

Topgolf Callaway Brands: What Must Be True Before the Spin?

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At 4:26 p.m. Eastern on September 4, Topgolf Callaway Brands Corp. told investors that its Board intended to pursue a separation of Topgolf. A spin-off of at least 80.1% of Topgolf to shareholders was the most likely route, but the Board was still evaluating alternatives and had not approved final terms. The company said Callaway would retain its existing financial debt, while Topgolf would keep venue financing obligations, receive “significant cash,” and have no financial debt. The separation plan also contemplated Callaway remaining Topgolf’s exclusive golf-equipment partner. Final approval, tax treatment, regulatory process, market conditions, and intercompany agreements remained open. (1)

The Board had chosen a direction. The implementation decision was still substantial: what businesses, assets, obligations, cash, and contracts should cross the boundary, and what evidence should be required before final approval? Management expected “limited dis-synergies,” but had not disclosed standalone balance sheets, a detailed cash allocation, or final commercial terms. What should the Board insist on before making the separation difficult to reverse?

Two businesses with different operating rhythms

The proposed Callaway company would include Golf Equipment, Active Lifestyle, and Toptracer. The proposed Topgolf company would operate venues but not own Toptracer. Management estimated last-twelve-month revenue through Q2 2024 at about \$2.5 billion for Callaway and \$1.8 billion for Topgolf. Revenue scale did not establish standalone profitability or cash generation. (1)

The businesses had contrasting recent results. In Q2 2024, the Topgolf segment reported revenue of \$494.4 million, up 5.0%, and segment operating income of \$56.1 million, up 27.5%. Venue same-venue sales fell 8%. New openings contributed to segment revenue growth; the company attributed weaker comparable sales to softer consumer and events traffic. The segment measure included venues and other lines such as Toptracer and WGT, whereas the announced perimeter would place Toptracer with Callaway. (2, 3)

In the same quarter, Golf Equipment revenue declined 8.2% to \$413.8 million, and segment operating income fell 19.7% to \$77.4 million. Active Lifestyle revenue declined 3.2% to \$249.6 million, and segment operating income fell 24.6% to \$14.7 million. Management attributed some equipment weakness to launch timing and foreign exchange, and Active Lifestyle weakness partly to lower Jack Wolfskin wholesale sales. One quarter could not establish the businesses’ through-cycle prospects. (2, 3)

Q2 2024 segment measure	Revenue	Year-over-year change	Segment operating income	Year-over-year change
Topgolf	\$494.4m	+5.0%	\$56.1m	+27.5%
Golf Equipment	\$413.8m	−8.2%	\$77.4m	−19.7%
Active Lifestyle	\$249.6m	−3.2%	\$14.7m	−24.6%

Exhibit 1. Reported Q2 2024 segment results. Topgolf segment figures include venues and other business lines; they are not a standalone venue-company income statement. Same-venue sales for Topgolf venues were down 8%. Source: Q2 2024 Form 10-Q and earnings release. (2, 3)

Topgolf's 2024 outlook had weakened as same-venue sales expectations fell. In August, management projected Topgolf Adjusted EBITDA, a non-GAAP measure, of about \$310 million, versus its prior outlook of about \$350 million. Estimated 2024 net capital expenditures were approximately \$190 million for the consolidated company, including \$130 million for Topgolf. Management planned mid-single-digit new Topgolf venue openings in 2025, fewer than previously planned. These were forecasts and plans, not results. (2, 3)

Focus and connection

The 2020 combination was presented as a way to connect golf equipment, brands, Topgolf's venues, and technology. Toptracer could support range technology and reach; Callaway equipment could be sold through venue and franchise channels; the venue experience could introduce customers to golf and the company's brands. In July 2024, Toptracer announced a five-year partnership with The R&A covering major golf events and reported deployment at more than 1,000 range sites in 36 countries. Those facts showed reach, but disclosed neither Toptracer economics nor the value of data, brand exposure, or customer conversion. (4, 5)

The companies had reported some product activity across their businesses. Venue merchandise and franchise equipment sales together were \$5.0 million in Q2 and \$9.7 million in the first half of 2024, compared with \$4.6 million and \$8.3 million a year earlier. The disclosure did not isolate Callaway-branded sales, margins, or incremental sales caused by common ownership. It established a commercial link, not a quantified synergy. (2)

The proposed structure would separate ownership while preserving selected links through contracts. Callaway expected to remain Topgolf's exclusive golf-equipment partner; Topgolf would not own Toptracer. The release did not disclose agreement duration, pricing, service commitments, intellectual-property and data rights, customer referrals, termination rights, or protections if either company changed strategy. Nor did it explain how employees, systems, shared services, and customer relationships would be divided. (1)

The capital boundary

The announcement proposed that Callaway retain all existing financial debt, including the term loan and convertible notes. Topgolf would retain venue financing obligations, receive a significant cash balance, and have no financial debt. The meaning of “venue financing obligations” and the allocation of lease commitments were not fully specified. (1)

Consolidated measure at 30 June 2024	Reported amount
Cash and cash equivalents	\$311.8m

Consolidated measure at 30 June 2024	Reported amount
Long-term debt principal	\$1,505.5m
Long-term debt, net of issuance costs	\$1,480.8m
ABL principal, separately reported	\$45.1m
Current and long-term deemed-landlord financing obligations	\$1,096.6m
Operating lease liabilities	\$1,501.7m
Finance lease liabilities	\$285.7m

Exhibit 2. Selected consolidated balances. Long-term debt net of issuance costs includes \$1,464.5 million noncurrent and \$16.3 million current; it excludes the separately reported ABL principal. Long-term debt principal plus ABL principal equals \$1,550.6 million by arithmetic, not a company-reported aggregate. Debt, landlord financing, and operating and finance leases are distinct categories. The filing does not establish which lease obligations would transfer with Topgolf. Source: Q2 2024 Form 10-Q. (2)

The filing also disclosed four uncommenced Topgolf leases with \$310.8 million of future minimum payments and approximately \$70 million of minimum capital commitments, net of reimbursements, for venues under construction. About 43% of consolidated cash was held outside the United States, where repatriation could carry additional tax. Consolidated cash therefore did not equal freely available Topgolf cash. The August capital-spending outlook and these commitments raised questions about venue funding during a period of weaker comparable sales. (2)

Neither the announcement nor the Q2 filing gave students a pro forma standalone balance sheet, debt-service analysis, venue-level returns, a detailed cash allocation, a stranded-cost schedule, or a final allocation agreement. The figures above are not enough to infer a fair split or either company's debt capacity.

The Board's implementation choice

The Board's stated direction was a separation, most likely through a spin-off. A sale was not disclosed as a live transaction alternative. The Board still had to settle the perimeter, capital structure, cash allocation, and commercial arrangements and decide what conditions should govern final approval. It could continue detailed planning while reserving the right to pause or change the plan if evidence failed key tests.

Three implementation approaches were available for Board consideration:

1. **Approve the proposed structure once final documents are ready.** Retain all financial debt at Callaway, give Topgolf meaningful liquidity and no financial debt, and preserve key commercial links through the equipment agreement and Toptracer's placement with Callaway. Require only the customary legal and tax conditions. This could keep planning moving, but risks committing before standalone liquidity, lease allocation, and the cost of commercial separation are clear.

2. **Make a defined set of approval conditions non-waivable for the announced boundary.** Keep the proposed perimeter and capital allocation as the plan, but require standalone balance sheets and cash-flow cases under weaker and stronger venue demand; a complete assignment of financial debt, venue financing, each lease category, and restricted or foreign cash; finalized service, equipment, Toptracer, data, and transition agreements; and Board-approved liquidity, capital-spending, and downside thresholds. The Board would approve that boundary only if every condition is met. This could expose unresolved trade-offs and delay approval, while improving the basis for a durable separation.
3. **Pause and reassess the proposed boundary before seeking approval.** Defer approval while management validates venue economics and capital needs under the revised outlook, quantifies stranded costs and lost or retained commercial benefits, and tests whether a different perimeter or debt/cash/lease allocation would better support both businesses. Return to the Board with a revised proposal and financing cases; proceed only after the Board reviews and approves the revised design. This preserves the option to change the structure, but leaves both businesses under common ownership longer and may prolong uncertainty.

These approaches can be combined or staged. The decision is not whether one company is inherently better outside the group. It is whether the planned boundary and its contracts would let each business fund and operate effectively while preserving valuable links, and whether the Board has enough evidence to approve the terms.

Questions for discussion

1. What is the precise decision before the Board on 4 September? Which matters are already settled, and which remain open?
2. What evidence supports focus benefits, and what evidence suggests that some scope benefits could persist through contracts? Which claimed synergies remain unmeasured?
3. How should the Board evaluate the proposed allocation of financial debt, cash, venue financing, and lease obligations? What standalone cases and definitions are needed before approving it?
4. What terms should be included in the Callaway-Topgolf equipment agreement and Toptracer arrangements? Consider pricing, duration, data and IP rights, service levels, customer access, and termination.
5. Which measurable gates should govern final approval? What evidence would support proceeding, and what would justify pausing or changing the plan?

Source notes

1. Topgolf Callaway Brands Corp., Form 8-K, accession 0001193125-24-213153, 4 Sep 2024, Exhibit 99.1; release lines 19-28 (Board decision/review), 35-59 (rationale, perimeter, revenue scale, debt/cash, Toptracer, agreements, dis-synergies), and 70-76 (process, approval, tax, and regulatory conditions) ([SEC release](#)). The SEC filing index records acceptance at 16:26:04 EDT ([SEC accession index](#), lines 14-24). The case excludes the separation call scheduled for 17:45 EDT and all later information.

2. Topgolf Callaway Brands Corp., Q2 2024 Form 10-Q, accession 0000837465-24-000069, filed 7 Aug 2024; balance sheet, lines 162-95; Note 4 product sales, lines 558-59; Notes 5-6 financing and lease obligations, lines 677-801 (especially 753-66 and 774-801); segment definition, lines 1310-49; segment income/commentary, lines 1628-59; liquidity, lines 1675-95; Topgolf capex outlook, line 1741 ([SEC filing](#)).
3. Topgolf Callaway Brands Corp., “Topgolf Callaway Brands Announces Second Quarter 2024 Results,” 7 Aug 2024; segment tables and same-venue sales/commentary, lines 394-614; FY outlook, lines 733-807 (including Adjusted EBITDA non-GAAP presentation; see non-GAAP definitions at lines 840-52) ([company release](#)).
4. Topgolf Callaway Brands Corp., “Callaway Golf and Topgolf Combine,” 27 Oct 2020 ([SEC release](#)). This is management's historical rationale, not proof of realized synergy.
5. The R&A and Toptracer, “R&A and Toptracer Announce Five-Year Strategic Partnership,” 11 Jul 2024 ([company release](#)). The release reports deployment footprint; no deal economics are disclosed.

Case boundary: Information available through 4 September 2024, 16:26 EDT. The announced separation was not finally approved and the terms remained subject to change. This case does not include later outcomes.