

2Q-only consolidated OP returned to profit Overseas OP before GW amortization, etc. also in profit

SUMMARY

- Post-merger integration (PMI) for SkyTrak business was largely completed during the 1H, and the GOLFTEC ANYWHERE initiative is now in full swing. GOLFTEC continues to steadily open new corporate centers. Following 1H unit sales of 5,000 units (new SkyTrak+ only launched at the end of May), the Company expects SkyTrak 2H unit sales of 10,000+ units. The results summary table below shows the 1Q was the bottom for profits, and in line with initial guidance, profits are expected to continue increasing in the 3Q and 4Q.
- Despite concerns of a slowdown after the COVID-19 special demand boost, the golf markets in the US and Japan remain healthy, supported in part by high growth in off-course participation, although golf equipment sales are under pressure in the high inflation environment. In a strikingly similar capitulation selloff as was seen in the summer of 2018 after GDO raised its stake in GTE from 8% → 60%, **the current capitulation has put the price-to-sales ratio at 0.24x, well below the previous sell-off low of 0.31x, and now at the same level as the COVID market bottom in Jul-2020.** Technical analysis looks at both the percentage drop as well as time period required. In case 1 peaking in Jun-2018 at 1,500, the share price subsequently declined -64% over 14 months. In the current case 2 peaking in Aug-2022 at 2,250, the share price has subsequently declined -68% over 12 months.

GDO 1Q, 2Q and 1H FY23/12 Consolidated Financial Results Summary

[J-GAAP]	FY23/12			FY23/12			FY23/12		
JPY mn, %	1Q act	CHG AMT	Pct YoY	2Q act	CHG AMT	Pct YoY	1H act	CHG AMT	Pct YoY
Net sales	11,652	2,067	21.6	13,679	1,912	16.2	25,332	3,980	18.6
• Japan	6,561	696	11.9	7,430	286	4.0	13,992	983	7.6
• Overseas	5,091	1,371	36.9	6,248	1,626	35.2	11,339	2,996	35.9
<i>by Service</i>									
• Golf equipment sales*	5,548	574	11.5	6,328	137	2.2	11,876	711	6.4
• Golf lessons	3,427	517	17.8	3,538	190	5.7	6,965	707	11.3
• Golf course booking	1,165	172	17.3	1,486	80	5.7	2,651	252	10.5
• Golf driving ranges	329	116	54.5	395	141	55.5	725	257	54.9
• Golf launch monitors	720	720	NEW	1,346	1,346	NEW	2,067	2,067	NEW
• Others	462	(32)	(6.5)	586	20	3.5	1,045	(16)	(1.5)
Gross profit	3,832	495	14.8	4,878	575	13.4	8,710	1,069	14.0
GPM	32.9%			35.7%			34.4%		
SG&A expenses	4,269	1,156	37.1	4,680	1,003	27.3	8,950	2,160	31.8
ratio to sales	36.6%			34.2%			35.3%		
EBITDA	481	(303)	(38.6)	1,189	(51)	(4.1)	1,671	(353)	(17.4)
ratio to sales	4.1%			8.7%			6.6%		
• Japan	254	(60)	(19.1)	682	(63)	(8.5)	937	(123)	(11.6)
• Overseas	227	(242)	(51.6)	506	12	2.4	734	(230)	(23.9)
Operating profit	(437)	(661)	TR	197	(429)	(68.5)	(239)	(1,090)	TR
OPM	-3.8%			1.4%			-0.9%		
• Japan	102	(55)	(35.0)	522	(69)	(11.7)	625	(123)	(16.4)
• Overseas	(540)	(606)	TR	(324)	(359)	TR	(864)	(966)	TR
GW amort., etc.	423	259	157.9	440	256	139.1	863	515	148.0
Ordinary profit	(304)	(528)	TR	563	(74)	(11.6)	258	(604)	(70.1)
Profit ATOP	13	(923)	(98.6)	264	(198)	(42.9)	277	(1,121)	(80.2)

Source: compiled by SIR from GDO IR FactSheet. *Includes US club fitting sales.

2Q Follow-up

GDO

Focus Points:

Technology driven Group engaged in golf-related businesses mainly in the world's two largest golf markets, expanding the domain to off-course golf with the acquisition of SkyTrak affordable launch monitor business.

Key Indicators

Share price (8/16)	748
YH (23/1/23)	1,595
YL (23/8/14)	704
10YH (22/8/25)	2,250
10YL (14/2/4)	168.0
Shrs out. (mn shrs)	18.274
Mkt cap (¥ bn)	12.956
Shr equity ratio (6/30)	3.87%
23.12 P/E (CE)	23.5x
23.12 EV/EBITDA (CE)	7.0x
23.12 P/S (CE)	0.24x
23.06 P/B (act)	7.06x
23.12 DY (CE)	1.34%

6M stock price (daily)



Chris Schreiber CFA

Company Specialist

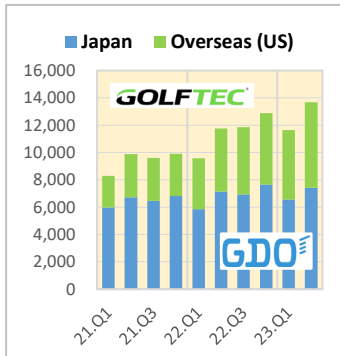
research@sessapartners.co.jp



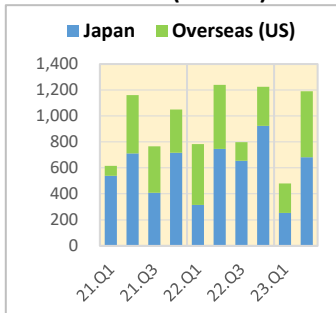
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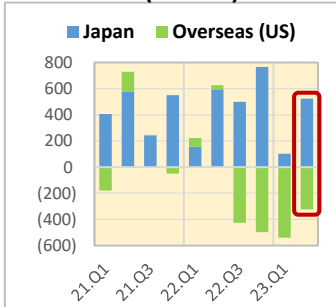
Net sales (JPY mn)



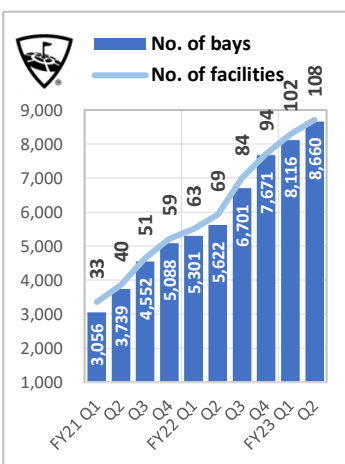
EBITDA (JPY mn)



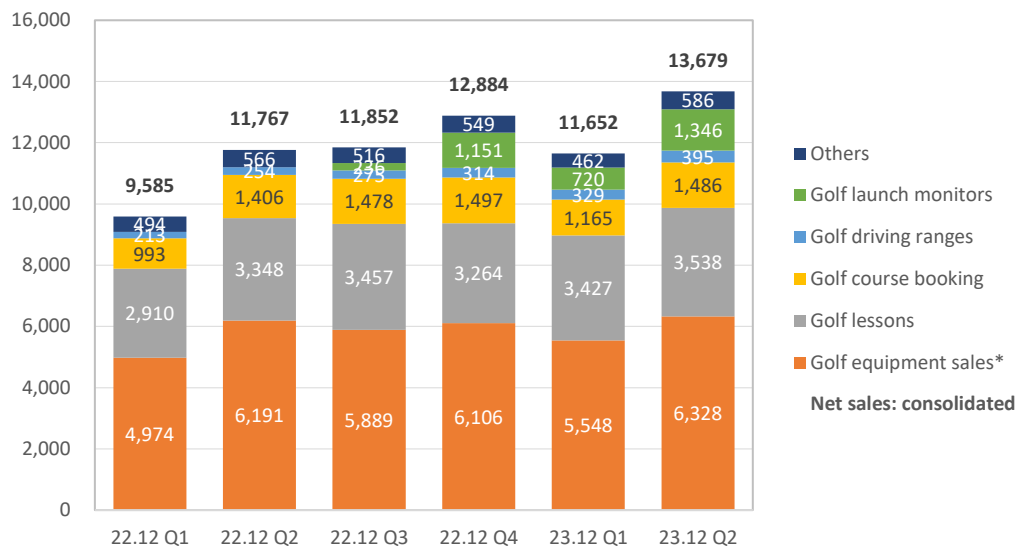
OP (JPY mn)



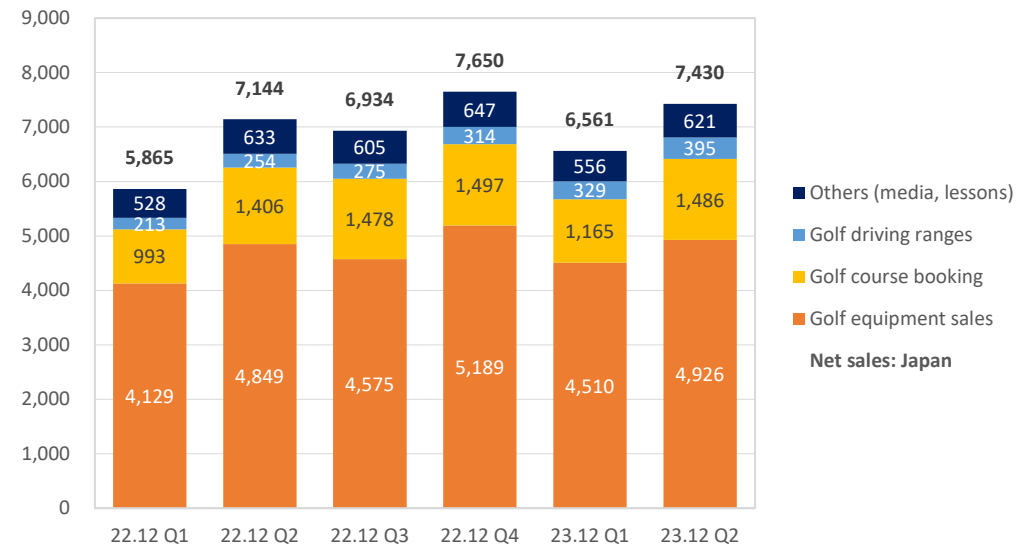
TOPTRACER RANGE installations in Japan



Quarterly Trend of Consolidated Net Sales by Service (JPY million)



Quarterly Trend of Domestic Segment Net Sales by Service (JPY million)

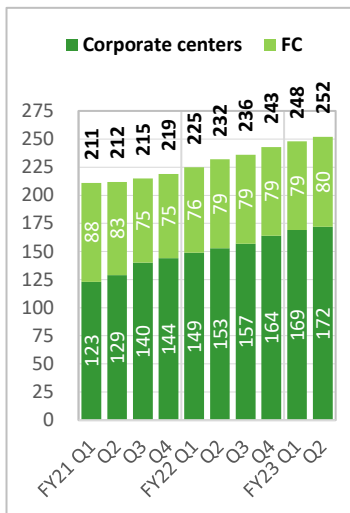


1H RESULTS SUMMARY

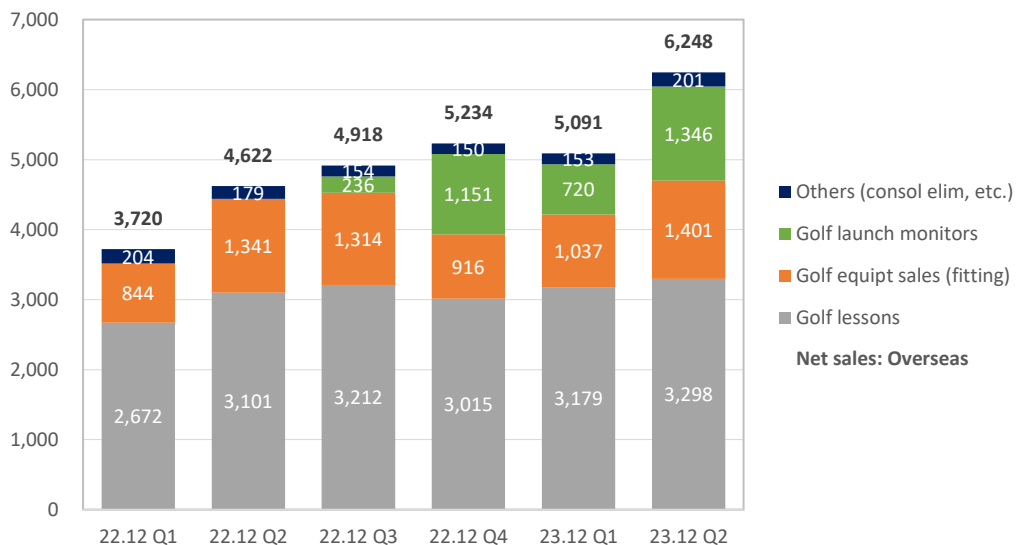
GDO announced 1H FY23/12 consolidated financial results at 15:00 on Wednesday 8/9, and held a results briefing via Zoom livestream at 16:30 on the same day. Headline figures were 1H net sales +18.6% YoY, remaining in operating loss, and profit attributable to owners of parent -80.1% YoY. Progress ratios relative to full-term guidance are net sales 47.8%, EBITDA 28.8% and profit ATOP 50.4%. **While these headline figures may appear bad on the surface, they conceal the strong progress in the 2Q. As can be seen in the results summary table on P1, 2Q-only consolidated OP of ¥197mn returned to profit, and Overseas OP before goodwill amortization, etc. was also in profit.** Management signaled at the outset of this term that FY23/12 financial results would be 2H-loaded, particularly in the 4Q with Black Friday and Christmas season sales as newly acquired SkyTrak launch monitor business is projected to achieve 2H unit sales of 10,000+ units, including the new premium model “SkyTrak+” which was just launched at the end of May, versus 1H sales of 5,000 units.



GOLFTEC Centers



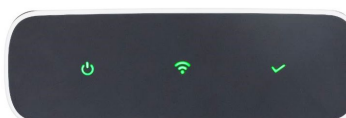
Quarterly Trend of Overseas Segment Net Sales by Service (JPY million)



1H RESULTS SUMMARY continued

- In the Domestic segment, despite the severe market environment, golf course booking sales increased +11% YoY, in part helped by the increase in visitor fees, and golf driving ranges increased +55% YoY, with steady progress in new installations and strong growth in the number of TTR users, exceeding 1 million per month since April. The Overseas segment also achieved double-digit growth, with GOLFTEC lesson sales increasing +12%, driven by 8 new openings of corporate centers, and the ¥2.0bn new sales contribution from SkyTrak launch monitor business. Post-merger integration (PMI) expenses were largely completed in the 1H, and amortization of goodwill and intangible assets has leveled off.

SkyTrak+
Premium launch monitor
Main unit \$2,995



SkyTrak+ Play Now Golf Simulator Studio - Pro Package \$6,995





OP Factor Analysis:

Operating loss due to an increase in amortization of goodwill and intangible assets, and seasonal upfront expenses in the launch monitor business.

Domestic business OP:

decrease due to lower gross profit margin in golf equipment sales and one-time expenses incurred.

Overseas business OP:

Although sales and gross profit increased, operating loss at the end of the first half was as planned mainly due to an increase in amortization of goodwill and intangible assets and seasonal upfront expenses in launch monitor business.

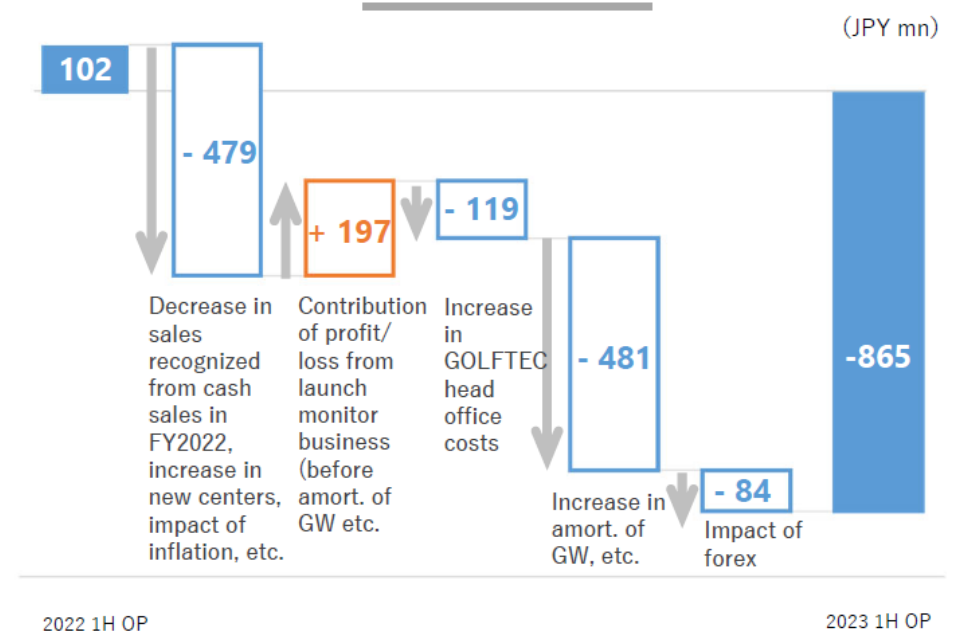
(JPY mn)	2022 1H	2023 1H	YoY	
Consol. OP	850	-239	-1,090	- %
■ Japan	748	625	- 123	- 16.5%
■ Overseas	102	- 864	- 966	into loss

Amort. of GW and intangible assets 863mn yen
(2022 1H 348mn yen)

Japan OP



Overseas OP



Source: all of the exhibits above are excerpts from the 2Q IR results briefing materials.

FY2023 Outlook | Forecasts

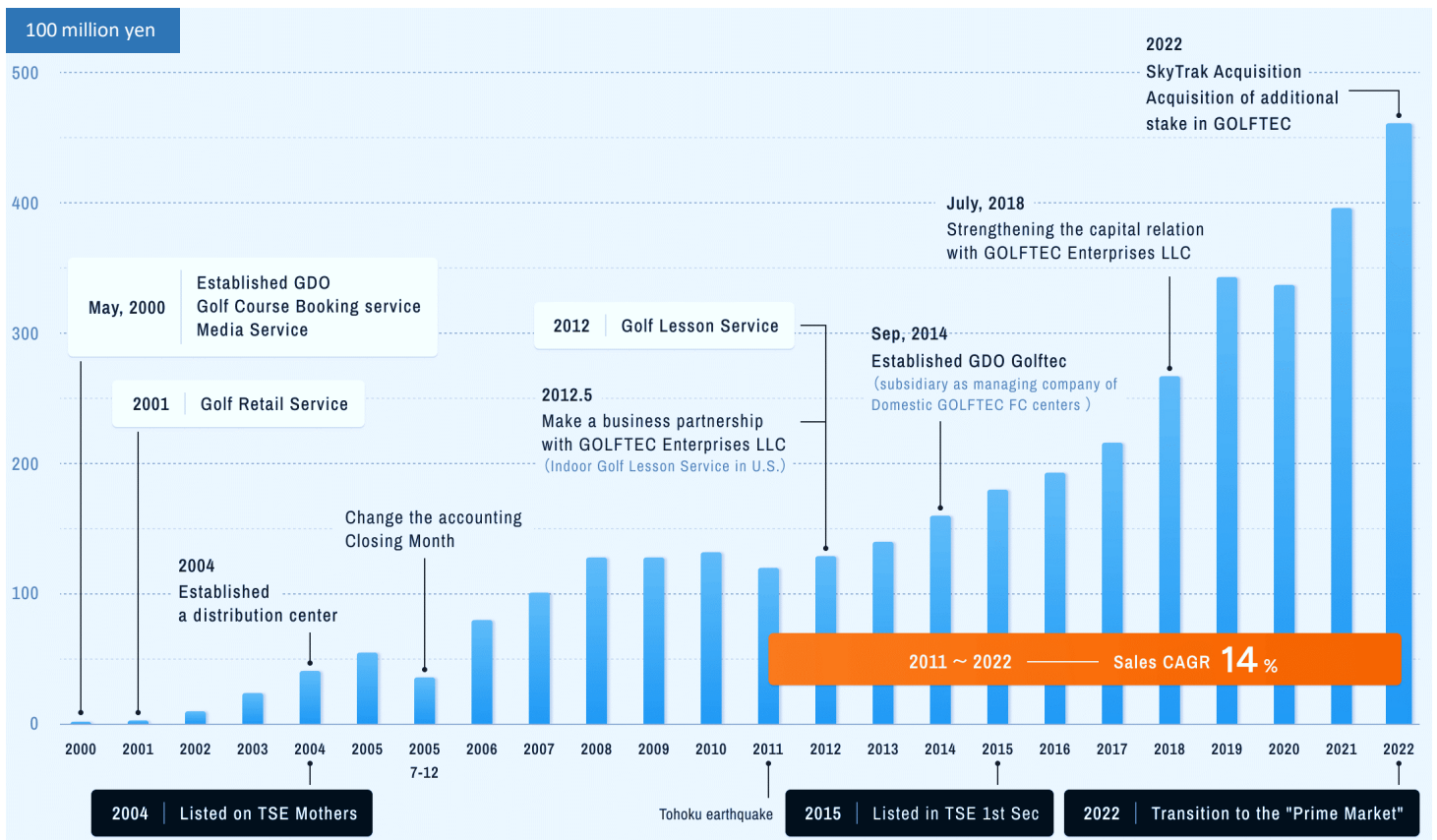


Full-year forecasts remain unchanged due to various initiatives in the 2H of FY2023

(JPY mn)	FY2021*	FY2022	FY2023 (Forecasts)	(YoY)		(ref.) MTP**
Net sales	37,718	46,090	53,000	+6,909	(+15.0%)	43,500
(Japan)	25,976	27,593	30,000	+2,406	(+8.7%)	30,000
(Overseas)	11,742	18,496	23,000	+4,503	(+24.3%)	13,500
EBITDA	3,595	4,049	5,800	+1,750	(+43.2%)	5,000
(Japan)	2,376	2,639	3,150	+510	(+19.4%)	3,500
(Overseas)	1,218	1,409	2,650	+1,240	(+88.0%)	1,500
OP	1,706	1,189	2,050	+860	(+72.3%)	2,500
(Japan)	1,778	2,015	2,500	+484	(+24.0%)	2,700
(Overseas)	-71	-825	-450	+375	(-%)	-200
Ordinary profit	1,715	-175	1,226	+1,401	(-%)	
Profit ATOP	1,035	339	550	+210	(+62.1%)	
Amort. of GW and intangible assets	541	1,072	1,519	+447	(+41.7%)	
(ref.) OP before GW, etc.	2,248	2,262	3,569	+1,307	(+57.8%)	

*GDO applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29), etc. since the fiscal year ended December 31, 2022. The figures for FY2021 results and MTP targets announced that year are estimated amounts based on the application of said accounting standard.
 *Average exchange rate by period: 1USD = ¥109.9 in 2021, 1USD = ¥131.6 in 2022, and 1USD = ¥123.0 in 2023 (forecast)
 *Amortization of GW and intangible assets: GW and intangible assets recognized at the time of acquisition of GOLFTEC in the US, GW recognized at the time of repurchase of franchised stores, and amortization of goodwill and intangible assets recognized at the time of acquisition of launch monitor business

Golf Digest Online Inc. — Corporate History



Source: excerpts from IR results briefing materials.



Performance and Valuations:
SESSA Smart Charts

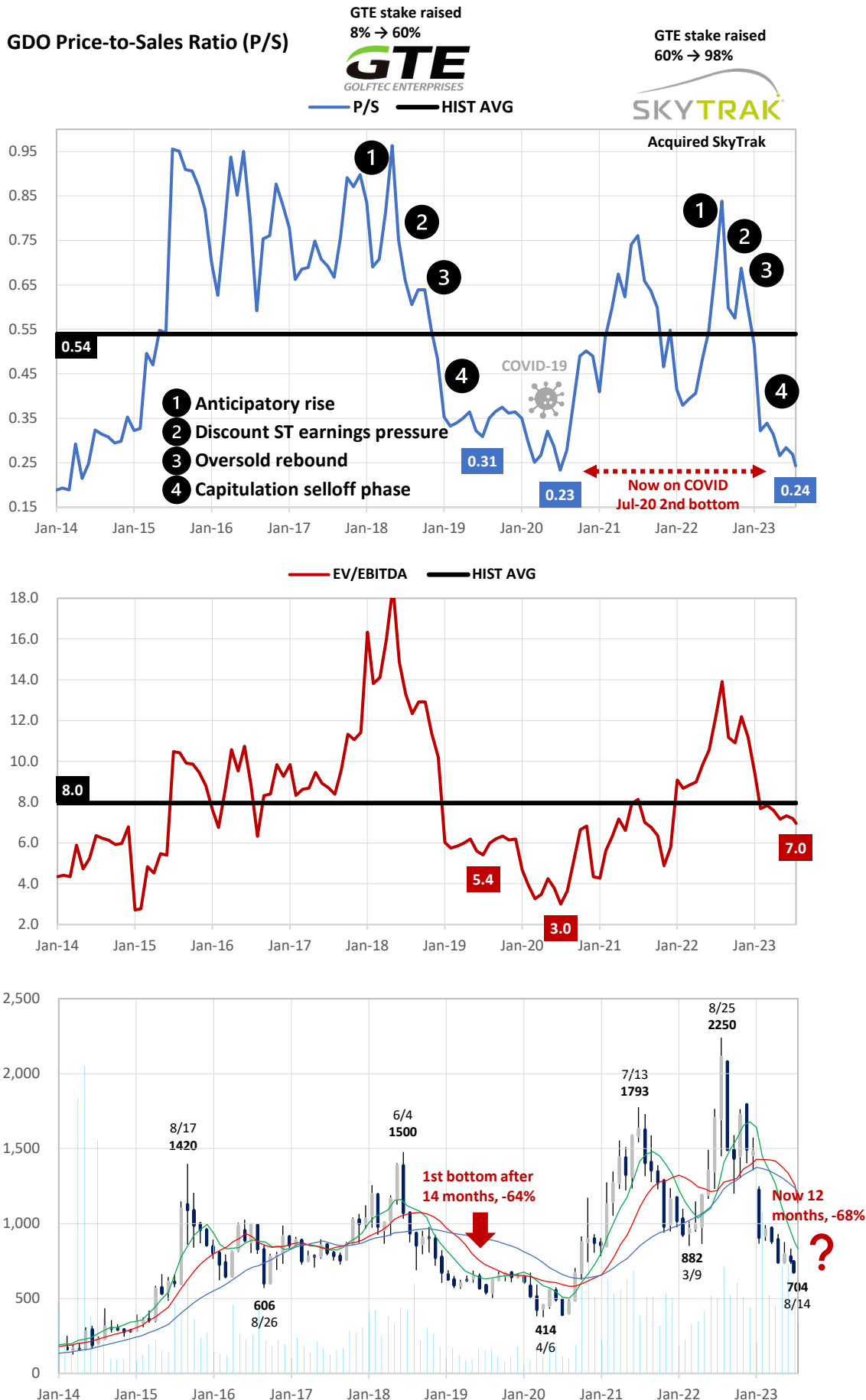
✓ GDO's price-to-sales (P/S) ratio is now on the COVID Jul-20 market low, well below the **0.31x** following the acquisition of a 60% majority stake of US GOLFTEC in 2018.

✓ SIR believes that EV/EBITDA is likely one of the most important benchmarks for GDO, given that EBITDA is a core focus of GDO Group management strategy. However, while current EV/EBITDA of **7.0x** uses guidance for FY23/12 EBITDA of ¥5.8bn, EV is still calculated with 2Q-end net interest-bearing debt of ¥27.4bn. Since this will decline going forward with repayment, actual EV based on a FY-end value would be lower.

✓ A rare opportunity has presented itself for a second time, only **this time investors have a proven track record.**

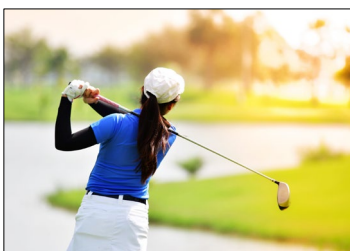
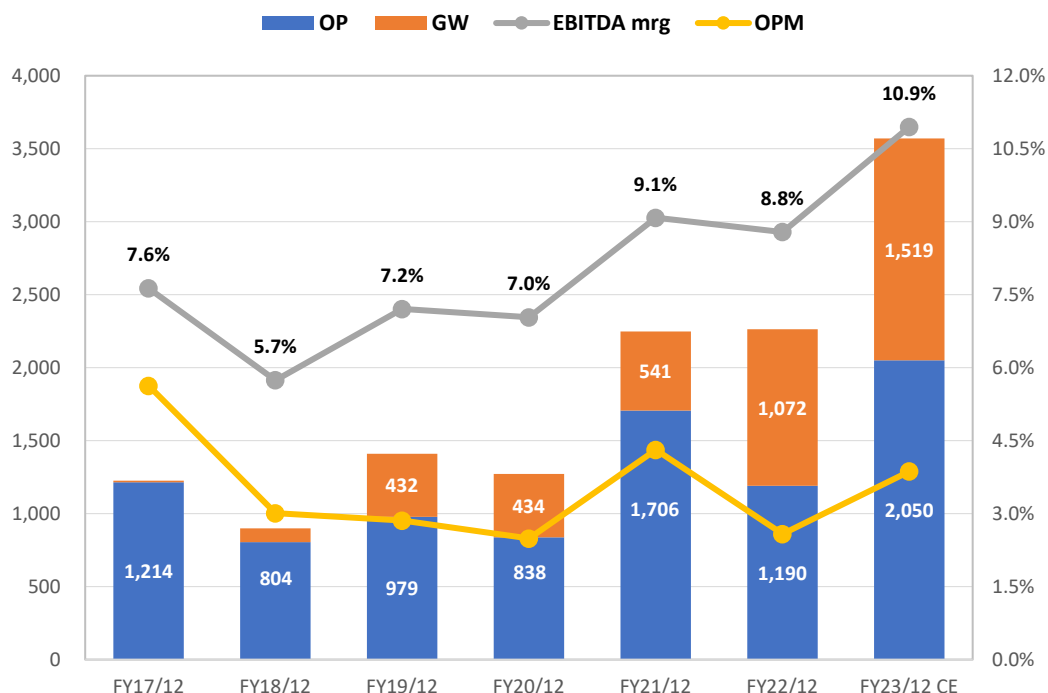


Analyst's view



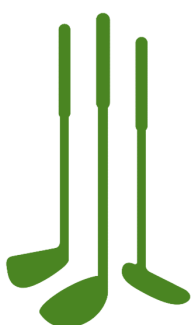


GDO Trend of Pre-Goodwill Operating Profit and EBITDA Margin



Nobuya Ishizaka "Future of Golf Diary" Vol. 9 (2023.08.08)

- At the 1H results briefing held on 8/9, GDO founder and CEO Nobuya Ishizaka commented that he believes good progress was made in integrating the ¥20.9bn investment in US operations last year, nearly equivalent to Japan segment annual net sales. In the latest update to his online continuing story "Future of Golf Diary," he talks about the GOLFTEC Anywhere (GTA) initiative now in full swing. Mr. Ishizaka moved his family to California in 2017, and living in the largest golf market, he is keenly aware of rapid changes in the industry, noting NGF data showing the number of off-course players exceeded on course in 2022. He founded GDO 23 years ago on the driving principle of Golf x Technology (online tee-time reservations, online golf gear sales, etc., shown on the next page). Now the Group has integrated the world's largest provider of golf lessons using state-of-the-art technology as well as the top-selling affordable launch monitor product for the consumer market. The Group's mission is to "Connect the World with Golf," making the sport more accessible and helping each player to improve his or her skill level. **The basic premise of the new GOLFTEC Anywhere initiative is to create synergies from on course and off-course golf play, connecting with a growing universe of customers, and supplying a diversifying portfolio of products and services.**





GDO Group Driving Principle: Golf × Technology

Each of the key GDO Group companies is No.1 in its respective market:

- ① GDO is the largest online retailer of golf gear, with an award-winning golf news portal, broadly dividing the market with Rakuten for online tee-time bookings, and is the domestic partner for rolling out TOPTRACER in driving ranges across Japan
- ② GOLFTEC is the world's largest provider of golf lessons with professional instructors, with a suite of proprietary technologies to analyze and improve student swings, as well as custom club-fittings, and
- ③ SkyTrak delivers the No.1 launch monitor for the consumer home market, as well as various accessories to assemble a complete home simulator system

GOLFTEC ANYWHERE offers endless possibilities for golfers to enhance the thrill and satisfaction of their game with large potential synergies for the GDO Group



GDO GROUP

GTE
GOLFTEC ENTERPRISES
GOLFTEC Enterprises LLC
CO, USA

SAN DIEGO

DENVER

GDO
Golf Digest Online Inc.
TOKYO, JAPAN

GDO Sports
GDO Sports, Inc.
CA, USA

The GDO Group provides a full range of specialized golf services on a global scale. Golf Digest Online focuses on the Japanese market. GDO Sports coordinates our business between US and Japan. GOLFTEC Enterprises operates an international portfolio of brands which includes GOLFTEC Training Centers, spanning 250 locations worldwide, and SkyTrak Golf, the best-selling consumer launch monitor globally.

No.1

USA

No. of golfers 23.8 million

No. of golf courses	No. of rounds	Equipment market
14,800	475 million	\$ 3,585 million

No.2

Japan

No. of golfers 7.8 million

No. of golf courses	No. of rounds	Equipment market
2,270	90 million	\$ 2,078 million





GOLFTec CEO Joe Assell is a Board Member of NGF

Key trends in the US golf market summarized from NGF's "Fortnight" Bi-Weekly Golf Business Perspective are available to the general public without membership on NGF's website: (<https://www.ngf.org/fortnight/>).

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Strong growth in US rounds played YTD defies conventional wisdom for a slowdown

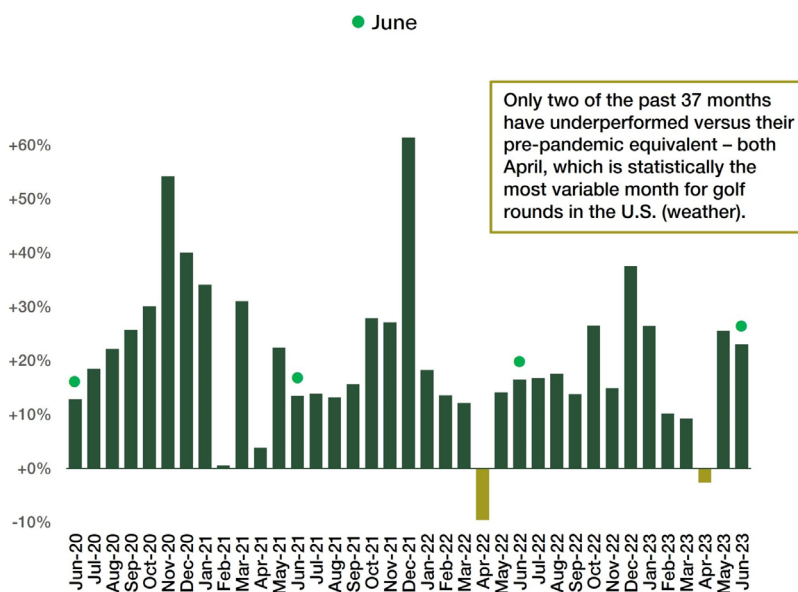
- In its Fortnight article "Midyear Update: New Normal?" dated July 27, 2023, NGF highlighted three consecutive months of healthy YoY gains in US national rounds played (April +7.8%, May +10%, June +5.5%), maintaining strong demand while the economy appears to be slowing. Despite ongoing concerns about COVID "special demand" disappearing: 1) only 2 out of the last 37 months underperformed pre-pandemic 2017-19 monthly averages for comparison, 2) 24 out of the 37 topped their peak equivalent going back to 2007, and 3) going into the 2H of 2023, YTD growth follows the record-setting pace at the midpoint of 2021, and is over 15% ahead of the pre-pandemic midpoint using the 2017-19 average. This prompted the writer to ask "is this the new normal?" Rather than abating, demand appears to be steadily intensifying and spreading, as golf modernizes its brand and offers a growing number of means to participate.

NGF Monthly US National Rounds Played Reports

%	CY2018		CY2019		CY2020		CY2021		CY2022		CY2023	
	YOY	YTD	YOY	YTD	YOY	YTD	YOY	YTD	YOY	YTD	YOY	YTD
Jan	(5.4)	(5.4)	2.8	2.8	11.1	11.1	21.4	21.4	(12.1)	(12.1)	7.1	7.1
Feb	(8.5)	(7.2)	(12.1)	(5.3)	19.1	15.2	(4.7)	7.8	13.0	(0.2)	(2.8)	1.8
Mar	(3.8)	(5.6)	0.1	(2.7)	(8.5)	3.8	45.3	24.3	(14.3)	(7.5)	(2.3)	(0.2)
Apr	(13.5)	(8.9)	6.8	1.0	(42.2)	(15.6)	81.4	43.8	(12.9)	(9.8)	7.8	3.1
May	5.3	(4.1)	(5.4)	(1.3)	6.2	(8.0)	18.1	33.6	(6.8)	(8.7)	10.0	5.5
Jun	(1.2)	(3.3)	0.0	(1.0)	13.9	(1.7)	0.4	22.4	2.7	(5.7)	5.5	5.5
Jul	(1.6)	(2.9)	(0.1)	(0.7)	19.7	3.0	(3.9)	16.1	2.5	(4.0)		
Aug	(1.6)	(2.7)	3.5	0.0	20.6	6.2	(7.3)	11.3	3.9	(2.6)		
Sep	(7.2)	(3.3)	4.7	0.6	25.5	8.7	(8.0)	8.4	(1.7)	(1.5)		
Oct	(10.3)	(3.9)	4.0	0.9	32.2	10.8	(1.8)	7.4	(1.1)	(2.4)		
Nov	(18.8)	(4.7)	9.8	1.3	56.6	13.1	(17.6)	5.6	(9.5)	(2.8)		
Dec	(7.7)	(4.8)	83.0	1.5	37.3	13.9	1.9	5.5	(26.1)	(3.7)		

Source: compiled by SIR from monthly rounds played reports by National Golf Foundation, Golf Datatech.

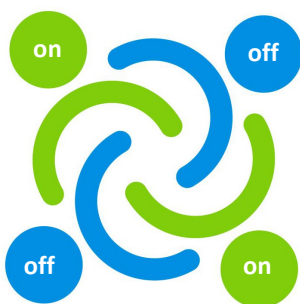
Monthly U.S. Rounds vs. Pre-Pandemic Equivalent
Comparing Each Month to Same Month 2017-19 (Avg)



Source: National Golf Foundation analysis (Golf Datatech rounds, with NGF data support) July 2023

Each column of data is based on a comparison of the given month to the average of that same month from 2017 to 2019; e.g., June 2023 rounds played were 23% higher than the average for June in 2017, 2018 and 2019. This graphic can only be republished in its original form. Data herein cannot be visually repurposed without permission from NGF.





Synergies

between off-course and on course participation.



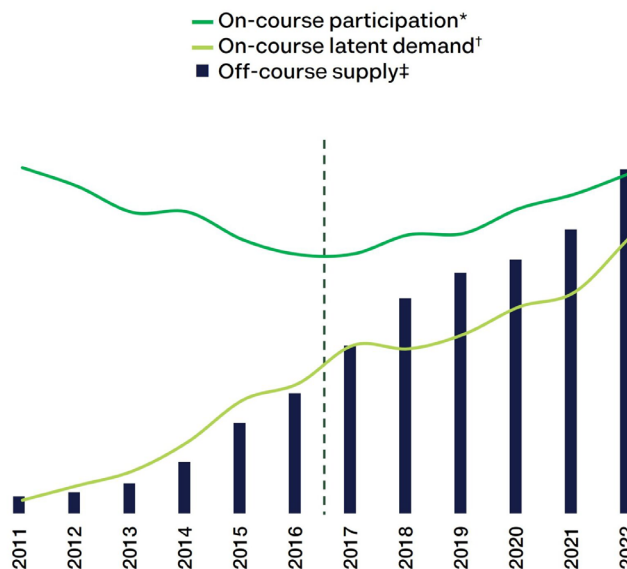
This is the essence of the GDO Group's "GOLFTEC Anywhere" (GTA) Initiative.



Off-course supply driving creation of new on course beginners?

- In its Fortnight article "The Largest-Growing Sport in America," dated August 10, 2023, the writer started off stressing the sheer growth in golf participation (both on and off-course) over the last decade, from 29.3 million in 2012 to 41.1 million in 2022 (+3.44% CAGR), and that while it may not be the fastest growing, it clearly wins the prize for largest-growing. He then posed the question, "Is off-course driving creation of new on course players?" Without a more detailed scientific study, it is difficult to assert the connection definitively, however, he notes that: 1) an estimated 10% of today's on course participation of 25.6mn, or 2.5mn players credit their off-course experience with getting them on the links, 2) roughly half of on course players agree that off-course "re-engaged" them, 3) interest in taking up traditional on course golf is 5 times higher among non-golfers with off-course experience, and 4) approx. two-thirds of today's on course beginners have off-course experience, versus 40% five years ago,
- Then the research team set out to look for evidence of correlation through hard data. They produced the graph below, which concluded that on-course demand finally hit an inflection point as off-course supply reached a "critical mass" across major markets. The clear takeaway is that there is strong synergy between the two (off-course is not cannibalizing on course demand, it is in fact boosting demand).

U.S. Golfers, Interest and Off-Course Supply Illustrating an Inflection Point in Demand



Source: National Golf Foundation August 2023

* Trendline based on the number of Americans (age 6+) who played 1+ rounds in the past 12 months

† Trendline based on the number of Americans (age 6+) who did not play on-course in the past 12 months but are "very interested" in doing so now

‡ Trendline based on the number of Topgolf venues; used as a proxy for off-course supply

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US golf participation posted a record increase in 2022 to a new high

In its Fortnight article "Golf's Biggest Participation Jump," dated February 23, 2023, NGF noted the two key takeaways from the two graphs on the following page are: 1) while notable gains in participation over the last 3 years have been among women and people of color, the biggest net gain of almost 1 million juniors (ages 6-17) is the most significant of any on-course participation segment. At just over 3.4 million in total, the youth golfer pool is now at its highest level since 2006, 13% of on-course participation, and even higher 25% of off-course participation, and 2) **total off-course engagement (27.9 million) has for the first time eclipsed those who play on course (25.6 million).**

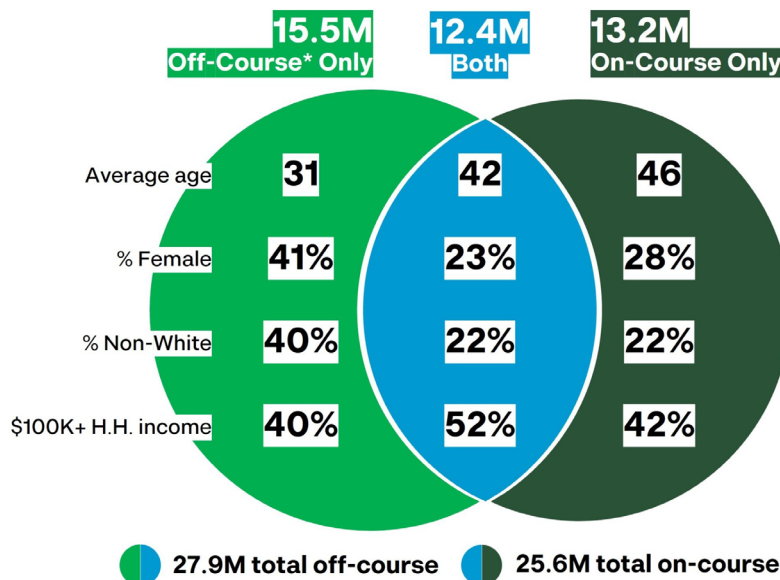


TOPTRACER RANGE



2022 U.S. Golf Participation

41.1 Million Total Participants



Source: National Golf Foundation
January 2023

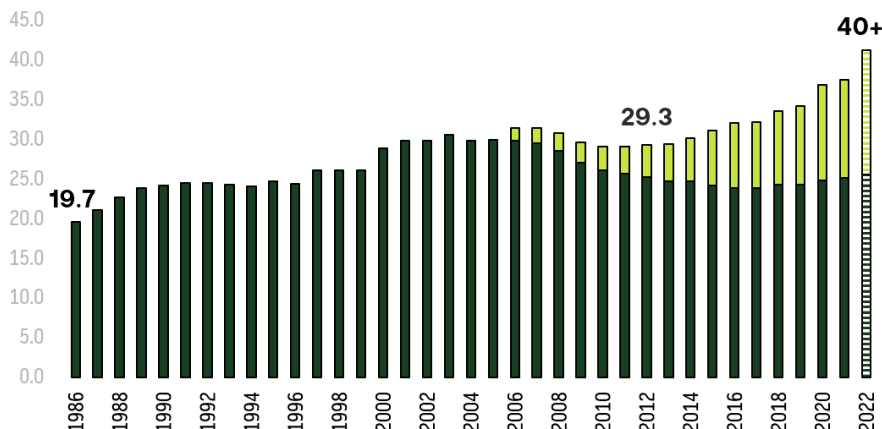
*Off-course golf includes golf entertainment venues (Topgolf, Drive Shack, etc.), standalone driving ranges, and/or the hundreds of businesses that now have simulators and screen golf setups.
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Total U.S. Golf Participation

Includes On- and Off-Course Play
(in millions of golfers age 6+)

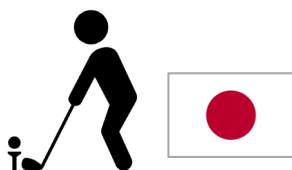
■ On-course ■ Off-course only



Source(s): Physical Activity Council (PAC) activity survey and NGF's Participation and Engagement Survey (PES)
October 2022

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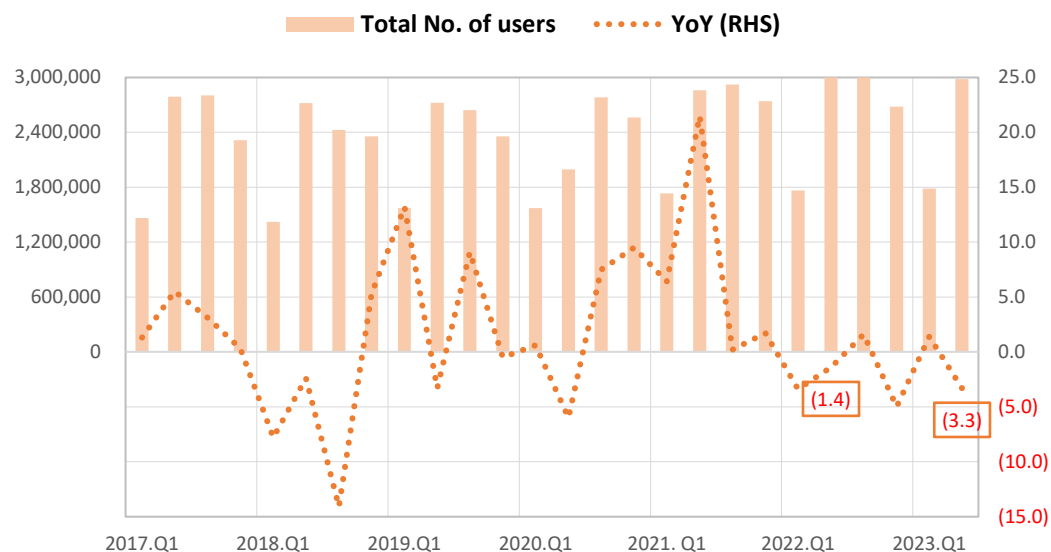
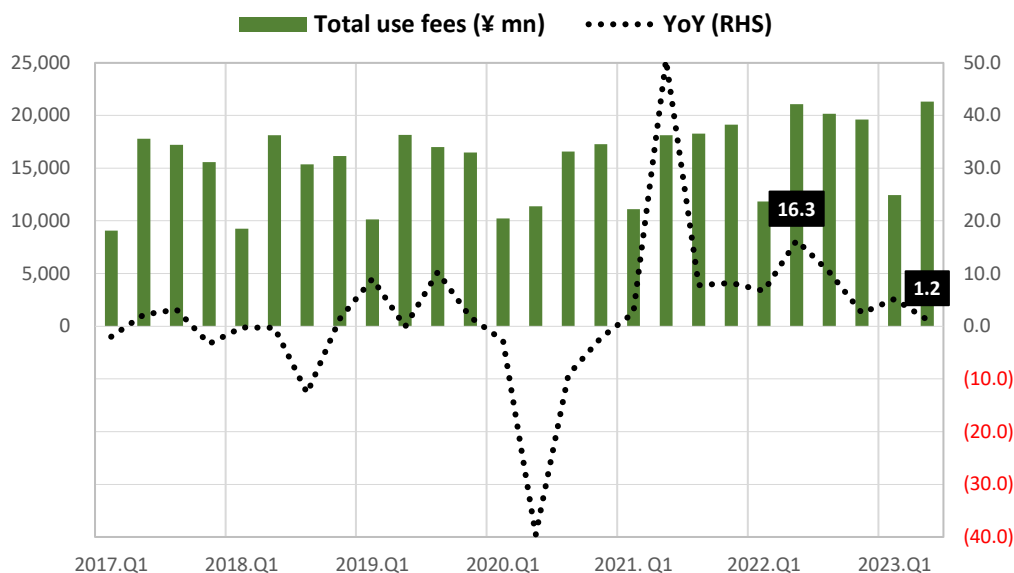


General conditions are weaker than those of the US market

- Looking at the trend of METI quarterly data for play/use fees and number of users shown below, despite poor weather conditions during the 1Q of 2023, both managed positive YoY gains. Based on our interview with GDO, use fees also benefitted from price hikes. 2Q play/use fees slowed to +1.2%, and the number of users declined from -1.4% last year to -3.3% this year, struggling versus the US.
- The YoY trend of annual use fees is: '17 +0.4%, '18 -3.4%, '19 +4.5%, '20 -15.2%, '21 +15.9% and '22 +9.1%. The YoY trend of number of users is '17 -0.4%, '18 -4.9%, '19 +4.4%, '20 -8.4%, '21 +10.7% and '22 +2.6%.
- Despite concerns over a potential slowdown after the COVID-19 special demand boost, and despite poor weather conditions in the 1Q of 2023, the golf market in Japan remains steady.



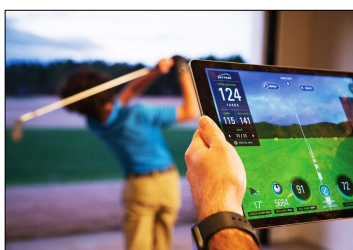
METI Current Survey on Selected Industries: Golf Courses (quarterly trend)



Source: compiled by SIR from METI data.



Large potential synergies



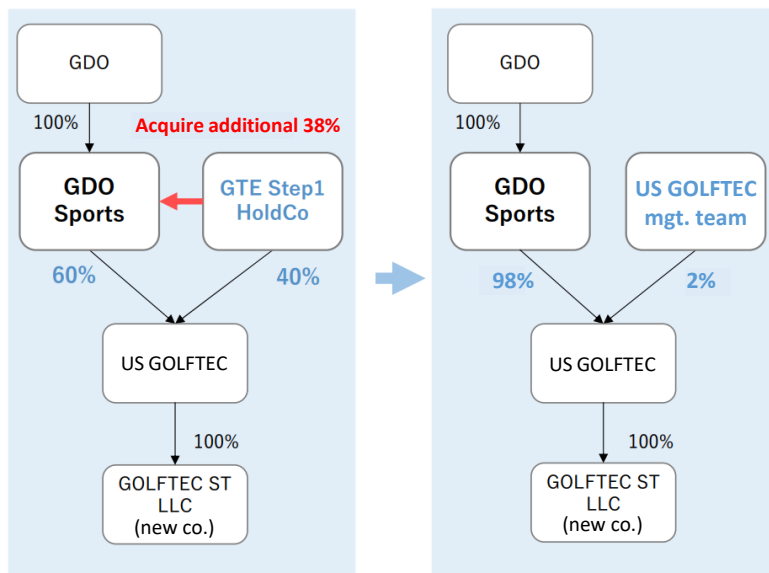
Acquisition of additional stake in US GOLFTEC

Large potential synergies with the acquisition of SkyTrak business

TWO ACQUISITIONS & FUNDRAISING SUMMARY

- Announced September 22, it was ultimately agreed that GDO Sports will acquire an additional 38% stake from GTE Step1 HoldCo LLC. The acquisition price was set at approx. USD 85.7mn (JPY 12.17bn @142), based on EBITDA, no. of centers, etc. Financing has been provided by debt and Class A preferred stock (without common stock conversion rights) in consideration of the balance between debt and equity.
- The total JPY 20.9bn fundraising for these 2 transactions was structured to ensure financial soundness after the acquisition of the additional stake (to cope with a temporary decrease in net assets), protection of existing shareholders' interests (method of financing that does not cause dilution), and certainty of raising funds.

Increased stake in GTE 60% → 98%



JPY 20.9bn Fundraising Summary

Additional 38% stake in GTE

- ▼ JPY 6.2bn syndicate loan through 2027.07.31
- ▼ JPY 6.0bn type A preferred shares (bond-type w/o conversion rights)

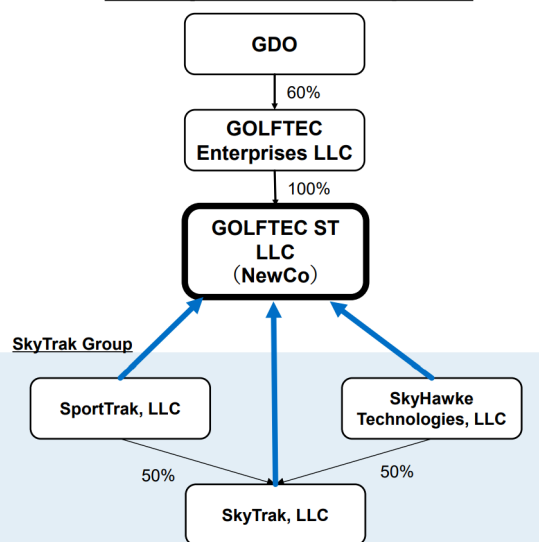
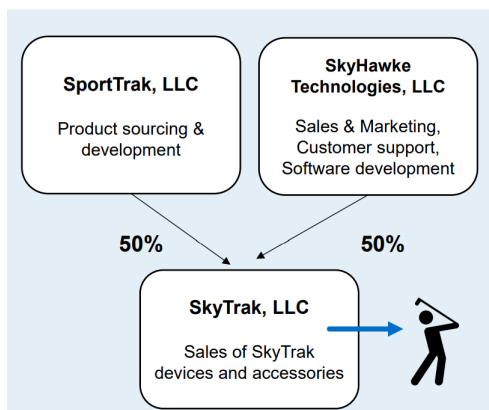
SKYTRAK business

- ▼ JPY 8.7bn syndicate loan through 2027.07.31



Asset purchase of Sky Trak

SKYTRAK GROUP ORGANIZATION



Source: excerpts from company IR briefing materials, financing summary compiled by SIR from IR briefing materials.

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