

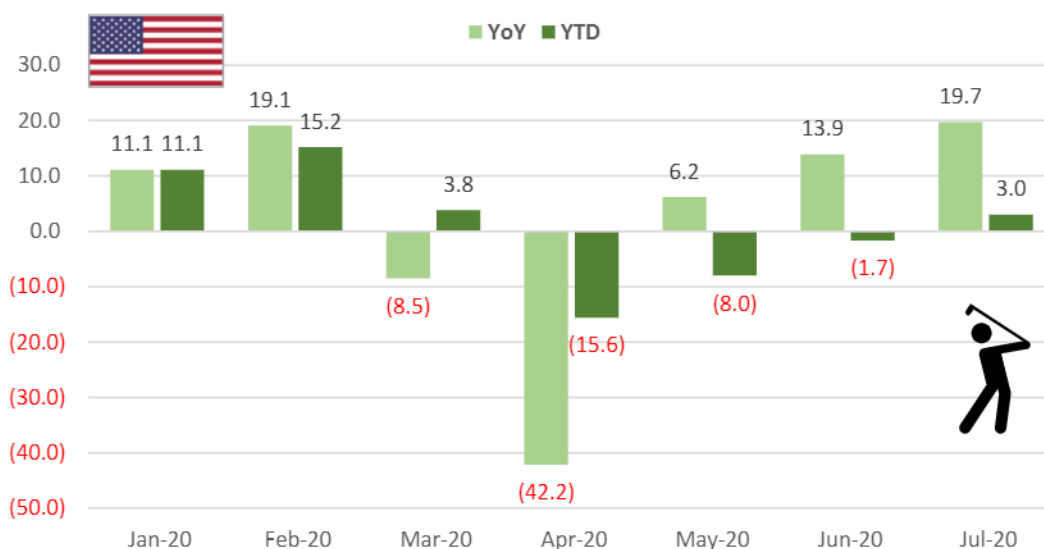
## 'Cabin Fever' Unleashed

Pent-up demand flocking to course safety in the great outdoors

### SUMMARY

- Seasonally, Apr-Jun 2Q tends to be one of the most profitable quarters for GDO (please refer to our seasonality analysis at the end of our First Look report June 22, 2020), so the timing of the impact of COVID-19 from stay at home orders, and closure of golf courses and indoor lesson studios, has taken a toll on FY12/20 earnings. 1H results tend to mask the impact of COVID-19, which can be more easily understood by looking at sales by quarter: total sales 1Q +7%, 2Q -24%; Japan 1Q +4%, 2Q -17%, and overseas 1Q +18%, 2Q -48%. Overseas EBITDA turned negative in the 2Q, posting operating losses in both the 1Q and 2Q, with SG&A cuts unable to offset the sharp decline in sales against the backdrop of retaining employment of pro instructors. Both Japan and overseas business have been recovering since June.
- While the short-term negative impact on earnings is large, there are many points of underlying strength in core earnings. First, GDO Club members, which is a key metric of future growth, achieved sequentially accelerating growth in both the 1Q and 2Q, the 2Q adding 120,000 (+11.8% YoY). Online gear sales in Japan recovered to YoY growth from June. Second, as can be seen from the graph below, pent-up golf demand in the US is quite strong. According to the National Golf Foundation, despite the loss of 20 million rounds this spring (more than half of the 16,000+ courses in the US were closed in March and April), rounds played increased +13.9% in June, and +19.7% in July, the highest since data tracking began in 2000. GDO's share price, which has lagged due to concerns over US exposure, put in a double bottom around 1.2x P/B, with room to reverse the US discount going forward.

### Trend of Golf Rounds Played in the US: 2020 YTD turns positive in July



Source: compiled by Sessa Partners from National Golf Foundation monthly reports.

## 2Q 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 (9/18)	695
YH (20/2/14)	707
YL (20/4/6)	414
10YH (18/6/4)	1,500
10YL (12/10/16)	70.4
Shrs out. (mn shrs)	18.274
Mkt cap (¥ bn)	12.70
EV (¥ bn)	15.93
Shr equity ratio	30.3%
FY12/19 P/E (act)	35.4x
FY12/19 EV/EBITDA	6.45x
FY12/19 P/B (act)	2.01x
FY12/19 DY (act)	1.37%

### Share price chart (weekly)



Source: SPEEDA

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This report was prepared by Sessa Partners on behalf of Golf Digest Online Inc. Please refer to the legal disclaimer at the end for details.

## Golf Digest Online Quarterly Consolidated Financial Highlights

[J-GAAP] JPY mn, %	FY12/18				FY12/19				FY12/20	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Consol/NC ratio (x)	1.04	1.04	1.04	1.26	1.32	1.34	1.34	1.32	1.36	1.19
<b>Net sales</b>	<b>5,199</b>	<b>6,727</b>	<b>6,303</b>	<b>8,508</b>	<b>7,553</b>	<b>9,175</b>	<b>8,873</b>	<b>8,671</b>	<b>8,070</b>	<b>6,955</b>
• Japan	5,199	6,727	6,303	7,014	5,948	7,129	6,912	6,851	6,173	5,892
• Overseas	—	—	—	1,494	1,604	2,046	1,961	1,819	1,896	1,063
Gross profit	1,922	2,647	2,395	3,510	2,851	3,693	3,503	3,607	3,138	2,339
GPM	37.0%	39.3%	38.0%	41.3%	37.7%	40.3%	39.5%	41.6%	38.9%	33.6%
SG&A expenses	1,876	2,371	2,261	3,160	2,999	3,283	3,273	3,121	3,095	2,827
Ratio to sales	36.1%	35.2%	35.9%	37.1%	39.7%	35.8%	36.9%	36.0%	38.4%	40.6%
Labor cost	729	767	784	945	938	979	1,074	1,026	1,000	1,004
Marketing-related	309	570	465	555	472	665	594	497	524	353
Business-related	752	884	911	1,327	1,254	1,302	1,294	1,301	1,247	1,202
Goodwill	2	2	2	87	85	84	79	85	85	85
Other	82	145	98	244	247	252	229	210	237	180
<b>EBITDA</b>	<b>161</b>	<b>386</b>	<b>269</b>	<b>711</b>	<b>211</b>	<b>775</b>	<b>590</b>	<b>892</b>	<b>427</b>	<b>(102)</b>
Ratio to sales	3.1%	5.7%	4.3%	8.4%	2.8%	8.4%	6.6%	10.3%	5.3%	-1.5%
• Japan	197	537	359	782	292	552	471	740	383	219
• Overseas	(35)	(141)	(90)	(71)	(80)	222	119	151	44	(322)
<b>Operating profit</b>	<b>45</b>	<b>275</b>	<b>133</b>	<b>349</b>	<b>(147)</b>	<b>409</b>	<b>229</b>	<b>486</b>	<b>42</b>	<b>(488)</b>
OPM	0.9%	4.1%	2.1%	4.1%	-1.9%	4.5%	2.6%	5.6%	0.5%	-7.0%
• Japan	87	423	231	644	164	427	343	599	254	89
• Overseas	(42)	(147)	(99)	(294)	(312)	(17)	(113)	(112)	(211)	(511)
Ordinary Profit	44	264	167	346	(152)	409	228	486	39	(479)
Profit ATOP	(20)	157	177	65	(203)	284	123	154	(45)	(564)
<b>[B/S]</b>										
Cash and deposits	1,466	1,658	1,373	1,700	1,833	1,440	1,412	1,996	2,293	2,327
ST loans	1,450	1,700	1,981	2,435	2,500	2,408	2,517	3,446	4,424	4,554
LT loans < 1Y	0	0	0	666	666	666	666	666	666	666
LT loans	0	0	2,002	1,335	1,000	1,000	667	666	333	333
Total interest-bearing debt	1,450	1,700	3,983	4,436	4,166	4,074	3,850	4,778	5,423	5,553
Net cash (net debt)	16	(42)	(2,610)	(2,736)	(2,333)	(2,634)	(2,438)	(2,782)	(3,130)	(3,226)
Net assets	5,897	6,058	6,219	6,207	5,862	6,059	6,108	6,315	6,149	5,563
Total assets	11,293	11,732	17,140	18,236	18,564	17,812	18,441	19,564	19,562	18,376
Equity ratio (%)	52.2	51.6	36.3	34.0	31.6	34.0	33.1	32.3	31.4	30.3
<b>[Supplementary info]</b>										
'Golf Garage' No. of stores	5	5	5	5	5	5	5	5	6	6
'GOLFTEC' No. of studios	10	11	197	200	202	206	208	209	207	208
'GOLFTEC by GDO' (Japan)	10	11	11	12	12	12	12	13	13	13
Employees (consol)	550	586	989	1,046	1,081	1,108	1,129	1,138	1,148	1,127
GDO Club Members (mn)	3.43	3.53	3.62	3.72	3.79	3.90	4.01	4.13	4.24	4.36

Source: P/L and Supplementary info from IR Factbook, B/S compiled by Sessa Partners from TANSHEIN financial statements.

### 2Q FY12/20 Results Summary

1H consolidated results were net sales -10%, EBITDA -67% and OP and below posting large losses. 1H results were severely impacted as a result of stay at home restrictions under COVID-19, and golf course and indoor lesson studio closures particularly from late March through May. Since June, both Japan and overseas are recovering rapidly. By segments, Japan sales declined by -8%, while overseas sales declined by -19%. By business, while mainly online gear sales were relatively firm at -3%, high margin course bookings declined by 13% and indoor studio lessons declined by -22%. **However, it is important to note that growth in GDO Club members, a key metric for future growth, actually accelerated in the 1H (see graph on bottom of P3).**

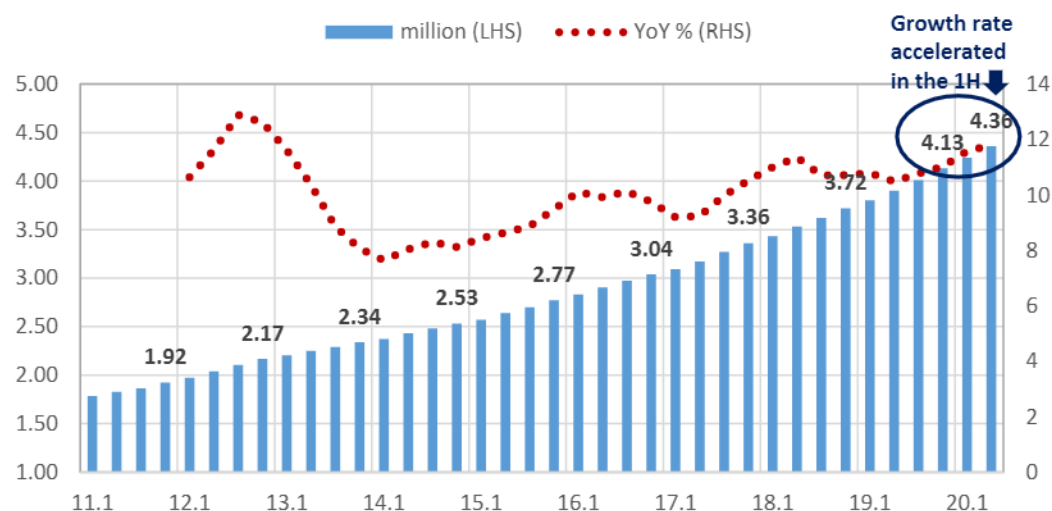
The impact of COVID-19 can readily be seen when looking at sales by quarter: total sales 1Q +7%, 2Q -24%; Japan 1Q +4%, 2Q -17%, and overseas 1Q +18%, 2Q -48%. As can be seen from the table on P2, overseas EBITDA turned negative in the 2Q, posting operating losses in both the 1Q and 2Q. According to the company, regarding 1H results for US GOLTEC Enterprises LLC (GTE), due to the effect of retaining the employment of pro coaches, the reduction in SG&A could not offset the sharp decline in sales, resulting in posting losses. GTE closed all centers 3/24, gradually reopening from 5/3 with all reopened by 6/15. However, with the steady reopening of the US economy, the PGA Tour was resumed from June, and GTE sales are recovering rapidly.

### Golf Digest Online Consolidated Earnings Trend

[J-GAAP]	Net	YoY	Oper.	YoY	Ord.	YoY	Profit	YoY	EPS	DPS	BPS
JPY mn, %	Sales		Profit		Profit		ATOP		(¥)	(¥)	(¥)
18.12 H1	11,927	23.6	321	3.6	309	(1.8)	137	(14.4)	7.5	4.0	331.6
18.12 H2	14,812	24.2	484	(46.5)	514	(43.6)	244	(55.4)	13.3	5.5	339.7
19.12 H1	16,729	40.3	262	(18.3)	257	(16.8)	80	(41.4)	4.4	4.0	331.6
19.12 H2	17,546	18.5	717	48.2	715	39.1	278	14.2	15.2	5.5	345.6
20.12 H1	15,026	(10.2)	(446)	TR	(440)	TR	(610)	TR	(33.4)	0.0	304.5
20.12 H2 CE	—	—	—	—	—	—	—	—	—	—	—
15.12 FY	18,047	12.6	828	86.7	816	86.7	430	138.3	26.8	5.5	275.0
16.12 FY	19,309	7.0	1,073	29.6	1,089	33.4	611	42.1	34.2	7.0	300.0
17.12 FY	21,574	11.7	1,214	13.1	1,226	12.5	707	15.7	38.7	9.0	329.3
18.12 FY	26,739	23.9	805	(33.7)	823	(32.9)	381	(46.1)	20.8	9.5	339.7
19.12 FY	34,274	28.2	979	21.7	972	18.1	359	(5.8)	19.6	9.5	345.6
20.12 FY CE	—	—	—	—	—	—	—	—	—	—	—
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			

Source: compiled by Sessa Partners from TANSBIN financial statements.

### Quarterly Trend of GDO Club Members: added 120k in the 2Q (+11.8% YoY)



Source: compiled by Sessa Partners from GDO IR Factbook

Various impacts of COVID-19 on main businesses



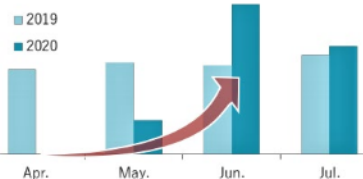
**Golf course bookings (highest margin business):**

In addition to the decline in the number of players, unit prices declined due to an increase in 'through play' (not taking a break such as for lunch, key for course operators' profits) and self play. GDO gets paid a small fee times the number of players.

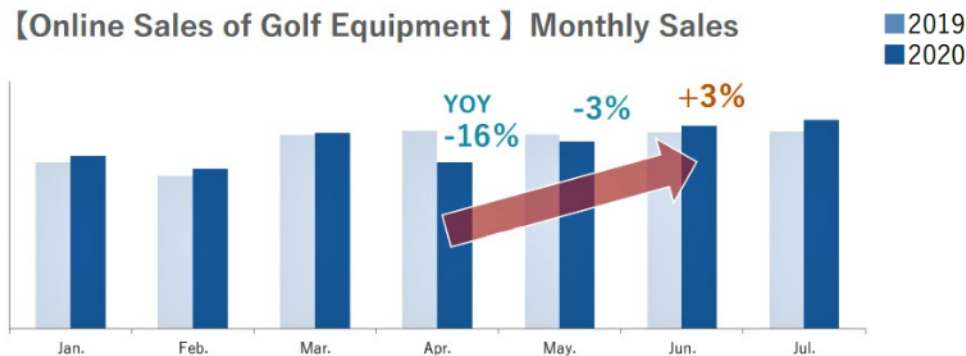
Since the declaration of a state of emergency, customer traffic is steadily recovering. GDO is gradually shifting to 'new play style' (last minute reservations, through play, and play with 2 players per group).

As mentioned earlier, a key point about golf is the relative safety that can be found outdoors, ease of maintaining social distancing, etc. Pent-up demand is returning.

**GTE cash sales recovering sharply since June (DM corp. centers)**



**[Online Sales of Golf Equipment ] Monthly Sales**



**[Sales of Used Golf Equipment ] Monthly Sales (Real)**



**[Golf Course Booking ] Monthly number of golfers had booked**



**[Overseas(U.S.) ] Monthly Sales of GOLFTEC (Real)**



Source: 2Q IR results briefing materials

**TOPICS:**  
New Driving Range  
Business in Japan



TOPTRACER RANGE (TTR) is a new initiative aimed at potential golfers and average players keen to raise their skills, incorporating high-tech equipment and software. GDO formed a business alliance with TOPTRACER, a group company of TOPGOLF GROUP, a comprehensive golf entertainment company in the United States. The contract with TOPTRACER splits the costs and the profits. The business model adopts a mixture of flat rates and pay-as-you-go pricing.

According to data by the All Japan Golf Driving Range Federation, Japan has 3,491 centers in 2018, and according to the “Leisure White Paper 2019”, roughly 6.6 million people use driving ranges. The idea is to enhance the user experience by installing high-tech infrastructure. Accurate shot trajectory is visualized and analyzed on monitors installed in every booth (see photo below).

TOPTRACER RANGE features: Players can check the replay of all shots with a monitor installed at a setup base. It provides data and entertainment which could not be experienced at a driving range before, such as virtual round, near pin, driving contest, simple trajectory measurement, analysis of trajectory and carry by the club number, and point game.

Initially targeting ranges in the KANTO and KANSAI regions, the company has begun to introduce the technology to ranges in CHUBU as well. The number of contracted locations is steadily growing. After the initial free trial period, monetization is steadily progressing in migrating over to paid service. The table below shows the trend of contracted driving ranges and number of booths, and the graph shows the high growth in the number of monthly TTR customers.

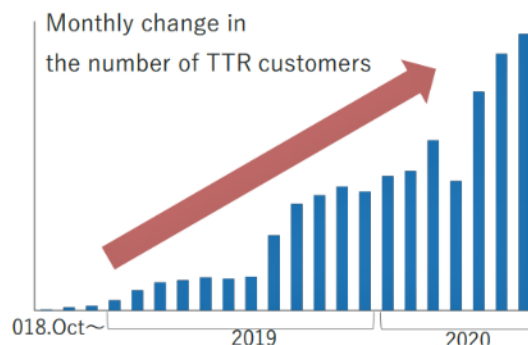


Source: company website

**Trend of TOPTRACER RANGE new driving range business**

	#of Driving range	#of rooms
<b>End of December 2019</b>	<b>11</b>	<b>876</b>
Change in the 2020 1H	+ 5	+747
<b>End of June 2020</b>	<b>16</b>	<b>1,623</b>
Change in the 2020 2H (forecast)	+ 8	+ 589
<b>End of December 2020 (forecast)</b>	<b>24</b>	<b>2,212</b>

Source: 2Q IR results briefing materials

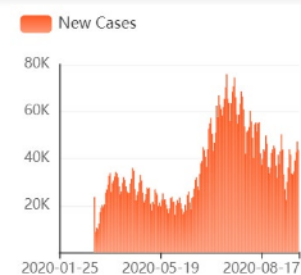


COVID-19 Case Tracker  
(as of Sep 19)

United States

**6,863,854** +44,145

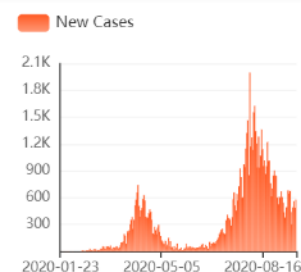
- Active cases 2,955,936
- Recovered cases 3,705,509 +16,428
- Fatal cases 202,409 +674



Japan

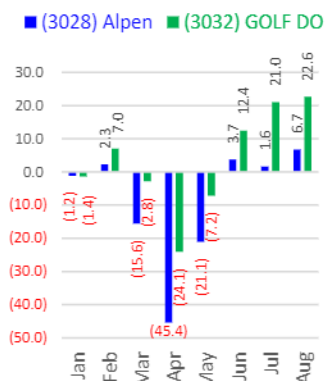
**78,073** +579

- Active cases 6,083
- Recovered cases 70,495 +596
- Fatal cases 1,495 +13



Source: MSN Bing, based on data from CDC, WHO, et al.

Golf peer existing store sales



Source: compiled by Sessa Partners from respective company data

GDO's current share price appears to be assigned a discount for its exposure to the US market through subsidiary GOLFTEC Enterprises LLC. However, as can be seen from the graph on the cover page, the US market is recovering sharply, now +3.0% YTD. GTE closed all centers 3/24, gradually reopening from 5/3 with all reopened by 6/15. GDO's share price has put in a double bottom around 1.2x P/B (1.35x on 1H BPS), with room to reverse the US discount going forward.

Selected Golf Peer Historical Valuation Comparison (9/18 close)

Company	Mkt cap ¥ bn	Last FY	Historical P/E (x)			P/E (x) CE	P/B (x) act*	EQ ratio act	ROE act	DOE act
			3Y AVG	High	Low					
3028 Alpen	80.7	20/6	30.7	46.2	19.0	21.6	0.79	56.3%	0.0%	1.6%
3319 GDO	12.7	19/12	28.1	51.5	15.2	—	2.28	32.3%	5.7%	2.8%
3032 GOLF DO	1.0	20/3	15.8	25.5	8.7	—	2.65	14.2%	11.5%	0.0%

Source: compiled by Sessa Partners based on data from respective TANSHIN, Kabutan and NIKKEI Online. \*GDO 1H 20.

GDO 3-Year Share Price and Historical P/E



Note: red block: results, green block: revision

1-Year Relative Performance



Source: Kabutan as of 2020/09/18. Note: peers here were selected based on publishing monthly existing store sales.

APPENDIX

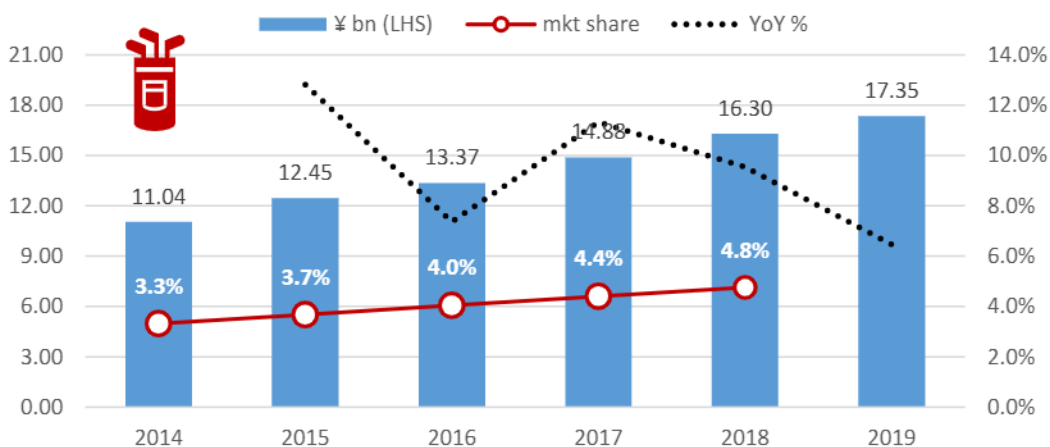


Key Drivers of Future GDO Sales and Profit Growth

- ① **Japan sales:** rising EC ratio
- ② **US sales:** strengthening custom fittings/sales
- ③ **Japan profits:** controlling SG&A
- ④ **US profits:** details to be announced with new MTP\*

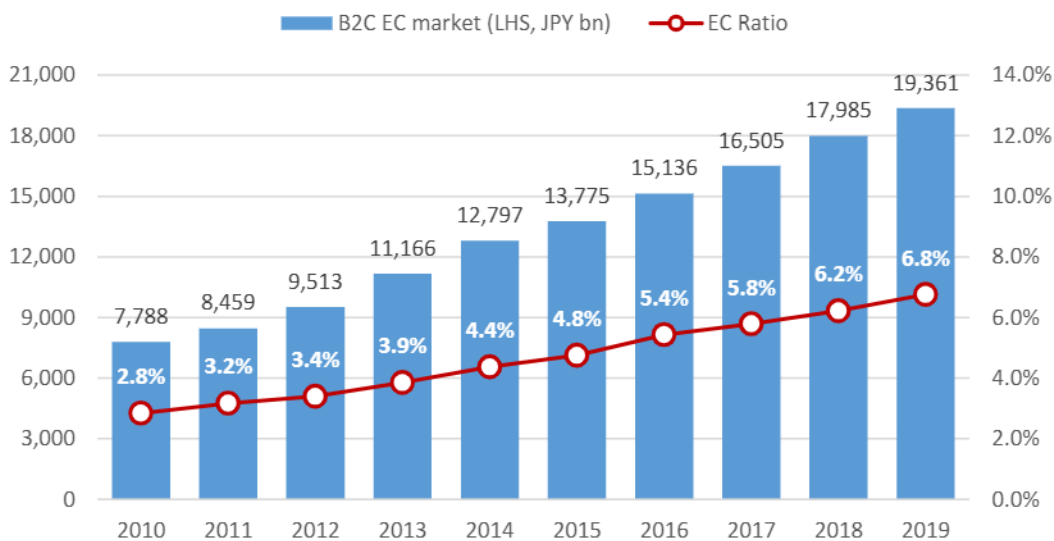
\*Note: MTP announcement has been pushed back toward year-end due to COVID-19

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



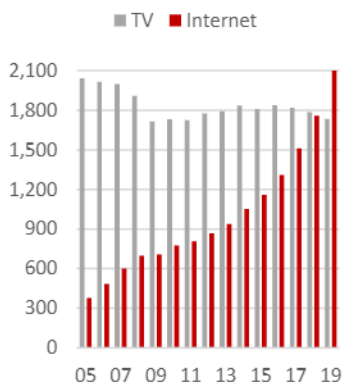
Source: Japan Productivity Center 'Leisure White Paper', Yano Research Institute 'Golf Industry White Paper', GDO IR

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



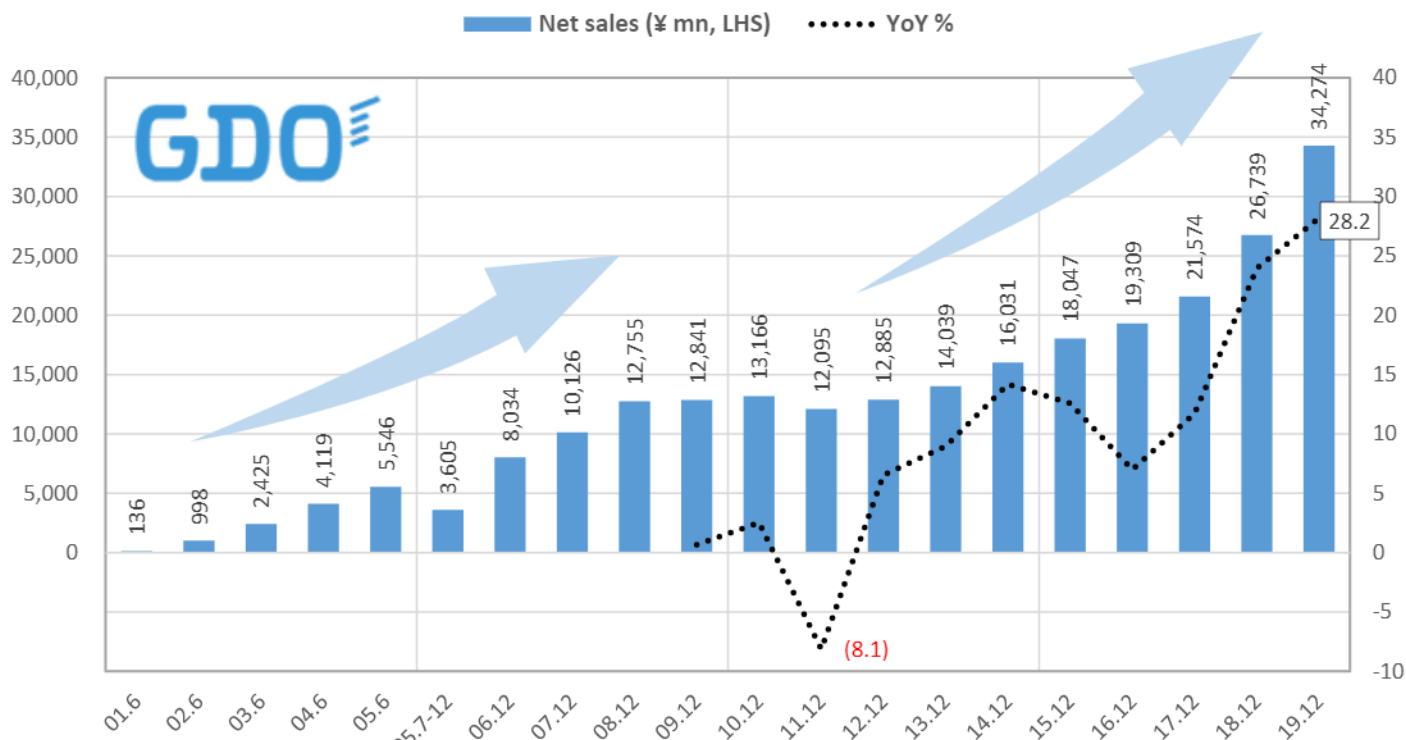
Source: Ministry of Economy, Trade and Industry (METI) '2019 E-Commerce Market Survey', July 22, 2020

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



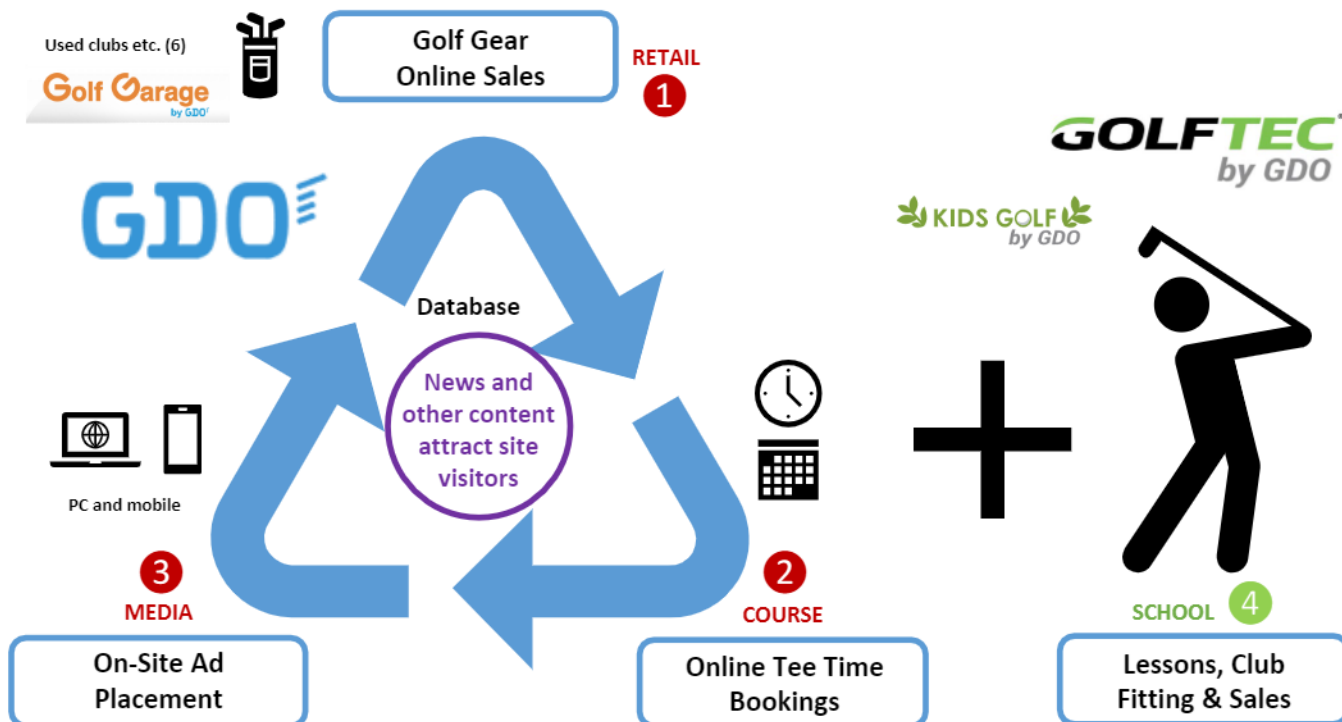
Source: 'Advertising Expenditures in Japan 2019' by DENTSU Inc.

GDO Corporate History visualized: since inception, only 1 down year



Source: YUHO financial statements, results briefing materials, GDO IR

Introduction to GDO's 4 main business lines in Japan: at the core is 'only one' GDO golf specialist portal site





## GDO Consolidated Financial Highlights at a Glance

JPY mn, %	FY12/15	YoY	FY12/16	YoY	FY12/17	YoY	FY12/18	YoY	FY12/19	YoY
	act	%	act	%	act	%	act*	%	act	%
<b>Net Sales</b>	<b>18,047</b>	<b>12.6</b>	<b>19,309</b>	<b>7.0</b>	<b>21,574</b>	<b>11.7</b>	<b>26,739</b>	<b>23.9</b>	<b>34,274</b>	<b>28.2</b>
<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
• Overseas	—	—	—	—	—	—	1,495	—	7,432	397.3
<i>breakdown (% total)</i>										
• Japan	100.0%	—	100.0%	—	100.0%	—	94.4%	—	78.3%	—
• Overseas	—	—	—	—	—	—	5.6%	—	21.7%	—
<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
• COURSE (play reservations)	4,715	14.8	5,106	8.3	5,806	13.7	6,929	19.3	7,475	7.9
• MEDIA (news content, ad sales)	812	2.0	811	(0.2)	874	7.7	971	11.1	846	(12.9)
• LESSONS (plus club fitting/sales)	—	—	—	—	800	—	2,530	216.2	8,597	239.9
<i>breakdown (% total)</i>										
• RETAIL (online gear sales)	69.0%	—	69.2%	—	65.3%	—	61.0%	—	50.6%	—
• COURSE (play reservations)	26.1%	—	26.4%	—	26.9%	—	25.9%	—	21.8%	—
• MEDIA (news content, ad sales)	4.5%	—	4.2%	—	4.0%	—	3.6%	—	2.5%	—
• LESSONS (plus club fitting/sales)	—	—	—	—	3.7%	—	9.5%	—	25.1%	—
<b>Gross Profit</b>	<b>7,372</b>	<b>13.4</b>	<b>8,012</b>	<b>8.7</b>	<b>8,850</b>	<b>10.5</b>	<b>10,475</b>	<b>18.4</b>	<b>13,656</b>	<b>30.4</b>
<i>ratio to sales (%)</i>	40.9%	—	41.5%	—	41.0%	—	39.2%	—	39.8%	—
SG&A Expenses	6,544	8.0	6,939	6.0	7,636	10.0	9,671	26.6	12,677	31.1
<i>ratio to sales (%)</i>	36.3%	—	35.9%	—	35.4%	—	36.2%	—	37.0%	—
<b>EBITDA</b>	<b>1,458</b>	<b>36.9</b>	<b>1,577</b>	<b>8.2</b>	<b>1,645</b>	<b>4.3</b>	<b>1,537</b>	<b>(6.6)</b>	<b>2,469</b>	<b>60.6</b>
<i>ratio to sales (%)</i>	8.1%	—	8.2%	—	7.6%	—	5.7%	—	7.2%	—
• Japan	1,458	36.9	1,577	8.2	1,645	4.3	1,876	14.0	2,057	9.6
• Overseas	—	—	—	—	—	—	(338)	—	412	—
<b>Operating Profit</b>	<b>828</b>	<b>86.7</b>	<b>1,073</b>	<b>29.6</b>	<b>1,214</b>	<b>13.1</b>	<b>805</b>	<b>(33.7)</b>	<b>979</b>	<b>21.7</b>
<i>ratio to sales (%)</i>	4.6%	—	5.6%	—	5.6%	—	3.0%	—	2.9%	—
• Japan	828	86.7	1,073	29.6	1,337	24.6	1,387	3.7	1,535	10.7
• Overseas	—	—	—	—	(123)	—	(582)	—	(556)	—
Ordinary Profit	816	86.7	1,089	33.4	1,226	12.5	823	(32.9)	972	18.1
Profit Before Income Taxes	768	82.1	1,009	31.4	1,127	11.7	765	(32.1)	786	2.7
Profit Attributable to Owners of Parent	430	138.3	611	42.0	707	15.7	381	(46.1)	359	(5.8)

\*Raising stake in GolfTEC Enterprises LLC from 8% → 60% was completed on July 2, 2018 (3Q), and its P/L was included in the scope of consolidation from 4Q (Oct-Dec) 2018.

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

Source: compiled by Sessa Partners from TANSBIN financial statements, results briefing materials and GDO Fact Book. Figures reported in thousand yen are rounded to the nearest million yen.

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