Way'

Key Initiatives in the New Medium-Term Management Plan 2021–2023 'Lead the Way'

The company's corporate slogan is 'Connect the World with Golf', embodying the view that golf is a universal sport, and incorporating its mission to promote the spread of golf to enrich people's lives and encourage mutual understanding through the sport. The company characterizes its history in three distinct phases: the first 10 years as the 'start-up' phase in rolling out online tee time reservations and online retail sales of golf gear, establishing and expanding system infrastructure and marketing infrastructure, the second decade as the 'rebirth' phase, in starting new business in golf lessons, making full swing entry into the US market by acquiring a majority stake in GTE, and making a tie-up with TOPGOLF to share costs and profits in deploying high tech equipment in Japan driving ranges, and going forward, the 'challenge the global market' phase, fully recognizing the potential of golf business.

The title of its newly announced MTP is 'Lead the Way', for the next generation of golf business, specifically promoting digital transformation of golf services in the Japan and US markets. Through its two main subsidiaries in the US, GDO Sports, Inc., which develops and invests in golf-related business, and GolfTEC Enterprises LLC, which operates the largest provider of golf lesson instruction, as well as custom club fittings/sales, the company is aiming to carve out a market position and market share in 'Golf Improvement Business', which includes indoor/outdoor golf instruction, technology enhanced indoor practice, and club fitting/custom club sales. Plans call for aggressive openings of 22 new centers per year over the next 3 years, allocating capex of ¥4.5bn.

GolfTEC Enterprises LLC
Co-founder and CEO Joe Assell



As of the end of 2020, the company has 116 directly managed corporate centers, and 91 FC (includes 13 in Japan) centers for a total of 207. The company estimates the US market has potential for up to 375 centers. According to the company, goodwill associated with the GolfTEC transaction is roughly ¥4.1bn, using straight-line amortization over 10 years through 2028. Therefore, OP for the overseas segment is expected to remain slightly in the red during the new MTP (see table below).

In Japan, the company is ramping up investment in introducing TOP TRACER RANGE high tech practice facilities in Japan driving ranges, targeting to open 50+ per year over the next three years, allocating capex of ¥1.8bn. It also will target double-digit growth in tee time bookings, as well as raising online golf gear GPM by 1.0pp versus 2019. It also aims for domestic lesson business to turn profitable this year.

Golf Digest Online Inc.
Founder and CEO
Nobuya 'Mike' Ishizaka



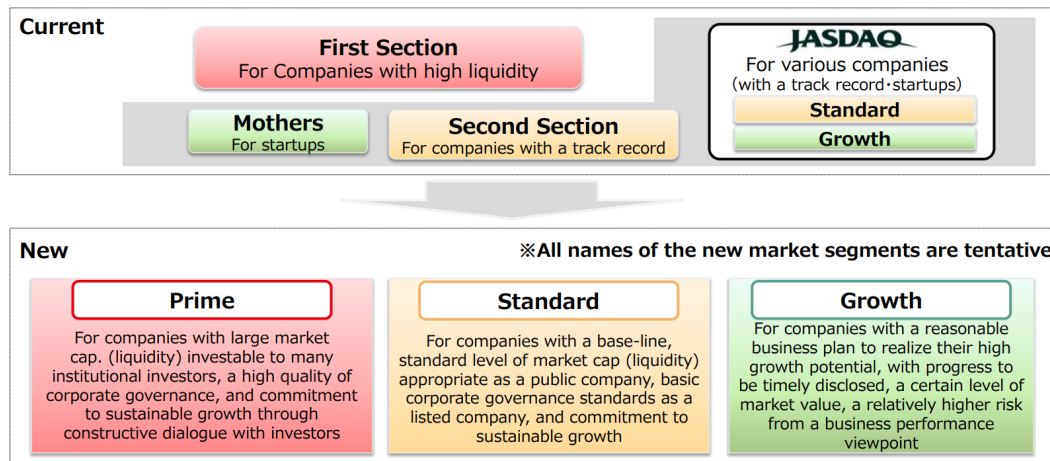
GDO Group New MTP 2021-2023: 'Lead the Way'

[J-GAAP]	FY12/19	YoY	FY12/20	YoY	FY12/21	YoY	FY12/23	FY12/23
JPY mn, %	act	%	act	%	init CE	%	MTP	3Y CAGR
Net sales	34,274	28.2	33,691	(1.7)	37,800	12.2	46,000	10.9
● Japan	26,842	6.3	26,724	(0.4)	27,800	4.0	32,500	6.7
● Overseas	7,432	397.3	6,967	(6.3)	10,000	43.5	13,500	24.7
EBITDA	2,469	60.6	2,370	(4.0)	2,850	20.3	5,000	28.3
● Japan	2,057	9.6	2,304	12.0	2,100	(8.9)	3,500	15.0
● Overseas	412	TB	66	(84.0)	750	11.4x	1,500	183.3
OP	979	21.7	839	(14.3)	1,100	31.1	2,500	43.9
● Japan	1,535	10.7	1,780	15.9	1,500	(15.7)	2,700	14.9
● Overseas	(556)	RS	(941)	RE	(400)	RS	(200)	RS

Source: compiled by Sessa Partners from IR Factbook and IR results briefing materials



TSE transition to a new cash equity market structure April 4, 2022



Source: "Review of TSE Cash Equity Market Structure," JAPAN EXCHANGE GROUP (JPX) <https://www.jpx.co.jp/english/equities/improvements/market-structure/index.html>

Implementation Schedule (as of July 2021)

- June 30, 2021: ref. date for First Decision (whether cos. meet revised listing criteria)
- July 9, 2021: individual notifications from TSE of First Decision
- SEP – DEC 2021: cos. apply to choose mkt segment on listing criteria, CG code
- January 11, 2022: new market segments for listed cos. published on JPX website
- April 4, 2022: transition to new market segments
- Oct. 2022: Second Decision (for cos whose tradable shares mkt cap was < ¥10bn)
- Oct. 2023: Re-evaluation (if constituent phased weighting reduction to be cont.)

Response of GDO to TSE New Market Segments

GDO received notification from the TSE in July that it meets the formal criteria for maintaining listing for the "Prime Market" segment. At the same time, GDO continues to strengthen corporate governance in order to be in compliance with the new CG code. The company announced on June 28, 2021, that it will establish a Nomination and Compensation Advisory Committee as of July 1, 2021, as a voluntary organization with the aim of strengthening the fairness, objectivity, and transparency of procedures related to the nomination and compensation of the Board of Directors and further enhancing the corporate governance of the Company, its members to be decided by resolution of the Board of Directors (to consist of at least 3 members, of which the majority are independent Outside Directors). Committee Members for FY2021 are:

- Nobuya Ishizaka, President and CEO (Committee Chairperson)
- Takehiro Yoshikawa, Executive Vice President
- Toshinori Iwasawa, Outside Director
- Shigeyuki Mito, Outside Director
- Makiko Takahashi, Outside Director

Other measures to strengthen ESG / sustainability include:

- Reform of the personnel system in pursuit of "Workstyle that recognizes diversity" (changed to a registration system to select work location from remote, office or a mixture of the two, and abolished the core time system, introducing flex time from 05:00 to 22:00)
- Concluded a 'City Promotion Cooperation Agreement' with Chigasaki City, and commenced operation of GDO Chigasaki Golf Links (aims to be the most casual and diverse course for the local community in Japan, serving as a wide-area evacuation site, and holding events other than just golf play days for community benefit).

GDO plans to apply for a prime market listing in the 4Q based on CG code compliance.



Established a Nomination and Compensation Advisory Committee as of July 1, 2021, the majority comprised of Outside Directors

Board of Directors resolved to apply for a Prime Market listing on September 30, 2021, during the 4Q per the TSE schedule.

GDO



METI Current Survey of Selected Service Industries: Golf Courses and Driving Ranges

YoY (below data)	Total Sales (JPY mn)				Total No. of Users (persons)			Avg. No. Business Days	YoY (below data)	Driving Ranges		
	Total Sales	Play / Use Fees	Caddie Fees	Shops / Dining	Total Users	Member Users	Guests Users			Total Sales (JPY mn)	Total No. of Users	Total No. of Boxes
CY2018	88,832	58,859	15,086	14,886	8,925,758	2,609,821	6,315,937	306.6	CY2018	28,785	19,180,742	14,066
CY2019	91,758	61,776	14,703	15,279	9,296,106	2,690,441	6,605,665	312.3	CY2019	29,103	19,502,580	14,056
CY2020	79,892	55,443	12,185	12,264	8,912,524	2,919,206	5,993,318	304.7	CY2020	30,951	21,281,859	15,491
CY2018	(4.6)	(3.4)	(6.7)	(6.4)	(4.9)	(3.6)	(5.4)		CY2018	(5.3)	(3.4)	(5.3)
CY2019	3.3	4.5	(0.1)	2.0	4.4	3.8	4.6		CY2019	1.6	2.1	1.6
CY2020	(17.3)	(15.2)	(18.1)	(24.9)	(8.4)	3.1	(13.2)		CY2020	(1.3)	2.4	(1.3)
2020.Q1	14,930	10,226	2,155	2,549	1,573,987	547,294	1,026,693	60.3	2020.Q1	6,963	4,717,709	13,589
Q2	15,956	11,372	2,520	2,064	1,994,790	705,499	1,289,291	81.4	Q2	6,251	4,497,569	13,711
Q3	24,148	16,560	3,897	3,690	2,782,391	875,417	1,906,974	86.9	Q3	8,669	5,929,630	15,513
Q4	24,858	17,285	3,612	3,961	2,561,356	790,996	1,770,360	76.1	Q4	9,067	6,136,951	15,491
2021.Q1	15,579	10,778	2,241	2,560	1,698,223	593,327	1,104,896	55.2	2021.Q1	8,474	5,734,881	15,467
Q2	24,848	17,647	3,722	3,479	2,789,584	903,710	1,885,874	83.5	Q2	10,021	6,789,735	15,476
Q3	25,349	17,818	3,949	3,582	2,859,342	879,478	1,979,864	86.2	Q3	9,003	6,178,892	15,476
2019.Q1	8.7	9.0	8.2	7.8	10.8	10.7	10.9		2019.Q1	2.1	3.8	(1.0)
Q2	(1.3)	(0.1)	(3.6)	(3.4)	0.4	0.3	0.4		Q2	(1.4)	(1.0)	(0.1)
Q3	8.6	10.3	4.8	6.3	9.1	7.8	9.6		Q3	7.4	7.0	0.1
Q4	0.3	1.7	(5.8)	0.5	0.2	(1.1)	0.7		Q4	(0.9)	(0.6)	(0.1)
2020.Q1	(4.1)	(2.7)	(8.2)	(6.7)	(1.7)	2.8	(4.1)		2020.Q1	3.2	5.7	(3.9)
Q2	(42.2)	(39.6)	(40.8)	(54.5)	(28.1)	(9.8)	(35.3)		Q2	(21.7)	(15.7)	(3.8)
Q3	(11.0)	(9.2)	(12.2)	(17.1)	(1.2)	10.6	(6.0)		Q3	4.9	9.5	(2.3)
Q4	(4.5)	(2.2)	(4.8)	(13.5)	1.9	10.0	(1.4)		Q4	10.9	12.3	(1.8)
2021.Q1	0.9	1.9	0.2	(2.9)	3.0	3.1	2.9		2021.Q1	8.3	7.8	1.8
Q2	50.6	50.1	42.4	63.0	33.6	21.8	39.8		Q2	42.7	33.9	0.9
Q3	5.0	7.6	1.3	(2.9)	2.8	0.5	3.8		Q3	3.9	4.2	(0.2)
2020.Jan	4,749	3,244	688	816	493,087	179,596	313,491	20.0	2020.Jan	2,217	1,491,939	13,868
Feb	4,596	3,125	689	782	486,965	169,491	317,474	18.8	Feb	2,272	1,525,913	13,868
Mar	5,586	3,856	778	951	593,935	198,207	395,728	21.6	Mar	2,474	1,699,857	13,589
Apr	4,099	2,905	644	550	506,382	183,455	322,927	24.9	Apr	1,742	1,272,465	12,612
May	5,528	4,054	860	614	721,331	265,073	456,258	28.0	May	2,110	1,557,030	13,324
Jun	6,329	4,413	1,015	900	767,077	256,971	510,106	28.5	Jun	2,400	1,668,074	13,711
Jul	7,271	4,977	1,190	1,104	858,398	276,685	581,713	29.1	Jul	2,861	1,984,111	15,314
Aug	8,403	5,737	1,348	1,318	984,062	309,106	674,956	29.3	Aug	2,816	1,933,287	15,508
Sep	8,473	5,846	1,359	1,268	939,931	289,626	650,305	28.5	Sep	2,992	2,012,232	15,513
Oct	9,102	6,263	1,414	1,424	982,154	293,261	688,893	29.5	Oct	3,199	2,185,131	15,513
Nov	8,775	6,140	1,221	1,415	882,941	279,043	603,898	25.8	Nov	3,068	2,105,191	15,489
Dec	6,981	4,881	978	1,121	696,261	218,692	477,569	20.8	Dec	2,800	1,846,629	15,491
2021.Jan	4,513	3,115	666	731	493,014	183,603	309,411	17.3	2021.Jan	2,726	1,812,669	15,551
Feb	4,772	3,282	706	785	528,867	198,999	329,868	16.5	Feb	2,738	1,846,244	15,349
Mar	6,293	4,380	869	1,044	676,342	210,725	465,617	21.3	Mar	3,010	2,075,968	15,467
Apr	7,807	5,477	1,136	1,194	854,580	267,294	587,286	26.1	Apr	3,268	2,228,776	15,474
May	8,813	6,347	1,304	1,162	988,241	337,250	650,991	29.1	May	3,559	2,394,949	15,476
Jun	8,228	5,822	1,282	1,123	946,763	299,166	647,597	28.3	Jun	3,193	2,166,010	15,476
Jul	8,967	6,267	1,384	1,317	991,166	302,691	688,475	29.3	Jul	2,907	1,997,981	15,395
Aug	7,606	5,302	1,211	1,093	877,852	267,381	610,471	28.4	Aug	2,877	1,982,558	15,471
Sep	8,776	6,249	1,355	1,172	990,324	309,406	680,918	28.5	Sep	3,219	2,198,353	15,476
2020.Jan	(2.8)	(1.4)	(7.0)	(4.7)	(2.9)	(1.0)	(4.1)		2020.Jan	4.2	6.7	(1.8)
Feb	14.9	16.6	9.8	12.8	12.2	13.7	11.3		Feb	13.1	12.4	(1.3)
Mar	(16.5)	(15.0)	(20.6)	(19.6)	(10.0)	(1.7)	(13.6)		Mar	(5.3)	(0.3)	(3.9)
Apr	(48.2)	(46.3)	(45.1)	(58.9)	(37.1)	(22.1)	(43.4)		Apr	(32.7)	(26.1)	(11.4)
May	(45.3)	(41.1)	(45.3)	(63.0)	(29.4)	(8.1)	(37.8)		May	(24.4)	(17.4)	(6.5)
Jun	(34.1)	(32.6)	(32.9)	(41.5)	(19.1)	(0.6)	(26.1)		Jun	(7.9)	(3.3)	(3.8)
Jul	(18.6)	(17.2)	(19.3)	(23.9)	(7.7)	7.5	(13.6)		Jul	5.4	9.5	(3.2)
Aug	1.1	2.7	(1.0)	(3.3)	10.8	22.2	6.2		Aug	10.4	13.0	(2.1)
Sep	(14.2)	(12.0)	(15.2)	(22.4)	(5.9)	3.0	(9.6)		Sep	(0.2)	6.3	(2.3)
Oct	(6.4)	(3.9)	(6.7)	(16.3)	1.4	10.6	(2.2)		Oct	11.8	13.1	(2.3)
Nov	(5.5)	(3.2)	(6.2)	(14.6)	1.7	14.8	(3.5)		Nov	9.9	11.7	(2.0)
Dec	(0.3)	1.4	0.2	(8.3)	3.1	3.8	2.6		Dec	10.9	12.1	(1.8)
2021.Jan	(8.1)	(7.1)	(6.7)	(13.4)	(4.5)	(2.8)	(5.6)		2021.Jan	9.4	7.8	0.2
Feb	0.4	1.6	(1.2)	(3.0)	3.7	11.7	(0.7)		Feb	7.3	7.3	(1.1)
Mar	9.0	9.8	7.6	6.2	8.8	1.1	12.5		Mar	8.3	8.3	1.8
Apr	84.2	82.3	69.9	109.9	61.2	38.6	73.9		Apr	67.0	55.4	9.7
May	54.2	51.4	46.1	83.0	30.8	21.0	36.4		May	50.2	36.4	3.8
Jun	25.7	27.6	21.7	20.7	17.9	10.7	21.4		Jun	18.4	15.2	0.9
Jul	23.3	25.9	16.3	19.3	15.5	9.4	18.4		Jul	1.6	0.7	0.5
Aug	(9.5)	(7.6)	(10.2)	(17.1)	(10.8)	(13.5)	(9.6)		Aug	2.2	2.5	(0.2)
Sep	3.6	6.9	(0.3)	(7.6)	5.4	6.8	4.7		Sep	7.6	9.2	(0.2)

Source: Ministry of Economy, Trade and Industry (METI) monthly releases.

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