TOPGOLF CALLAWAY BRANDS CORP.
FOURTH QUARTER AND FULL-YEAR 2023 EARNINGS CALL
PREPARED REMARKS

Katina Metzidakis, Vice President of Investor Relations and Corporate Communications

Thank you, operator and good afternoon, everyone. Welcome to Topgolf Callaway Brands' fourth quarter and full-year 2023 earnings conference call. I'm Katina Metzidakis, the Company's Vice President of Investor Relations and Corporate Communications. Joining me as speakers on today's call are Chip Brewer, our President and Chief Executive Officer, and Brian Lynch, our Chief Financial Officer and Chief Legal Officer.

Earlier today, the Company issued a press release announcing its fourth quarter and full-year 2023 financial results. We have also published an updated presentation with supplemental information that we suggest you follow during today's call. If necessary, we will extend today's call to give ample time for our question-and-answer session. Our earnings presentation, as well as the earnings press release, are both available on the Company's Investor Relations website under the "Financial Results" tab.

Most of the financial numbers reported and discussed on today's call are based on U.S. Generally Accepted Accounting Principles. In the instances where we report non-GAAP measures, we identify the non-GAAP measures in the presentation and reconcile the measures to the corresponding GAAP measures in accordance with Regulation G. Please note that this call will include forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from management's current expectations. We encourage you to review the safe harbor statements contained in the presentation and the press release for a more complete description.

And with that, I would now like to turn the call over to Chip Brewer.

Chip Brewer, President and Chief Executive Officer

Good afternoon and thank you for joining our call today.

Starting on slide 3: We ended 2023 on a positive note, beating our Q4 expectations for both revenue and EBITDA. This was driven by continued strength in both our golf equipment business and at Travis Mathew; as well as better-than-expected performance at Topgolf, where same venue sales outperformed on strong holiday results, and where we continue to drive improvements in venue-level profitability.

Looking across our businesses for the full year, Golf Equipment delivered excellent brand performance: maintaining its leadership positions in golf club market shares and in the overall Technology and Innovation ranking. Our Active Lifestyle segment delivered solid growth in revenue and profitability, driven by continued momentum at TravisMathew. And at Topgolf, the team delivered 1% Same Venue Sales growth for the full year, on top of 7% growth in 2022; as well as an impressive 100 basis points of venue-level adjusted EBITDAR margin expansion. They also added 12 new venues with 11 new builds and one purchased via the Bigshots acquisition.

2023 also marked an important financial inflection point for our company, that being our transition to positive free cash flow. Our results showed $160 million of Free Cash Flow at the consolidated level and $49 million at the Topgolf level. As you know, given the variable timing of REIT reimbursements, we believe the most appropriate cash flow metric is Embedded Cash Flow – which is Free Cash Flow excluding new venue and store growth capex. Using this metric, we delivered $221 million and $94 million at the Total Company and Topgolf levels. These numbers reflect positive trends in our fundamentals. Looking forward, we expect our cash flow will stay meaningfully positive from here, and that our Embedded Cash Flow will increase slightly this year. We anticipate our EBITDA, cash flow and EPS growth will all ramp significantly in 2025 through2028, due to the leveling off of corporate investments, the tipping point of economies of scale across our businesses, and lower overall corporate interest expense as our positive cash flow allows us to pay down debt over time. In support of this, we are providing illustrative 2026-2028 numbers in our earnings deck, exhibits 21 and 23.

As I am sure you can tell, I remain convinced and excited about the long-term earnings power of this business. We have demonstrated the strength of our golf equipment business over a long period of time, the Callaway brand is strong, and we are set up for an excellent 2024 with an outstanding new product range. Our Active Lifestyle segment has grown rapidly in both revenue and profits. And, although the Topgolf business has experienced some post-Covid Same Venue Sales volatility; when you look past that, you see a business that is clearly strengthening and proving itself as a unique and appreciating asset with strong returns. Topgolf's track record for selecting and opening venues is extraordinary. They virtually all do well, and average opening results have exceeded our targets. This is a skill set that has been built up over years and relies on multiple teams and functions across our organization. It makes us unique. Others have tried, but as of yet, no one has been able to replicate our model. And, it supports our strong confidence in our capital allocation strategy. In addition, our venues are increasingly profitable over time, with what we believe is a clear path to further upside. I will even add, we have now shown we can do this in the face of Same Venue Sales volatility. In short, the venues are achieving the return targets we communicated and are long, durable and appreciating assets. To help demonstrate these points, we have included updated cohort and historical data in our earnings presentation. These are slides 16 through18. They show increasing average venue sales over time and increasing EBITDAR. There is volatility over short periods of time, but over the longer periods, the trends are clear. As for the durability of the assets, the UK venues are now approaching 20 years old and still continue to grow both sales and profitability.

Before speaking about where we are going this year; I'd like to put our longer-term opportunity into context by highlighting the underlying strength of the sport of golf and how the modern golf ecosystem is evolving. As shown on slide 4, per the National Golf Foundation, there are now a total of 45 million on and off-course golfers, up 9% year-over-year and up 32% since 2019. Within this, an estimated 26.6 million Americans played golf on-course in 2023, up 1 million year-over-year in what was the largest one-year growth in participants since 2001, driven by an all-time high of first time on-course golfers of 3.4 million. I believe it is both impressive and instructive that this far past Covid, on-course golf is still seeing this kind of momentum. At the same time, 32.9 million Americans participated in off-course golf, up 18% year-over-year and up 41% since 2019. The game of golf at large is clearly benefitting from a large influx of participants, capital, the benefit of more flexible work environments, a positive change in perception of the game (especially with teens and young adults), and the structural growth of off-course golf. Within this context, Topgolf alone is adding 3to 4 million new unique visitors each year and will have over 30 million unique visitors in 2024, thus making it a major force in overall golf with a larger individual participation than total on-course golf.

In response to those that may question if off-course golf will drive on-course: we now know that around two-thirds of today's on-course beginners are coming to the course with off-course experience, compared to less than 40% five years ago. And already 10% of today's total on-course players credit Topgolf for getting them to the golf course.

Now turning to our 2024 guidance, I'm proud to report that we are once again projecting growth in revenue, EBITDA and Embedded Cash Flow. We have also planned our business somewhat conservatively, given the uncertain consumer environment, and we are continuing to invest in key corporate infrastructure and profitability initiatives, both at the corporate level and at Topgolf. Like our venues, we feel very good about the long term returns on these investments and we believe we will show leverage on them relatively quickly, most likely by 2025. Lastly, via specific projects, some of which I'll share with you today and with more to come throughout the year, we are also now entering the stage where we will be unlocking more of the exciting revenue, brand and digital synergies that our structure uniquely allows.

Now I'd like to walk you through our business segment performance.

At our Topgolf venue business, both during the quarter and for the full year, we made progress on our three key performance drivers.

Starting with Venue unit growth: we successfully and strongly opened 8 venues in Q4 for a total of 11 new venues in 2023. Our new venues continue to perform extremely well. We also added one venue via acquisition in 2023 and, in early January of this year, we purchased one additional venue from Bigshots (in Bryan Texas, adjacent to Texas A&M university) for approximately seven million dollars.

As of this call, we now own and operate 94 venues and have 5 Topgolf franchisee locations and three Big Shot franchisee locations. We expect to add another seven new Topgolf venues this year, two in the first half and 5 in the second half; for a total of eight new venues in 2024. We also expect to help open two international franchisee locations. For 2025 we are expecting to return to opening 10 to11 new owned venues.

Moving on to Same Venue Sales performance, in Q4 our same venue sales declined 3%, which was meaningfully ahead of our expectations, driven by stronger than expected results in our 1-2 Bay consumer-oriented business, particularly at the end of December. For the quarter, our 1-2 bay Same Venue Sales was flat just as it was in Q3. Our 3+ bay, primarily corporate business, continued to stabilize during the quarter, and had its second consecutive quarter of relative improvement. As a reminder corporate is usually approximately 30% of sales in Q4 and 20% for the full year.

Our December results were undoubtedly helped by weather, as we had challenging weather in December 2022 but seasonally very mild weather in December 2023.

Having discussed the quarter, I'm pleased to report the full year Same Venue Sales ended in positive territory, up 1%. This is a notable achievement, particularly when you consider the strength of our 2022 Same Venue Sales growth and the strong two-year stacks as shown on exhibit 9. Our 1-2 Bay business, which is primarily consumer and comprises 80% of our annual venue revenues, was up 4% for the full year. And when you consider our comp sales vs pre-Covid levels, our 1- and 2-bay consumer business is up 11% vs. 2019 while the 3+ bay corporate business is up 1%.

Looking ahead, our 2024 guidance recognizes a tough comp in Q1 and some poor weather to start the year in January. With this we are expecting Q1 Same Venue Sales to be down potentially high single digits. After Q1, we see somewhat easier comps and are forecasting approximately flat Same Venue Sales for the full year.

As we have previously discussed, our two points of weakness on Same Venue Sales during the second half of 2023 were mid-week traffic and events. To help address the mid-week opportunity we are in the process of implementing weekday promotions, primarily half-off game play Monday through Wednesday via the App. Our test markets indicate this new mid-week promotion will help keep us competitive with other entertainment and leisure options, will be net profitable and will also help drive our digital business, which will in turn provide a long-term benefit. We do not believe they will be a major driver of sales growth; but they will help and appear to be an appropriate response that balances short- and long-term needs. To help further stabilize events, we are improving our programs and value adds, for both smaller events such as team building or birthday parties, as well as larger corporate bookings.

Looking further down field: we are developing additional consumer offerings (not necessarily value oriented) that we are going to be announcing in early Q2. We are also starting to really scale our digital offerings, something I'll speak more about in a moment. We believe both of these initiatives will be appealing to consumers and could create upside.

Moving on to our third and final key performance driver, venue margin expansion - this is really the biggest highlight of 2023 for Topgolf. Topgolf has experienced increased efficiencies driven by our P.I.E. inventory management system along with a new labor model and COGS initiatives that together are working beautifully. As a result, our 2023 venue-level adjusted EBITDAR margin increased ~100bps year-over-year to approximately 34%. And in Q4 alone, we expanded EBITDAR by approximately 370 bps, despite our highest margin business - the events business - being down during the quarter. Hopefully this provides confidence in our ability to continue to drive improvements in this important metric.

2023 was an important year for laying the technology foundation in our venues with the rollout of Toptracer across all U.S. Venues thus allowing a common gaming platform; as well as the rollout of our P.I.E. inventory management and booking system across all venues. These critical steps enable us to turn our efforts toward accelerating in-venue digital capabilities, creating new gaming innovation, as well as bringing cross-brand synergies to life in 2024 and beyond. To this end, we have created a new Commercial and Digital team within Topgolf, dedicated to optimizing revenue management and driving our digital business.

Examples of what the Topgolf Digital team is working on are shown on slide 13 and I encourage you to review it so you have the appropriate feel for the impact these initiatives will have on our business. One specific project that I will mention is our company-wide Consumer Data Platform which is now expected to be up and running by the second half of this year. This important project will unlock digital synergies across the brands and is expected to be a significant catalyst for future growth opportunities across our brand portfolio.

Speaking of cross-brand synergies, there is a lot to be excited about in the coming weeks as shown on slide 14.

Starting just last week, all Topgolf players will have the opportunity to upgrade to Callaway branded premium clubs at all venues. By mid-year, this will include clubs specifically designed by Callaway for use in bay, by both established golfers and those new to the game. In the near future, we will be able to upsell this program via the app and in reservations. All Topgolf Golf Professionals are on Callaway Golf staff and can now exclusively sell Callaway Golf equipment to their students. Callaway will be hosting organized club fitting events at all venues beginning with the first major of 2024 and will also be the official equipment sponsor of Topgolf's league nights. In addition, our respective marketing teams are leaning into our Callaway Chrome Tour golf ball launch to promote sales and trial of our new golf ball. Our goal is 200,000 new users coming specifically from Topgolf. We also plan to show various Callaway-branded limited edition golf balls in venues throughout the year. We have an exciting Callaway and Topgolf golf glove program that will run across all venues and TravisMathew will increase its presence in approximately one third of the venues where the price point works effectively. And, later in the year, we will be implementing a new Callaway digital kiosk in the lobby of all venues. A piece that we hope will amaze and delight all the new and existing golfers that visit the venues during the year. Also towards the end of this year or early next, we will be introducing specific Callaway branded golf equipment designed for the beginner golfers being introduced to the sport via Topgolf. We will then leverage the Consumer Data Platform and our digital teams to market this product to these new players thus creating a competitive advantage in reach to what should be the largest single source of new golfers in the modern golf ecosystem.

We expect over 30 million unique players will walk into Topgolf venues in 2024. With a strong in-venue Callaway brand presence, the ability to trial Callaway premium equipment in our bays, and an advantage in digital reach as well; we are excited about brand Callaway being front and center with this next generation of modern golfers. At the same time, Callaway and Travis Mathew will be working to drive awareness and visits to Topgolf. All of this is in addition to the synergies we have already been enjoying such as a lower cost of capital and faster venue expansion at Topgolf, shared corporate services, Toptracer sales synergies, tour exposure as well as other key partnerships across the brands, and operational support including distribution and sourcing.

Our 2024 forecast for Topgolf is specifically called out in our guidance section so I won't speak to it directly here. I will add that we expect Topgolf to be Free Cash Flow positive in its own right and we are delighted with the direction of the business.

Moving to Golf Equipment, the business performed exceptionally well from a brand perspective in 2023. Our U.S. dollar market share placed us as the #1 clubs brand and the #2 golf ball brand. In clubs alone, we were #1 in Total Clubs, Drivers, Fairway Woods, Hybrids, and Irons. This was led by our 2023 launch of Paradym. In Q4 we had a highly successful launch of our new Ai One putter line.

Global revenues were up 5% in Q4 and approximately flat on a full-year currency neutral basis despite an approximately one hundred-million-dollar headwind related to 2022's retail inventory catch-up.

Golf demand remained robust throughout 2023. Rounds played grew 4% year-over-year and 2023 marks the 4th year in a row where rounds played have exceeded 500 million. And I've already discussed with you the strength in participation, including new entrants.

In early January we announced some very exciting new launches in both clubs and golf ball. In clubs, our new family of Ai Smoke Drivers, Fairway Woods, and Irons truly embody Callaway's leadership in R&D. These clubs feature an Ai Smart Face, which optimizes performance using swing dynamics from thousands of golfers and micro deflections across the face. Our marketing people say it best, it's sweeter from every spot. Both longer and more forgiving.

On the ball side, we recently launched our new line of Chrome Tour, Chrome Tour X and Chrome Soft golf balls which reflect the culmination of many years of R&D work, as well as the extensive upgrade of our Chicopee ball manufacturing facility. We are effectively launching a new brand in Chrome Tour, a brand that will complement our existing strength in Chrome Soft and Super Soft. This is a big launch for us, and something we don't take lightly; we deferred doing it previously, instead waiting until we further proved out our design thesis and manufacturing capabilities. We are proud of our record in golf ball and both our sales and market share record over the last 8 years supports this. Still, we believe we have more potential. We believe we make the best performing and most consistent ball in golf and we now feel ready to tell the world about it.

As we forecast the golf equipment segment for 2024: We are encouraged that field inventories have returned to more normalized and healthy levels with no abnormal items to lap this year; and consumer interest in the game remains high. And we are excited about the potential opportunity for our business to outperform the market, given the strength of our new launches. As a result, we expect both revenues and profits to be up in this segment.

Switching gears, to our third and final segment: our Active Lifestyle division grew 9% in 2023 and continued to expand margins.

Topline growth was driven by continued brand momentum at TravisMathew which had a strong year from both a top- and bottom-line perspective. In 2023 TravisMathew, grew in all channels, including adding 6 new stores and launching into the women's category. In 2024, they plan to open 8 to 10 new stores, slowly expand their international footprint, as well as amplify their fantastic women's product with marketing and stronger in-store exposure. The women's product is resonating nicely and although it is still small as a percentage of their business, we are optimistic about its long-term potential.

Also at Travis Mathew, in 2023 we had an approximately $35 million inventory fill in our corporate channel that will not repeat in 2024. This will cause some year-over-year comparison issues for 2024 vs 2023. Excluding this we continue to expect strong revenue growth at Travis Mathew both this year and going forward.

Jack Wolfskin margins were challenged in Q4 due to continued softness in Europe driven by continued high field inventories and despite strong performance in China both in Q4 and for the full year. That said, the Jack Wolfskin business grew slightly on the topline and was approximately breakeven in EBITDA in 2023 overall. We now have new leadership in place in Europe and we are optimistic for stabilization followed by growth during the balance of 2024 and into 2025.

Overall, for 2024 we are expecting approximately flat revenues with operating income slightly down in this segment.

In conclusion: 2023 ended on a strong note and 2024 has begun with exciting new products and programs across our brands. We remain confident in our strategic initiatives and our ability to grow our cash flow from here. The growth is forecast to be modest for 2024 as we both continue to invest in the business, and we are also planning cautiously. Cash Flow, EBITDA and E.P.S. then ramp nicely as our cash flow compounds and as we leverage our scale.

Thank you for your time today and, Brian, over to you.

Brian Lynch, Executive Vice President, Chief Financial Officer & Chief Legal Officer

Thank you, Chip, and good afternoon everyone.

As Chip mentioned, we are pleased with how we finished 2023. We had fourth-quarter revenue growth across each of our operating segments. Topgolf opened 8 new venues in the fourth quarter alone and finished the year with Same Venue Sales growth of +1% while also increasing venue-level adjusted EBITDAR margins by approximately 100 basis points year-over-year. Our golf equipment business finished the year with the #1 U.S Golf Equipment market share for golf clubs and #2 in golf balls. We also achieved positive Free Cash Flow for the year both on a consolidated basis and at Topgolf. Those were important financial milestones for us and we achieved them well ahead of our plan that we set at the time of the merger.

We remain in a strong financial position. Our cash-on-cash equivalents increased $213 million to $394 million at December 31, 2023 compared to the prior year, which is after taking into account over $50 million in common stock purchases, including $12 million in the fourth quarter, and deploying approximately $30 million for the BigShots acquisition. Our available liquidity, which is comprised of cash on hand and availability under our credit facilities, increased $327 million to $743 million due to proceeds from the Company’s new term loan and better-than-expected cash flow this year.

Given the strength of our businesses and our solid financial position, we believe we are well positioned entering 2024 and we expect to grow revenue, Adjusted EBITDA and Embedded Cash Flow again this year.

Now turning to our fourth quarter results.

We grew consolidated revenues 5% year-over-year to $897 million, driven by growth across all three operating segments and led by Topgolf venues which were up 9% and golf clubs which were up 17%.

Given the seasonality of our businesses, we typically report an operating loss in the fourth quarter. In the fourth quarter of 2023, our Non-GAAP operating loss improved 74% to a loss of ($6.6) million. This improvement was driven by a significant improvement in segment operating income in the Topgolf and Active lifestyle segments.

Non-GAAP fourth quarter net income decreased approximately $5.4 million compared to last year, largely due to the increased D&A and interest expense related to new venue development.

Adjusted EBITDA of $69.8 million increased 91% compared to last year and exceeded the high-end of our guidance range by approximately $12 million due primarily to better-than-expected revenue and venue margins at Topgolf.

Moving to segment performance, at Topgolf, Q4 revenue grew 7% driven primarily by new venues, partially offset by better-than-expected Same Venue Sales of minus 3%. The beat in Q4 Same Venue Sales was driven by better-than-expected traffic in our 1- and 2- bay consumer business which benefitted from a strong holiday season and year-over-year favorable weather in December.

Topgolf operating income increased to $23 million in the fourth quarter compared to $3 million in the prior year and Adjusted EBITDA increased $30 million to $73 million. These improvements were driven primarily by the increased revenue as well as continued operational efficiency gains in the venues. The operational gains included improved labor management, the impact of P.I.E. being rolled out in all venues other than Las Vegas, and lower food and beverage costs due to Topgolf's increased scale.

Moving to Q4 results for Golf Equipment, revenue increased 5% to $199 million primarily due to an expected shift in golf club launches, partially offset by a decline in golf ball sales as we prepared for the 2024 launch of our new Chrome Tour ball, which launched on February 2nd.

Golf Equipment operating income decreased $21 million due to the expected lower production volumes in the second half of 2023 as compared to the prior year, resulting in unfavorable cost absorption, as well as a return to normal promotional levels as we mentioned last quarter.

In our Active Lifestyle segment, Q4 revenue grew 3%, primarily due to increased apparel sales which was led by TravisMathew.

Operating income increased to $20 million compared to breakeven in the prior year. This increase was driven by increased revenue and margin as a result of a higher mix of margin-accretive direct-to-consumer sales, as well as tailwinds from lower input costs year-over-year.

Moving to balance sheet and liquidity highlights. As I mentioned earlier, at December 31, 2023 our available liquidity increased $327 million to $743 million compared to the prior year due to proceeds from the Company's new term loan and better-than-expected cash flow this year.

At year-end, we had total net debt of $2.2 billion, which excludes convertible debt of approximately $258 million, compared to $1.9 billion at the end of 2022. This increase relates primarily to incremental new venue financing and the additional $300 million of term loan debt. As a reminder, we think it is also helpful to evaluate our net leverage position by excluding the venue financing REIT debt, which is essentially capitalized rent with no additional principal or bullet repayment required. Excluding the REIT debt, our REIT adjusted net debt is $971 million dollars at the end of 2023 compared to $997 million dollars at the end of 2022.

Our Net Debt leverage, which excludes convertible debt, was 3.8x at December 31, 2023 compared to 3.4x at year-end 2022. This change was driven by the opening of additional venues in Q4 2023 vs. the prior year. Our REIT adjusted net debt leverage ratio is 1.9x compared to 2.0x in the prior year. We feel comfortable with these leverage levels.

Our inventory balance decreased $165 million or 17% from $959 million at year-end 2022 to $794 million at the end of 2023 – a significant achievement by our teams who actively managed this inventory reduction in light of the post-Covid surge in 2022. We continue to expect our Active Lifestyle inventory to decrease in 2024 as our apparel businesses normalize their inventory. We feel good about the quality of our inventory.

Capital expenditures for the twelve months ended December 31, 2023 were $482 million dollars and we received reimbursements of $277 million dollars from our REIT arrangements for net capital expenditures of $205 million, of which $146 million dollars is related to Topgolf. Net capex was approximately $30 million lower than our $240 million guidance, due to the timing of REIT reimbursements.

Consolidated Free Cash Flow and Embedded Cash Flow were $160 million and $221 million, respectively, both ahead of expectations. As a reminder, Embedded Cash Flow is Free Cash Flow minus Growth CapEx for new venues and retail stores. This metric provides a good view of the cash generation power of our business as it stands today and it eliminates the noise from the timing of REIT reimbursements.

Looking ahead, we believe we will grow Embedded Cash Flow in 2024. In light of F/X headwinds and continued corporate infrastructure investments this year, the growth in Embedded Cash Flow is expected to be modest in 2024 but ramp in 2025 through 2028. We also expect to remain Free Cash Flow positive both in our consolidated business as well as Topgolf. Given our better-than-expected cash generation in 2023, and assuming we are on plan for 2024, we would expect to begin paying down our term loan debt later in 2024.

I would now like to provide an update on our outlook for 2024. Our outlook reflects both our confidence in our business as well as a potentially softer consumer environment in 2024. All in all, we expect revenue, EBITDA and Embedded Cash Flow growth in 2024.

As I mentioned last quarter, we are in Phase 2 of our Topgolf journey. In Phase 1 we funded Topgolf's operations and venue development. This phase was very successful as we increased the pace of new venue development, and at the same time improved venue profitability, resulting in significant revenue and Adjusted EBITDA growth. As expected, however, this accelerated development had a negative impact on earnings per share due to the increased interest expense and D&A associated with that development. Topgolf is now Free Cash Flow positive, and self-funding with REIT or developer-led financing, and we have moved to Phase 2.

In Phase 2, which we will be in through 2024, we expect to scale our business further, grow Embedded Cash Flows and stabilize E.P.S. We also expect to be at the tail-end of our post-merger investments in corporate infrastructure. In 2025 through 2028, we expect to be in Phase 3 of our

Topgolf journey where we will have further growth and our cash flows begin to meaningfully exceed our capital requirements. As a result of the increased scale, leveling of corporate investments, and the impact of the cash flow generation on interest expense, we would expect E.P.S. to begin to grow in 2025 and ramp from there.

Before moving to specific 2024 guidance, I want to highlight why we have so much confidence in the long-term performance of this business. I refer you to Slide 18 which depicts 2023 Adjusted EBITDAR Margin by Venue Cohort. As you know, our venues open well and quickly ramp to attractive revenue, margin and profit generation. This is consistently true and an attractive element of the Topgolf business. As shown on Slide 18, you can see that the venue Adjusted EBITDAR margin not only doesn't decrease with age of the venue, but, if anything, it actually increases with age. And, this effect is even more pronounced when looking at venue pre-tax income due to the D&A being somewhat front loaded in the first five years. Overall, it is clear that Topgolf venues open with strong economics that improve over time and the venues are appreciating assets over the long-term. At present, approximately half of our venues opened in the last 5 years. Accordingly, we expect the profit contribution from our venues to expand over time.

With that said, let's turn to 2024 guidance.

Looking at our 2024 guide holistically, as Chip mentioned, we view 2024 as an investment year in which we are focused on driving the digital transformation at Topgolf and, separately, largely finishing necessary post-merger investments in corporate infrastructure, including information technology systems and cybersecurity.

Now let's look at more specific guidance for 2024. There will be a few headwinds as we enter 2024 in addition to the investments I just mentioned. First, there is the revenue headwind in the Active Lifestyle business that Chip called out earlier. The second is related to foreign currency. In addition to unfavorable translation based on recent rates, there are also foreign currency hedging gains in 2023 of approximately $13.4 million that will not repeat in 2024. Overall, we estimate these foreign currency changes will negatively impact revenue by approximately $10 million and Adjusted EBITDA by approximately $20 million. Lastly, the Topgolf business will be lapping

11% growth in Same Venue Sales in Q1 2023 which was partially due to a post-Covid surge in our events business, which is resulting in our Same Venue Sales estimates of down high-single-digits in Q1 and flat for the full year both as compared to 2023.

For 2024, we anticipate consolidated net revenue growth of approximately 6% versus the prior year to $4.515 - $4.555 billion. Consolidated revenue growth is expected to be driven by low-single-digit growth in the golf equipment segment and approximately 11% growth at Topgolf. The Topgolf growth is primarily due to new venue growth.

Moving to 2024 Adjusted EBITDA, we are guiding to a range of $620 to $640 million which would represent growth of 4% to 7%, approximately commensurate with the projected revenue growth. As mentioned earlier, we would expect to begin to see leverage in 2025. We are projecting Topgolf adjusted EBITDA to be approximately $350 million, or a 17.9% margin, which would be approximately 60 basis points of expansion on a year-over-year basis.

We expect non-GAAP diluted E.P.S. of $0.26 - $0.34 compared to $0.49 this year. This decrease is primarily due to increased depreciation and amortization expense as well as increased venue financing interest due to additional venues. We have included in the investor deck today on Slide 23 an estimated walk from EBITDA to E.P.S. for 2024.

Finally, we expect to spend approximately $475 million in gross capital expenditures in 2024 compared to $482 million in 2023. The decrease is due to less new venue development in 2024 compared to the prior year. We estimate REIT reimbursements of $214 million in 2024 compared to $277 million in 2023.

Now turning to Q1 specifically.

In Q1, we expect consolidated revenue of $1.14 to $1.16 billion, flat to slightly down versus 2023. This decrease is largely related to the active lifestyle corporate channel headwind Chip mentioned and Topgolf's expected decrease in Q1 Same Venue Sales.

We also expect Q1 Adjusted EBITDA of $130 - $140 million compared to $157 million in the prior year. This decrease is primarily related to the flat to down revenue combined with projected unfavorable F/X and the 2024 investments. These factors, along with increased D&A and interest expense related to new venues, will negatively impact first quarter E.P.S, which we estimate to be approximately breakeven to a slight loss compared to $0.17 last year.

We have provided today in the investor presentation a lot of new and more detailed information in response to investor inquiries. I hope you find this information helpful.

Overall, we are pleased with where we are as a business. Despite significant headwinds since the merger from unfavorable foreign currency and rising interest rates, we have achieved greater growth and cash flow than we expected at the time of the merger. We are also encouraged that we are at the tail-end of our post-merger investments and are beginning to capture the synergies with Topgolf as Chip described. We are excited about the progress we have made since the merger and beginning in 2025 we expect to reach the scale and infrastructure necessary to begin ramping Embedded Cash Flow and earnings. We look forward to reporting to you on our progress.

We will now open the call for questions. Operator over to you.