



**Drive Shack Inc.**  
Third Quarter 2019

# Disclaimers

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**CAUTIONARY NOTE REGARDING ESTIMATED / TARGETED RETURNS AND GROWTH.** Targeted returns and growth represent management’s view and are estimated based on current and projected future operating performance of our location in Orlando and other targeted locations, comparable companies in our industry and a variety of other assumptions, many of which are beyond our control, that could prove incorrect. As a result, actual results may vary materially with changes in our liquidity or ability to obtain financing, changes in market conditions and additional factors described in our reports filed with the SEC, which we encourage you to review. We undertake no obligation to update these estimates. See above for more information on forward-looking statements.

# Drive Shack Inc. – Third Quarter Highlights

## Gen 2.0 Venues Open and Outperform

- Since July, opened **3 new venues** in Raleigh, Richmond and West Palm Beach
- All 3 venues **significantly outperformed** initial expectations, beating plan by **+21%**
- In the process of making operational updates across the platform based on early learnings

## Urban Box Development Progressing

- Made substantial strides in creating our next concept – the **Urban Box** (indoor, putting-based)
- Successfully progressing towards our goal to **open 3 Urban Box** stores by **YE 2020**
- Expertise applied to new Urban Box format, an already proven business model in Europe

## American Golf Success Continues

- Existing traditional golf business continues to perform well
  - ✓ AGC's public program, *Players Club*, grew **+6%** (~40K total members) compared to Q3 '18
- Achieved our goal to sell **24** owned courses by YE 2019 for total proceeds of **\$170M<sup>(1)</sup>**

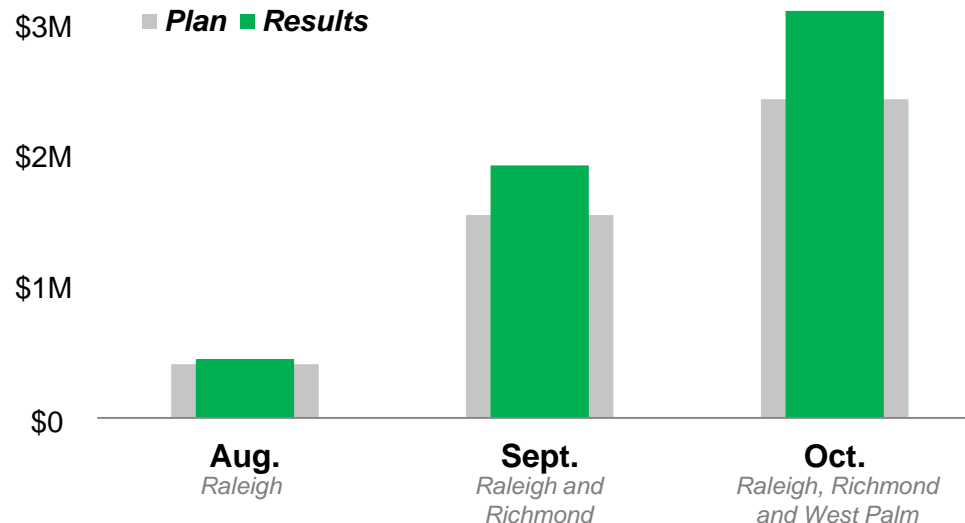
1) To date as of November 8, 2019

Based on management's current views and estimates. See "Disclaimers" at the beginning of this Presentation for more information on forward-looking statements.

# Entertainment Golf – Strong Gen 2.0 Opening Results<sup>(1)</sup>

- **Generation 2.0 venues have opened and the operating results are extremely strong<sup>(2)</sup>**
  - Raleigh opened August 23<sup>rd</sup> (Q3)
  - Richmond opened September 20<sup>th</sup> (Q3)
  - West Palm Beach opened October 18<sup>th</sup> (Q4)
- **To date, Gen 2.0 venues generated \$6.5M of total revenue, beating our plan by ~21%<sup>(3)</sup>**
  - Based on this performance, we expect to exceed our Q4 plan
  - On pace to achieve average EBITDA of **\$4M to \$6M** and development yields of **10-15%** in 2020<sup>(4)</sup>

## Gen 2.0 Venues Exceed Revenue Plan



1) To date as of November 8, 2019.

2) Official opening date is considered the grand opening date of each venue and excludes days of soft open.

3) Revenue of \$6.5M excludes revenue earned during 4 days of soft open days at each venue.

4) Development yields are based on 2020 total site EBITDA divided total site development costs at ~\$35M development cost per site.

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# Entertainment Golf – Operational Updates

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## Beta Site Updates

- **Closed Orlando in September to retrofit with 2.0 enhancements and will reopen in December**
  - New Trackman™ ball tracking technology and enhanced gaming will provide a more engaging guest experience
  - We expect this to extend the length of visit, resulting in an increased spend per visit

## Platform-wide Updates

- **Actively refining the game selection, quality, and overall gaming experience**
  - Testing and developing new games for roll out beginning in Q4 2019 – this process will be ongoing
- **Revamping the food & beverage offerings based on guest feedback and sales trends**
  - We will refresh our menu in Q1 2020 to feature more restaurant-quality options
- **Rolling out online reservations in Q2 2020 to help alleviate long guest wait times**

# Entertainment Golf – Urban Box

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- Urban Box will focus on providing a social and tech-enhanced mini golf experience with great food and beverage
  - Will take the same expertise used to develop our core stores and apply it to smaller indoor locations across 50+ markets in the US
  
- New format significantly increases store growth potential due to vast availability of real estate, shorter development timelines, less capital risk, and higher development yields
  
- Since announcing the UB format, we have focused on 4 key deliverables, all of which are underway:
  - **Secure technology** for ball tracking and automatic scoring; develop course hole prototypes for tech integration
  - Work with architects and course designers to determine venue **format, layout** and **aesthetic**
  - **Identify potential sites** and create test fits
  - Begin **trademark registration process** for official name of Urban Box store
  
- Actively exploring markets across the US – expect to have **3 venues open by YE 2020**



# Entertainment Golf – Development Strategy

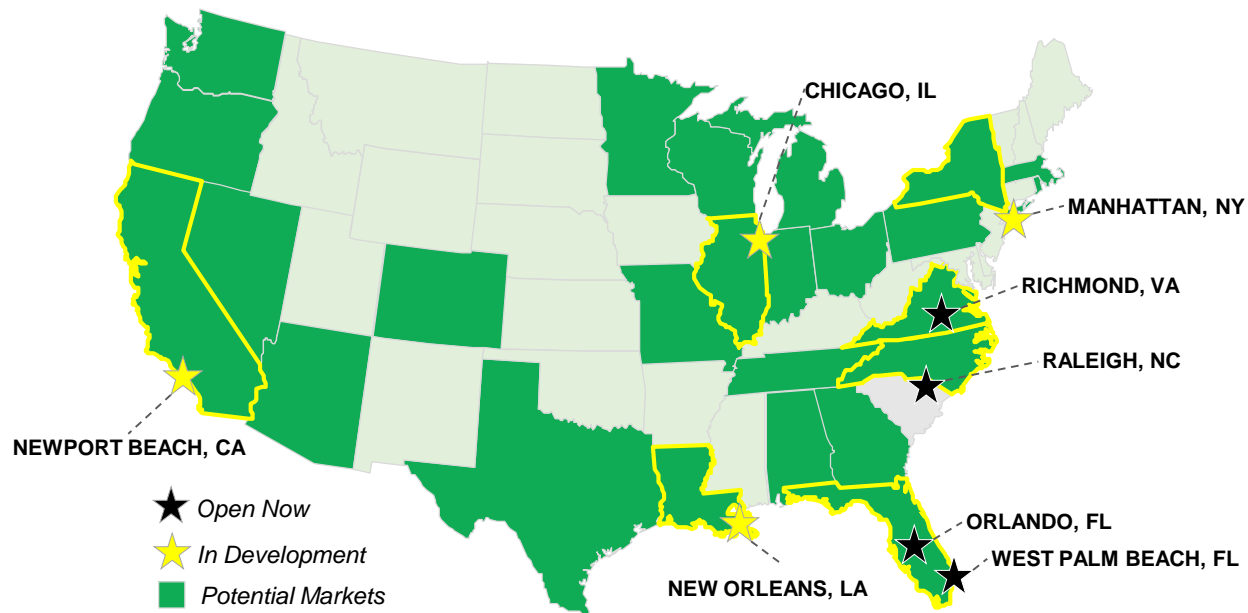
- Our strategy is to continue developing our “Core” Drive Shack venues in key markets
  - Four sites already open in Orlando, Raleigh, Richmond, West Palm Beach
  - Four additional sites committed in New Orleans, Chicago, Newport Beach, Manhattan
- We are looking at markets across the U.S. that meet our land and demographic requirements:

## Core Stores

- ~12 acres
- ~600K to 1M people within a 30 minute drive
- Highway visibility or high-traffic corridors

## Urban Box

- ~20K square feet
- 225K people within a 5-mile radius
- Densely populated urban cores near other bars, restaurants and entertainment facilities with heavy foot traffic



# Drive Shack Inc. – Our Differentiated Offering

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- 1. Exclusive arrangement with Trackman™** – the most widely adopted and recognized golf tracking technology
- 2. Ability to innovate games due to our proprietary gaming software** – plan to roll out new offering of games every quarter
  - Our gaming software has been designed to consistently refresh, update, and roll out new games
- 3. Launching new product innovation** – the Urban Box (indoor, mini golf focus), an already proven concept in Europe
- 4. Only company to offer a truly integrated traditional + entertainment golf proposition**
  - Unique ability to takeover existing ranges/courses (like Manhattan) and build new Drive Shacks
  - Opportunity to unlock top sites by leveraging operational and municipal experience of AGC
- 5. Players Club, AGC’s public subscription program, continues to grow members, +6% (~40K members) vs. Q3 ‘18**
  - Advanced data collection maximizes “on-peak” rates through our demand pricing model
  - Subscription model allows AGC to achieve occupancy levels of ~74%, 20+ points higher than national average





# Entertainment Golf – Attractive Unit Economics

- Initial results from Gen 2.0 venues on track to achieve or exceed our target economics
- Target site-level EBITDA for Core Venues of **\$4 to 7 million** and Urban Box of **\$2 to 3 million**

Target Unit Economics		
<i>\$ in millions</i>	<b>Core Venues</b> <i>72- to 90-Bay+</i>	<b>Urban Box</b> <i>Mini Golf</i>
Size (sq. ft.)	50K - 60K+	~20K
Development Cost <sup>(1)</sup>	<b>\$25 - \$40</b>	<b>\$6 - \$10</b>
Total Revenue	\$15 - \$25	\$7 - \$11
Site-level EBITDA	<b>\$4 - \$7</b>	<b>\$2 - \$3</b>
Development Yields	<b>10 - 20%</b>	<b>25 - 35%</b>

1) Development cost target is inclusive of all construction costs, soft costs, and start-up costs. Based on management's current views and estimates. See "Disclaimers" at the beginning of this Presentation for more information on forward-looking statements. There can be no assurance that we will achieve Target Site Economics and actual results may differ materially.

# Entertainment Golf – Site Additions

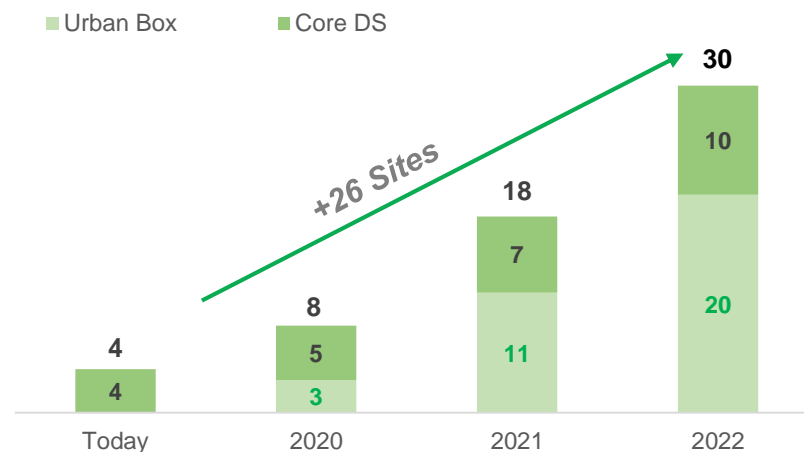
- Plan to scale footprint to ~30 sites by the end of 2022
  - Continue to build Core DS venues, adding 1 to 4 venues annually in 2021+
  - Rapidly scale development of Urban Box venues, adding 7 to 10 annually in 2021+
- Development of new venues will cost ~\$350 to \$375 million<sup>(1)</sup>
  - Expect to fund development with cash, debt and additional AGC course monetization

## Target Sites Additions

	2020	2021	2022
<b>New Sites Additions</b>	<b>3 – 6</b>	<b>8 – 12</b>	<b>10 – 15</b>
Core DS	1 – 2	1 – 3	2 – 4
Urban Box	2 – 4	7 – 9	8 – 11
<b>Development Cost<sup>(1)</sup></b>	<b>~\$60M</b>	<b>~\$130M</b>	<b>~\$175M</b>

**Total Development Costs of  
~\$350 to \$375 million**

## Target Sites Ramp<sup>(2)</sup>



1) Development cost target is inclusive of all construction costs, soft costs and start-up expenses.

2) Total Sites assumes the midpoint of new sites additions. 30 total sites include 4 Core DS venues currently open, plus adding 1 Core DS and 3 Urban Boxes in 2020, 2 Core DS and 8 Urban Boxes in 2021, and 3 Core DS and 9 Urban Boxes in 2022.

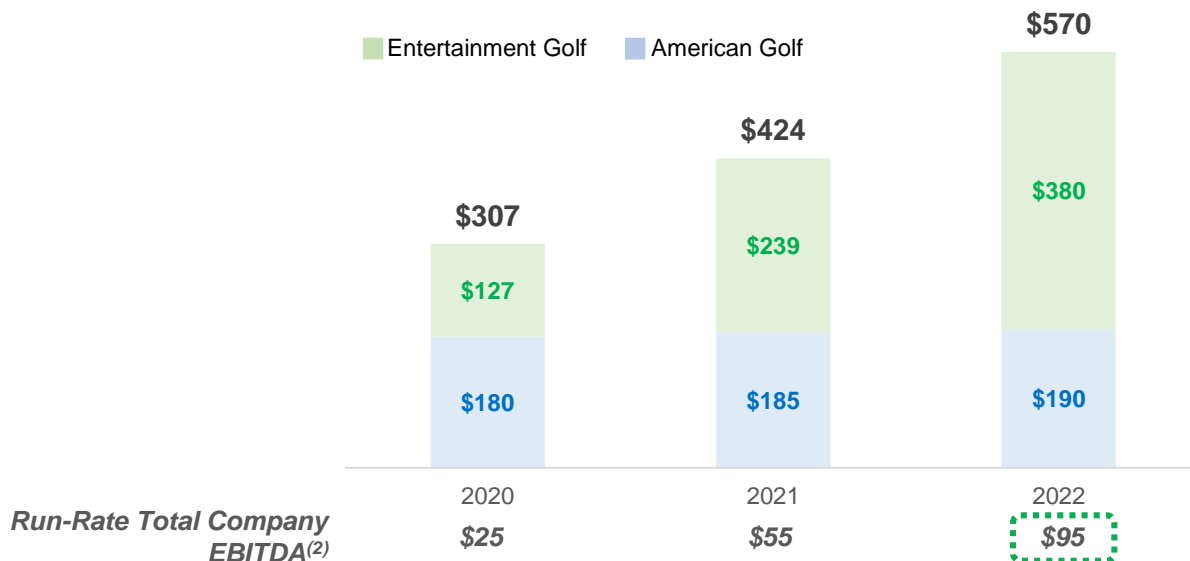
Based on management's current views and estimates. See "Disclaimers" at the beginning of this Presentation for more information on forward-looking statements. There can be no assurance that we will achieve Target Site Additions and actual results may differ materially.

# The Go-Forward Business

- Transformation from a traditional golf owner/operator to an entertainment operator is nearly complete
  - Project total company run-rate revenue of ~\$570M and EBITDA of ~\$95 by 2022

## Illustrative Run-Rate Revenue & EBITDA<sup>(1)</sup>

(\$ in millions)



1) Assumes revenue average for Core DS per sites of \$20M and Urban Box per average of \$9M; Assumes EBITDA average for Core DS per sites of \$5M and Urban Box per average of \$2.5M.

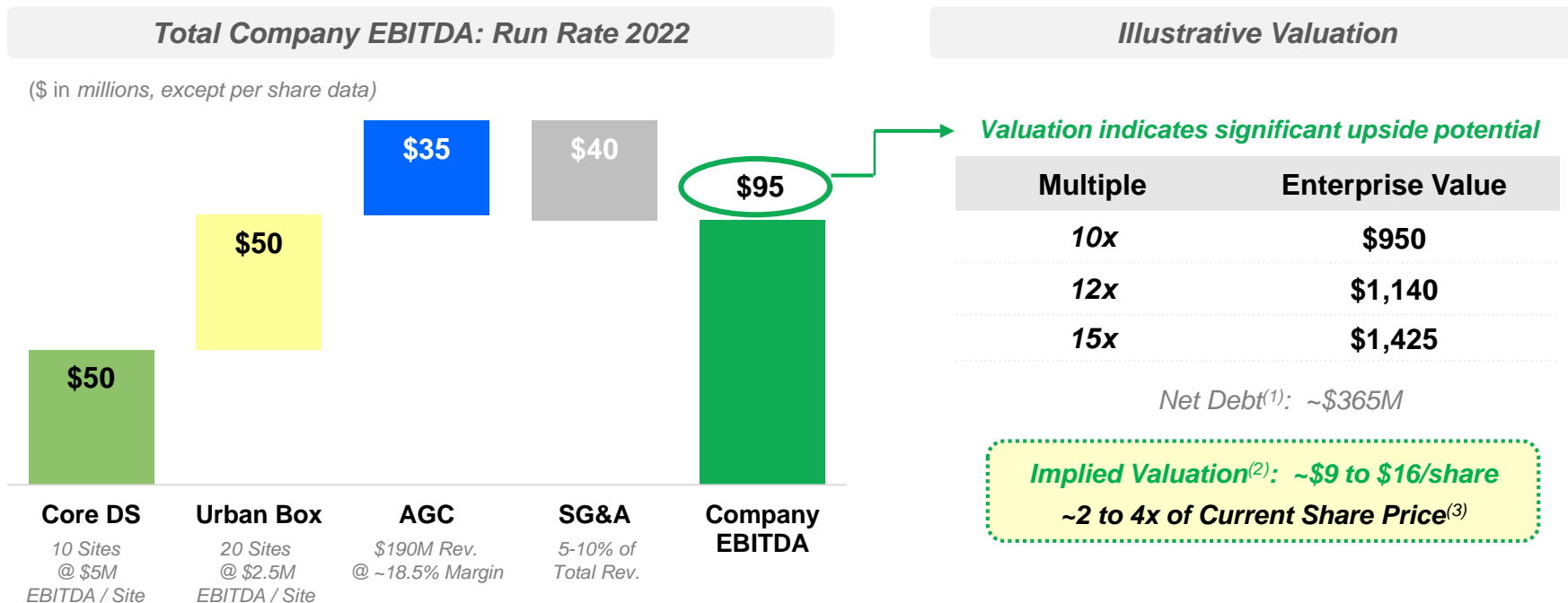
2) Run-Rate Total Company EBITDA includes Core DS Site EBITDA, Urban Box Site EBITDA, AGC Course EBITDA, less total company SG&A.

"Run-Rate" represents annualized results for each site, as if it was opened for the full year.

Based on management's current views and estimates. See "Disclaimers" at the beginning of this Presentation for more information on forward-looking statements. There can be no assurance that we will achieve development, revenue, or EBITDA projections and actual results may differ materially.

# Growth and Shareholder Value

- Our illustrative valuation indicates upside potential of ~2 to 4x our current share price



1) Net Debt assumes \$250M of new net debt from DS venues and AGC courses plus existing Junior Subordinated Notes & Preferred Stock of total \$113M.

2) Implied valuation based on 67M shares outstanding.

3) Current share price of ~\$4 refers to the closing share price on November 8, 2019.

"Run-Rate" represents annualized results for each site, as if it was opened for the full year.

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# Financial Results & Appendix:



# AGC – Course Sales & Portfolio Update<sup>(1)</sup>

- Achieved our goal to sell **24** owned courses for total proceeds of **~\$170M**
  - Additional long term course sales from 2 potential courses with estimated value of **~\$45M to \$65M**
- Leveraging scalable platform to add higher-margin management contracts
  - Successfully added 14 new management contracts for **~\$2M** of annual cash flow over the past year<sup>(2)</sup>
- Expect annual revenue of **~\$180M** and course-level EBITDA margin of **~15-20%** by 2020

## American Golf Portfolio Mix

	YE 2018		YE 2019
	# of Properties		# of Properties
<b>Owned</b>	13	<i>Monetize</i>	2
<b>Leased</b>	36	<i>Maintain</i>	36
<b>Managed</b>	17	<i>Multiply</i>	22
<b>Total</b>	<b>66</b>		<b>60</b>

### Optimized portfolio to generate:

- ✓ Annual revenue of **\$180M**
- ✓ Course EBITDA margins of **~15-20%**

Based on management's current views and estimates. See "Disclaimers" at the beginning of this Presentation for more information on forward-looking statements.

1) To date as of November 8<sup>th</sup>, 2019.

2) Added 14 new management contracts since December 2018.



## 3Q 2019 GAAP Financial Results

- 3Q 2019 GAAP Loss of \$13 million, or \$0.20/share vs. GAAP Loss of \$0.23/share in 3Q 2018
- 3Q 2019 YTD GAAP Loss of \$44 million, or \$0.65/share vs. GAAP Loss of \$0.59/share in 3Q 2018 YTD

### GAAP Financial Results

	3Q 2019		3Q 2018	
	(\$ in millions)	(basic share)	(\$ in millions)	(basic share)
<b>GAAP Loss</b>	(\$13)	(\$0.20)	(\$15)	(\$0.23)

	3Q 2019 YTD		3Q 2018 YTD	
	(\$ in millions)	(basic share)	(\$ in millions)	(basic share)
<b>GAAP Loss</b>	(\$44)	(\$0.65)	(\$39)	(\$0.59)



# Consolidated Statement of Operations

(\$ in thousands, except per share data)

Statement of Operations	3 months ended 30-Sep-19	3 months ended 30-Sep-18	9 months ended 30-Sep-19	9 months ended 30-Sep-18
<b>Revenues:</b>				
Golf operations	\$60,797	\$68,928	\$162,889	\$191,632
Sales of food and beverages	13,885	18,491	37,360	53,451
<b>Total revenues</b>	<b>\$74,682</b>	<b>\$87,419</b>	<b>\$200,249</b>	<b>\$245,083</b>
<b>Operating costs:</b>				
Operating expenses	63,454	70,330	169,897	194,751
Cost of sales – food and beverages	3,856	5,180	10,458	15,413
General and administrative expense	12,755	10,149	37,981	29,611
Depreciation and amortization	5,723	4,495	15,769	14,358
Pre-opening costs	4,350	245	7,229	2,048
Impairment and other losses	1,872	4,172	6,077	5,645
Realized and unrealized (gain) loss on investments	-	48	-	(283)
<b>Total operating costs</b>	<b>\$92,010</b>	<b>\$94,619</b>	<b>\$247,411</b>	<b>\$261,543</b>
<b>Operating Loss</b>	<b>(\$17,328)</b>	<b>(\$7,200)</b>	<b>(\$47,162)</b>	<b>(\$16,460)</b>
<i>Other income (expenses):</i>				
Interest and investment income	191	467	799	1,382
Interest expense, net	(2,061)	(4,290)	(6,008)	(12,940)
Other income (loss), net	7,341	(3,052)	12,955	(7,157)
<b>Total other income (expenses)</b>	<b>\$5,471</b>	<b>(\$6,875)</b>	<b>\$7,746</b>	<b>(\$18,715)</b>
<b>Loss before income tax</b>	<b>(\$11,857)</b>	<b>(\$14,075)</b>	<b>(\$39,416)</b>	<b>(\$35,175)</b>
Income tax expense	162	-	162	-
<b>Net loss</b>	<b>(\$12,019)</b>	<b>(\$14,075)</b>	<b>(\$39,578)</b>	<b>(\$35,175)</b>
Preferred dividends	(1,395)	(1,395)	(4,185)	(4,185)
<b>Loss Applicable to Common Stockholders</b>	<b>(\$13,414)</b>	<b>(\$15,470)</b>	<b>(\$43,763)</b>	<b>(\$39,360)</b>
Per WA Basic Share	(\$0.20)	(\$0.23)	(\$0.65)	(\$0.59)

# Consolidated Balance Sheet

(\$ in thousands)

Assets	As of 9/30/2019	As of 12/31/2018
<i>Current Assets:</i>		
Cash and cash equivalents	\$24,816	\$79,235
Restricted cash	\$3,163	\$3,326
Accounts receivable, net	\$5,243	\$7,518
Real estate assets, held-for-sale, net	\$27,833	\$75,862
Real estate securities, available-for-sale	\$2,914	\$2,953
Other current assets	<u>\$18,615</u>	<u>\$20,505</u>
<b>Total Current Assets</b>	<b>\$82,584</b>	<b>\$189,399</b>
Restricted cash, noncurrent	\$931	\$258
Property and equipment, net of accumulated depreciation	\$185,737	\$132,605
Operating lease right-of-use assets	\$220,197	-
Intangibles, net of accumulated amortization	\$18,208	\$48,388
Other investments	\$23,648	\$22,613
Other assets	\$4,601	\$8,684
<b>Total Assets</b>	<b>\$535,906</b>	<b>\$401,947</b>
<b>Liabilities</b>		
<i>Current Liabilities:</i>		
Obligations under finance leases	\$6,222	\$5,489
Membership deposit liabilities	\$10,766	\$8,861
Accounts payable and accrued expenses	\$38,032	\$45,284
Deferred revenue	\$7,627	\$18,793
Real estate liabilities, held-for-sale	\$21	\$2,947
Other current liabilities	<u>\$28,697</u>	<u>\$22,285</u>
<b>Total Current Liabilities</b>	<b>\$91,365</b>	<b>\$103,659</b>
Credit facilities and obligations under finance leases - noncurrent	\$14,397	\$10,489
Operating lease liabilities - noncurrent	\$191,442	-
Junior subordinated notes payable	\$51,194	\$51,200
Membership deposit liabilities, noncurrent	\$93,988	\$90,684
Deferred revenue, noncurrent	\$6,170	\$6,016
Other liabilities	\$3,694	\$5,232
<b>Total Liabilities</b>	<b>\$452,250</b>	<b>\$267,280</b>
<b>Stockholders' Equity</b>		
Preferred Stock	\$61,583	\$61,583
Common Equity	\$22,073	\$73,084
<b>Total Stockholders' Equity</b>	<b>\$83,656</b>	<b>\$134,667</b>
<b>Total Liabilities &amp; Stockholders' Equity</b>	<b>\$535,906</b>	<b>\$401,947</b>