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PRESENTATION

Operator

Good morning. My name is Crystal, and I will be your conference operator today. At this time, I would like to welcome everyone to the Drive Shack's Fourth Quarter and Full Year 2019 Earnings Conference Call. (Operator Instructions) Today's call is being recorded. At this time, I would like to hand the call over to Austin Pruitt, Head of Investor Relations. Ms. Pruitt, you may begin.

Austin Pruitt - *Drive Shack Inc. - Head of IR*

Thank you, and good morning, everyone. I would like to welcome you to Drive Shack's Fourth Quarter 2019 Earnings Call. Joining me here today are Hana Khouri, our Chief Executive Officer and President; and Larry Goodfield, our Chief Accounting Officer and Interim Chief Financial Officer. We've posted an investor supplement on our website, which we encourage you to download if you have not already done so.

I would like to point out that certain remarks made today will include forward-looking statements. Actual results may differ materially from those considered by these statements. We encourage you to review the disclaimers in our press release and investor supplement and to review the risk factors contained in our annual and quarterly reports filed with the SEC. And now I would like to turn the call over to Hana.

Hana Khouri - *Drive Shack Inc. - CEO & President*

Good morning, everyone, and thank you for joining Drive Shack's fourth quarter earnings call. We have quite a bit to talk about today after a very exciting quarter and year. But before we get started, I want to announce that David Hammarley is no longer with Drive Shack. I'm pleased to announce that Larry Goodfield will be named our Interim CFO. Larry was a key part of the company's transition from predominantly a financial services organization to an operating company.

For the past year, Larry has focused on several projects in addition to his role as Chief Accounting Officer and Treasurer. Throughout his time with -- and throughout his time with Fortress and Drive Shack, he's touched virtually every part of the accounting and finance function. I'm confident that Larry will be a great resource in leading the continued growth for the Drive Shack organization.

I'm now going to start with a short summary of our fourth quarter highlights, then move on to discuss results and updates across the business. I will then hand it over to Larry.

So Q4 in 2019 was a really significant quarter and year for us as we really completed our evolution from a development company into a venue-based eatertainment company. We launched 3 new stores that generated around \$15 million in the second half of last year, putting us on pace to achieve EBITDA margins of 25% and yields of 10% to 15% in 2020.

What really marked this transition for us was the massively successful launch of our core big box golf entertainment stores that we call Drive Shack. As a reminder, we launched our first Drive Shack venue in Orlando in 2018. This served as our beta site where we tested new enhancements we

would later rollout in our Gen 2 venues. After launching our Gen 2 venues, we spent some time going back into Orlando and revamping that site with specific enhancements to the technology and outfield.

We are also really pleased with the progress that we've made in Q4 with our new experience that we are launching in the coming weeks, the Urban Box, which will feature tech-enhanced putting and entertainment. We've signed leases in Dallas, Texas; and Charlotte, North Carolina and are in the final stage of negotiations for multiple other locations across the U.S. This puts us well on our way to opening the venues by the end of 2020.

Finally, we spent quite a bit of time developing a capital plan to help fund the business and our growth.

Turning to Page 5, to talk about our focus. Our focus here at Drive Shack is really simple. We want to continue to focus on the eatertainment industry, building 1 to 2 core stores per year, and we're going to successfully launch the Urban Box venues, having the first 3 open and fully operational by the end of 2020.

The map on Page 4 (sic) [Page 5] shows a great representation of the vast availability of real estate and venues across the U.S. The reality is that every state in the U.S. is a great market for what we're doing in the entertainment space, but the U.S. is actually a pretty big place. So highlighted in dark green on the map, you'll see the states that we've started with, but we do plan to try to get around to all of them.

One notable difference in this map from the previous versions is the addition of 2 locations for the Urban Box, which are now confirmed in Dallas, Texas; and Charlotte, North Carolina. I will speak to this in more detail shortly.

Turning to Page 6. We talk about our Drive Shack core venues as well as our Urban Box venues. We have 4 venues currently in operation: Orlando, Florida, which is our beta site that opened in 2018; Raleigh, North Carolina that opened in Q3 of 2019; Richmond, Virginia; and West Palm Beach, Florida that opened in Q4 of 2019. Additionally, we have committed to 4 other venues: New Orleans, which is opening in 2020, later this year; Chicago, opening next year in 2021; Newport Beach and Manhattan, which are both slated to open in 2022.

Moving down to the Urban Box venues. We have 2 committed venues that I spoke about earlier, one in Dallas, Texas; and one in Charlotte, North Carolina. We are currently in active negotiations across multiple venues in the United States to fill that third 2020 slot as well as to fill the future slots. We have an active pipeline of Urban Box venues that you'll see on the bottom right. And as we look ahead, we are very focused on accelerating the pace of our entertainment company's growth. We're serious about expanding the national footprint, and we have grown our pipeline to support this initiative.

In addition to the new sites we announced in Dallas and Charlotte, we are negotiating multiple other sites across the U.S. for openings, both in the coming months and years ahead. These venues are situated in optimal locations at key markets across the U.S. Right now, we have an active pipeline of over 63 venues across the United States for future Urban Box locations. With the number of contracts under negotiation constantly growing, we will continue to announce new deals as they are signed.

On Page 7, I wanted to spend a minute talking about the math behind these venues. First, just to outline, our goal is to build 4-plus additional core Drive Shack venues and at least 50, if not more, Urban Box venues by the end of 2023. Our targets for the core Drive Shack venues include development costs of \$25 million to \$40 million, with site level EBITDAs of \$4 million to \$7 million and development yields of 10% to 20%.

For our Urban Box, we expect gross development cost of \$7 million to \$11 million, with site level EBITDAs of \$2 million to \$3 million and development yields of 25% to 35%. Due to the current nature of the retail market, we expect potential tenant incentives across many of the sites we are considering will further reduce our build costs.

The lower cost to build Urban Boxes is driven by the smaller store size and our ability to go into existing spaces, combined with strong top line revenue and margins, deliver significantly higher development yields relative to our core stores.

On Page 8, I'm going to spend just a minute talking a little bit about our capital plan. With the development goals that we just went over in mind, we really do believe that we can internally finance our growth in 2020, which will require about \$100 million. This will be used towards 3 areas. The



first is the completion of the construction and the openings of New Orleans and the 3 Urban Box venues. The second is to help fund the continuation of construction on the other committed core assets. And lastly, it will, in part, fund the beginning phases of development for some of the Urban Boxes slated to open in 2021.

We do believe that we can successfully finance this internally through a combination of asset sales, financing and sale leasebacks.

With this in mind, and turning to Page 9, I want to talk about Drive Shack's goals. This is really what we get excited about around here. First, we want to have 50 or more venues open and operating by the end of 2023. We envision this being around 8 or more core Drive Shack venues and 50 or more Urban Box venues.

With each of the core venues doing \$4 million to \$6 million in EBITDA and each Urban Box doing \$2 million to \$3 million of EBITDA, we are looking at Entertainment Golf EBITDA targets of around \$165 million by the end of 2023, which is really incredible.

Second, we want to use the extensive expertise and knowledge that the Drive Shack team has to pursue a number of different categories in the entertainment space. The entertainment space is a multibillion-dollar industry. And while entertainment golf is a foray for us into that space, we are really excited about all of the other possibilities that exist under this broad umbrella.

When we step back and reflect on the big picture, we see something really incredible with tons of potential. This is a world with billions of experience seekers united by the need for social connection. The power of immersive entertainment has never been more profound.

In the last couple of years, we've witnessed consumer preferences changing. People everywhere demanding unique multifaceted ways to interact socially with the largest buying segments, preferring to spend money on experiences versus things. Added up, it means there's a world of opportunity for us at Drive Shack.

The growing demand for unique experiences, the increasing desire for more active lifestyles and those changing consumer preferences I touched on are all tailwinds for our business. And with our team's unparalleled industry experience and insatiable drive to innovate, these trends really play to our strength.

I want to switch gears to our venue operations and development. I'm now turning to Page 10. We've spoken about the venues that we opened last year. As we look across Raleigh, Richmond and West Palm Beach, we are pleased to report that they've had exceptional results.

In the second half of 2019, these venues generated total revenue of about \$15 million. In 2020, we expect these venues to generate a total of around \$50 million in revenue, which will put them on pace to achieve our EBITDA margins of 25% and those yields of 10% to 15%.

Looking at Page 12. While we're pleased by the success of our new venues thus far, we're always looking at new ways to improve our venues and further enhance the guest experience. Since reporting last quarter, we have rolled out one new game, which is darts, and we're in testing mode for another game, which we call Hot Shot that focuses on target scoring. Our goal is to continue rolling out a new game every quarter.

As a reminder, our gaming software is built in-house, which allows us quite a bit of flexibility, not only around modification, but also with the creation of new games, allowing us to easily build games based on what guests want and what is on trend.

Our gaming software has been designed to allow us to consistently refresh, update and rollout new games, which we believe will be a key driver of the year-over-year same-store sales growth in our future.

We've also made updates and enhancements to our food and beverage menu that incorporate guest feedback and increased operational efficiencies. We've narrowed the number of items on the menu to help ensure consistent high-quality execution and have eliminated certain lower-margin items. We incorporated these changes into new menu, which we officially launched earlier this week. And finally, we are working diligently to rollout online reservations by the end of Q2. This is going to help alleviate the long wait times that guests are experiencing due to the popularity of our venues.



Later this year, we're going to open our fifth core venue in New Orleans, which we'll talk more about in a minute, but the physical design and venue esthetics will be notably different than that of our previous venues. We've strategically reallocated the space across the venue to optimize the revenue-generating areas, creating more flexible event spaces and incorporating multiple outdoor patios.

Speaking of New Orleans, and turning to Page 13, to Drive Shack's new venue development. Our development goals are actually pretty simple. First, we want to be smart about our site selection. Second, we want to compress the construction time line and be on or below budget. And lastly, we want to shorten the time period from opening to breakeven. Our strategy is to develop core Drive Shack venues in key markets, while simultaneously building Urban Box venues across the U.S.

We currently have the 4 Drive Shack locations operating in Orlando, Florida; Raleigh, North Carolina; Richmond, Virginia; and West Palm Beach, Florida. We have one venue under construction in New Orleans that's slated to open later this year. We have 3 additional core sites committed in Chicago, Illinois; Newport Beach, California; and Manhattan, New York, all opening across 2021 and 2022.

As I've mentioned earlier, we plan to open 3 Urban Box venues, 2 of which will be in Dallas and Charlotte later this year.

On the next page, Page 14, this is all about our newest experience, the Urban Box. This experience, we're really excited about. It's going to focus on bringing people together through competitive socializing, using technologically enabled mini golf as the anchor. We are combining technology and putting with elevated food and beverage and other entertainment to create a unique and engaging experience for our guests. The venues are going to feature multiple 9-hole putting courses that surround an upscale craft cocktail bar. The culinary menu focuses on elevated high-quality offerings that are designed to be shared with friends and please a wide variety of tastes. We've incorporated multiple on-course bars that feature a unique menu with drinks that cater specifically to convenient consumption while playing. Throughout the venue, multiple bars, lounges, VIP spaces and outdoor patios are going to come together to provide a full night's worth of entertainment all under one roof.

The photos that you see on Page 14, on the right side there, are renewings of one of our locations, and we're actually really excited about these. We have some incredible talent on our team. We're working with both our in-house folks who have tons of relevant experience here as well as select external partners that are really helping to breathe life into this experience.

Now I'm going to turn it over to Larry, so he can talk about the financials.

Lawrence A. Goodfield - *Drive Shack Inc. - Interim CFO, CAO & Treasurer*

Great. Thanks, Hana, and pleased to speak to you all this morning. Turning to Page 16. As we think about the value potential of the business, in 2023, we estimate total company EBITDA of approximately \$165 million based upon the development plan Hana took you through. So in summary, 8 core Drive Shacks generating \$5 million of EBITDA per venue, 50 Urban Boxes at about \$2.5 million of EBITDA per venue, add in American Golf \$35 million of total EBITDA, then subtract SG&A of \$36 million, bringing total company EBITDA to approximately \$165 million. And when we consider the trading multiples of other high-growth entertainment businesses generally between 12 to 15x, we believe Drive Shack to have an enterprise value of approximately \$2 billion, which highlights the significant upside potential of our business, and that's exciting to us.

Before I turn it back to Hana, I'd like to touch upon some financial highlights for the quarter. First and foremost, as Hana mentioned earlier, for Q4, our Drive Shack Generation 2.0 venues contributed \$12 million in revenue. Add to that \$700,000 from our Orlando location, which was closed for a couple of months in Q4 for renovations, plus about \$45 million of revenue from Traditional Golf. The only thing I will note is that while it's been great golf weather in the first few months of 2020, Q4 2019 saw a decrease of playable days versus Q4 of 2018 of about 5%. And despite this decrease, revenues at Traditional Golf were resilient, which says something good about the traditional golf industry, our members' attachment to our courses as well as how we manage them.

And one final item. We sold 3 Traditional Golf properties for \$19 million and recognized a gain of approximately \$7.5 million, which is included in other income.

Of the 3 sales, we converted 2 with management agreements, and we'll continue to collect the management fee. With these sales, we have 2 remaining owned Traditional Golf assets in our portfolio. And with that, I'll turn it back to Hana for closing remarks.

Hana Khouri - Drive Shack Inc. - CEO & President

Thanks, Larry. In closing, we believe 2020 will be a momentous year for Drive Shack as a company, carried by a team that sets us apart and drive this forward. In 2019, our team accomplished something incredible. The opening of the company's second, third and fourth entertainment venues in a span of 3 months. And later this year, we will double the amount of entertainment venues in our portfolio.

The past 6 months have been incredibly fast-paced and exciting. It's because of the commitment, tenacity and hard work of our team that we have been able to lay the foundation for what will be an extraordinary future.

Austin Pruitt - Drive Shack Inc. - Head of IR

Okay, operator, we are -- we would like to begin Q&A, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Aaron Hecht with JMP.

Aaron Randall Hecht - JMP Securities LLC, Research Division - MD & Senior Research Analyst

Obviously, the markets have been hit pretty hard by these coronavirus fears. You guys have a lot of development to go complete over the next couple of years. Any thoughts or color you can give me on supply chain, potential delays that could happen? Do you think there's any risk on the impact of project deliveries?

Hana Khouri - Drive Shack Inc. - CEO & President

Yes. That's a great question. We actually have been putting a lot of thought into this. And on the Drive Shack side, we're very confident in our ability in our core venues to be able to fulfill the need from a procurement standpoint for any of the stuff that we're buying. When we look at the Urban Box venues, we're working very closely with both our in-house procurement VP as well as our in-house and external architects who are sourcing materials right now. The majority of the materials and products that we're looking at currently is -- are things that we're looking at that are readily available, as well as things that we don't anticipate there being any kind of supply chain issue with.

So always of risk, yes, but we feel really, really great about the plan we have in place to try to mitigate that.

Aaron Randall Hecht - JMP Securities LLC, Research Division - MD & Senior Research Analyst

So it sounds like you have enough optionality on design and whatnot at this point in time to make changes where need be if there's a product that's unavailable. Are there any products that you've seen so far that have become unavailable? Or is this just more risk that the market is pricing in, rather than actual tangible results you're seeing in the field at this point?



Hana Khouri - *Drive Shack Inc. - CEO & President*

Yes. I don't think that we have really seen anything. We've just done a series of meetings internally around the Urban Box and around this specific topic. We have not yet seen a need for us to change our design or any of our technology due to a lack of availability. That -- we certainly have the options available should this become a problem in the future. But as of right now, we went through a very long list earlier in the week of everything from a computer to our wallpaper coverings. And we're feeling really good about it, but we do have backups.

Aaron Randall Hecht - *JMP Securities LLC, Research Division - MD & Senior Research Analyst*

Got you, got you. And then also on the development side, where do you stand in terms of leverage that you're allowed? You'll -- you feel comfortable taking the company to what kind of metrics are you thinking about? Obviously, there's a lot of financing options after 2020, but, I guess, there's ways to normalize that in the leverage calculation. So just kind of your thoughts around how far it can go?

Lawrence A. Goodfield - *Drive Shack Inc. - Interim CFO, CAO & Treasurer*

Yes, Aaron. We're looking at financing at some of our sites, and we're thinking based on site level financing to start off around 4 to 5x of EBITDA.

Aaron Randall Hecht - *JMP Securities LLC, Research Division - MD & Senior Research Analyst*

Okay. Is -- based on the projections you have in place for the guidance of 50 Urban Boxes and 8 traditional Drive Shacks, do you have the balance sheet in place, you think, to be able to succeed and hit those targets if you hit the development delivery and pro forma numbers? Or is there going to be other financing options that need to be considered outside of the 3 that you listed on the supplement?

Lawrence A. Goodfield - *Drive Shack Inc. - Interim CFO, CAO & Treasurer*

Yes, Aaron, this is Larry, again. Hana mentioned during the deck that our financing plan is going to include a combination of asset sales. I mentioned we have 2 remaining in the portfolio as of year-end, financings and sale leasebacks. But to keep it pretty simple on the way we're thinking about it is our asset class, which is really the venue business, putting Traditional Golf aside for a moment, is where we feel pretty good that debt financing is attractive. We can borrow based on cash flows, and we believe we can borrow based on the hard asset value of our real estate. In our industry, that's what we see companies are doing. They're doing both. So that's sort of how we're thinking about it.

Operator

If there are no further questions, that concludes today's question-and-answer session. I will now turn the call back to Austin Pruitt for any further remarks.

Austin Pruitt - *Drive Shack Inc. - Head of IR*

Thank you all for participating in today's conference call. We look forward to updating you after Q1.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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