DRIVE SHACK

NDIC — April 25th, 2019

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Drive Shack, Inc. (NYSE:DS)

Abnormal returns may be found through investing in Drive Shack as it undergoes a fundamental change in its business model

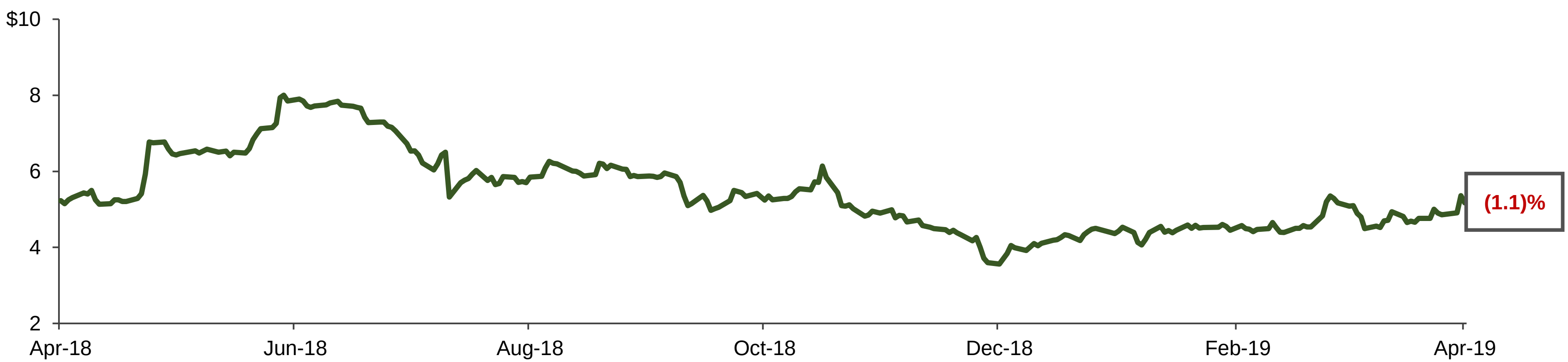
Situation Overview

- **Business Transformation:**
  - Drive Shack has traditionally operated as an owned-leased portfolio of traditional golf venues
  - Having opened its inaugural "Entertainment Golf" venue early 2018, the Company is currently in the process of divesting traditional owned venues to expand in this high growth service
- **Potential Mispricing:**
  - Micro-cap company with insufficient analyst coverage
  - Market uncertainty surrounding business transformation

Selected Financial Data

Share Price (as of April 24, 2019)	**$5.17**
Equity/Enterprise Value	**$359/$403 mm**
LTM EPS(1)	**($0.66)**
LTM EBITDA	**$1.38 mm**
2019E EBITDA Margin(2)	**(6.1%)**
Dividend Yield	**N/A**

One-Year Share Price Performance



(1) EPS on GAAP basis (2) Reflects base case NDIC estimates

Source: Capital IQ, Company filings.

Eatertainment Industry

Millennials seeking active experiences has driven the growth of the eatertainment business model where consumers pair an activity with food and beverage consumption in a social setting

Industry Description

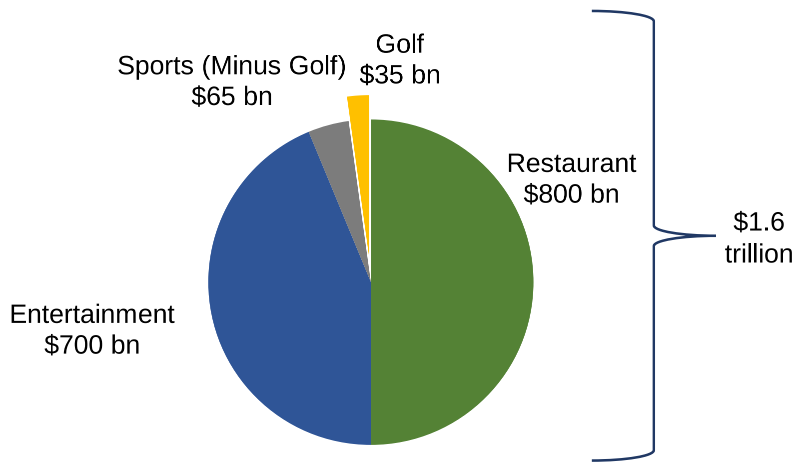
- **Business Model**
  – Eat, drink and play
- **Consumer Expectations**
  – High quality meals, service, fun activities and opportunity to connect with friends and family
- **Effect of Technology**
  – Advances in technology allow eatertainment centers to offer experiences that cannot be replicated in home
- **Social Media**
  – Millennials influenced by social media seek alternative experiences to share with friends

Size Comparison and Key Companies

- Only 50 golf entertainment centers exist in the U.S today, driving strong domestic opportunity

15K Golf Courses	4K Bowling Alleys	6K Movie Theatres	450 Theme Parks	100s possible Active Golf Centers
				
24 mm Visitors	48 mm Visitors	246 mm Visitors	140 mm Visitors	??? mm Potential Visitors

Eatertainment Industry Breakdown



Sources: IBISWorld, Company filings.

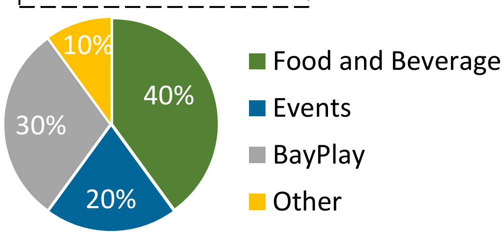
Company Overview

Drive Shack has transformed its business model from a REIT to an eatertainment provider using its existing real estate assets and expertise in the golf industry

Company Description

- **Drive Shack Inc. is a leading owner and operator of golf-related leisure and entertainment business**
- **Drive Shack Portfolio**
  - —Drive Shack: an innovative golf entertainment business
  - —American Golf: a golf course management business, and other real estate related assets
- **One Drive Shack entertainment gold venue location open in Orlando, FL**
  - —Three-story innovative driving range and restaurant venue
  - —Hold up to 1,000 people with 90-plus hitting bays overlooking 200-yard outfield
- **Monetize off BayPlay, events, food and beverages**

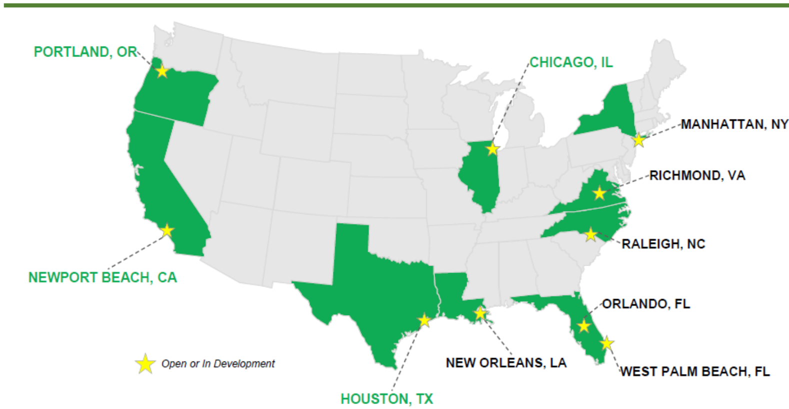
Revenue Breakdown



Drive Shack Inc. History

1998	• Parent company Newcastle Investment Corporation founded in New York, NY
2016	• Newcastle Investment Corporation's Board changed its status from a REIT to a C-corp, and changed its name to Drive Shack, Inc.
2017	• Drive Shack internalized its management team from Fortress
2018	• Drive Shack opened its first Drive Shack location in Orlando, FL

Locations



Company Strategy

Fundamental business strategy positions Drive Shack to expand profitability and gain market share in an underserved market

Management Guidance

Target Unit Economics		
$ in millions	72 Bay	90+ Bay
Addressable US Markets	100+	50+
Avg. Cost to Build	$20-$25	$30-$35
Total Revenue	$15-$20	$20-$25
EBITDA Margin	~25%	~30%

Target Site Additions				
	2019	2020	2021	2022
New Sites	3	3 – 5	5 – 10	5 – 10

Selected Commentary

- **Funding behind Entertainment Golf:**
  - Near term site additions funded through sale of owned properties from American Golf arm
  - 2 out of 26 properties expected to remain at year end
- **Transition of American Golf Portfolio:**
  - Managed-owned to managed-leased
  - Optimized portfolio to generate $175 mm of revenues and $10 mm of free cash flow annually
- **Key Implications:**
  - Entertainment golf boasts significantly higher margins compared to traditional (~27.5% vs. 15%)
  - Misalignment of demand and supply for entertainment golf leaves significant opportunity to gain market share

Sources: Company filings

Unit Economics—90 BAY+ Venues

Quick ramp up speed of 72 BAY venues combined with attractive site returns allow for competitive advantage in tier 2 areas

Illustrative Operating Statistics

1

Revenue	- -	**$8**	**$13**	**$18**	**$23**	**$25**
% growth	***na***	***na***	***66.7%***	***40.0%***	***28.6%***	***11.1%***
(–) Operating Expenses	- -	(9)	(13)	(14)	(16)	(18)
EBITDA	- -	**($2)**	**- -**	**$4**	**$7**	**$8**
% margin	***na***	***(20.0%)***	***- -***	***20.0%***	***30.0%***	***30.0%***
(–) D&A	- -	(1)	(1)	(1)	(1)	(1)
EBIT	**- -**	**($2)**	**($1)**	**$3**	**$6**	**$7**
% margin		***(31.1%)***	***(6.7%)***	***15.2%***	***26.3%***	***26.7%***
(–) Operating Taxes	- -	1	0	(1)	(1)	(2)
NOPAT	**- -**	**($2)**	**($1)**	**$2**	**$5**	**$5**
(+) D&A	- -	1	1	1	1	1
(–) Maintenance CapEx	(22)	(12)	(1)	(1)	(1)	(1)
Unit FCF	**($22)**	**($13)**	**($1)**	**$2**	**$5**	**$5**

2

Site-Level Returns Analysis

Project FCF	($22)	($13)	($1)	$2	$5	$5
Terminal Value						90
Total	**($22)**	**($13)**	**($1)**	**$2**	**$5**	**$95**

3

Selected Commentary

1 Each unit can reach run-rate revenues and EBITDA margins within five years of being placed in service

2 Future reinvestment at site-level only reflects maintenance cap ex

3 NPV(2) of **$23.7 mm**
IRR of **12.7%**

Note: IRR does not make use of exit multiple, calculated via site-level free cash flows throughout useful life
(1) Terminal Value calculated using run-rate EV/ EBITDA multiple of 10.0x. (2) NPV calculated with required return of 12.5%

Unit Economics—72 BAY Venues

Quick ramp up speed of 72 BAY venues combined with attractive site returns allow for competitive advantage in tier 2 areas

Illustrative Operating Statistics

Revenue	**- -**	**$10**	**$15**	**$18**	**$20**
% growth	***na***	***na***	***50.0%***	***20.0%***	***11.1%***
(–) Operating Expenses	- -	(12)	(15)	(15)	(15)
EBITDA	**- -**	**($2)**	**- -**	**$3**	**$5**
% margin	***na***	***(15.0%)***	***- -***	***15.0%***	***25.0%***
(–) D&A	- -	(1)	(1)	(1)	(1)
EBIT	**- -**	**($2)**	**($1)**	**$2**	**$4**
% margin	***na***	***(20.8%)***	***(3.8%)***	***11.8%***	***22.1%***
(–) Operating Taxes	- -	0	0	(0)	(1)
NOPAT	**- -**	**($2)**	**($0)**	**$2**	**$3**
(+) D&A	- -	1	1	1	1
(–) Maintenance CapEx	(23)	(1)	(1)	(1)	(1)
Unit FCF	**($23)**	**($2)**	**($0)**	**$2**	**$3**

Site-Level Returns Analysis

Project FCF	($23)	($2)	($0)	$2	$3
Terminal Value(1)	0	0	0	- -	50
Total	**($23)**	**($2)**	**($0)**	**$2**	**$53**

Selected Commentary

1 Each unit can reach run-rate revenues and EBITDA margins within four years

2 Future reinvestment at site-level only reflects maintenance cap ex

3 NPV(2) of **$10.2 mm**
IRR of 12.2%

Note: IRR does not make use of exit multiple, calculated via site-level free cash flows throughout useful life
(1) Terminal Value calculated using run-rate EV/ EBITDA multiple of 12.0x. (2) NPV calculated with required return of 12.5%

Drivers to Growth

Asymmetric differences between the cases drives potential upside rooted in number of sites, margins, and operational strength

	BASE	BEAR	BULL
Total Sites	• **85** 72 BAY venues, **45** 90+ BAY venues • At status quo, there is room for these locations	• **70** 72 BAY venues, **35** 90+ BAY venues • Company experiences growing pains	• **130** 72 BAY venues, **55** 90+ BAY venues • Company able to quickly capitalize on tier 2 cities using 72 BAY model
Run-Rate Revenue	• **$20 mm** run-rate annual revenue • Quality experience to customers facilitates additional revenue growth	• **$17.5 mm** run-rate annual revenue • Consumers of entertainment golf stay brand loyal to TopGolf	• **$22.5 mm** run-rate annual revenue • Drive Shack exceeds expectations and offers a quality experience superior to that of competitors
Run-Rate EBITDA Margin	• **25%** run-rate EBITDA margin • Cost structure aligns with management expectations	• **22.5%** run-rate EBITDA margin • Individual stores have to spend more on CAC to increase awareness	• **27.5%** run-rate EBITDA margin • Success of company allows for greater bargaining power among suppliers and sponsors
Cost to Build	• **$25 mm** average cost to build • Venue geographic locations do not experience real estate appreciation	• **$27.5 mm** average cost to build • Building frictions such as regulation can increase costs	• **$22.5 mm** average cost to build\ • Management experience in building new locations decreases building costs
Site-Level Potential for Expansion	• **$44** average revenue per customer • Customers are willing to pay a premium for the experience	• Price war between competitors	• Cross selling opportunities through membership discounts drives up ARPC

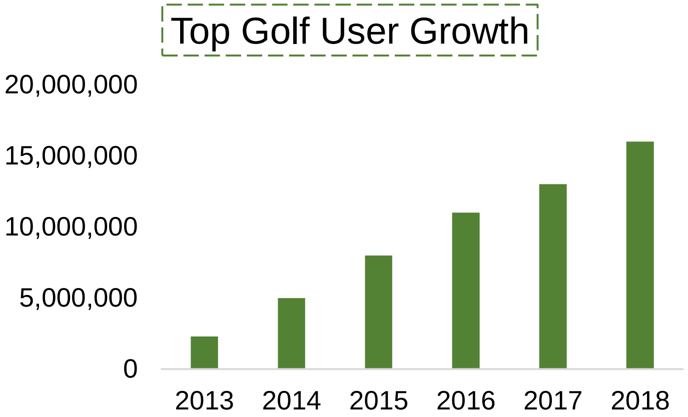
Note: All assumptions are for single location

Drive Shack Management

Drive Shack has transitioned from its spinoff management team of private equity professionals by hiring veterans of the hospitality and entertainment industry with strong backgrounds in corporate expansion

Kenneth May (CEO)

- Joined Drive Shack in November 2018
- **Previous Leadership Experiences**
  - Former COO and CEO of Top Golf U.S Operations
  - Former CEO of FedEx Kinkos
  - President of Krispy Kreme
- Helped lead Top Golf through 24 venue openings and a quadrupling of Top Golf's workforce



David Hammarley (CFO)

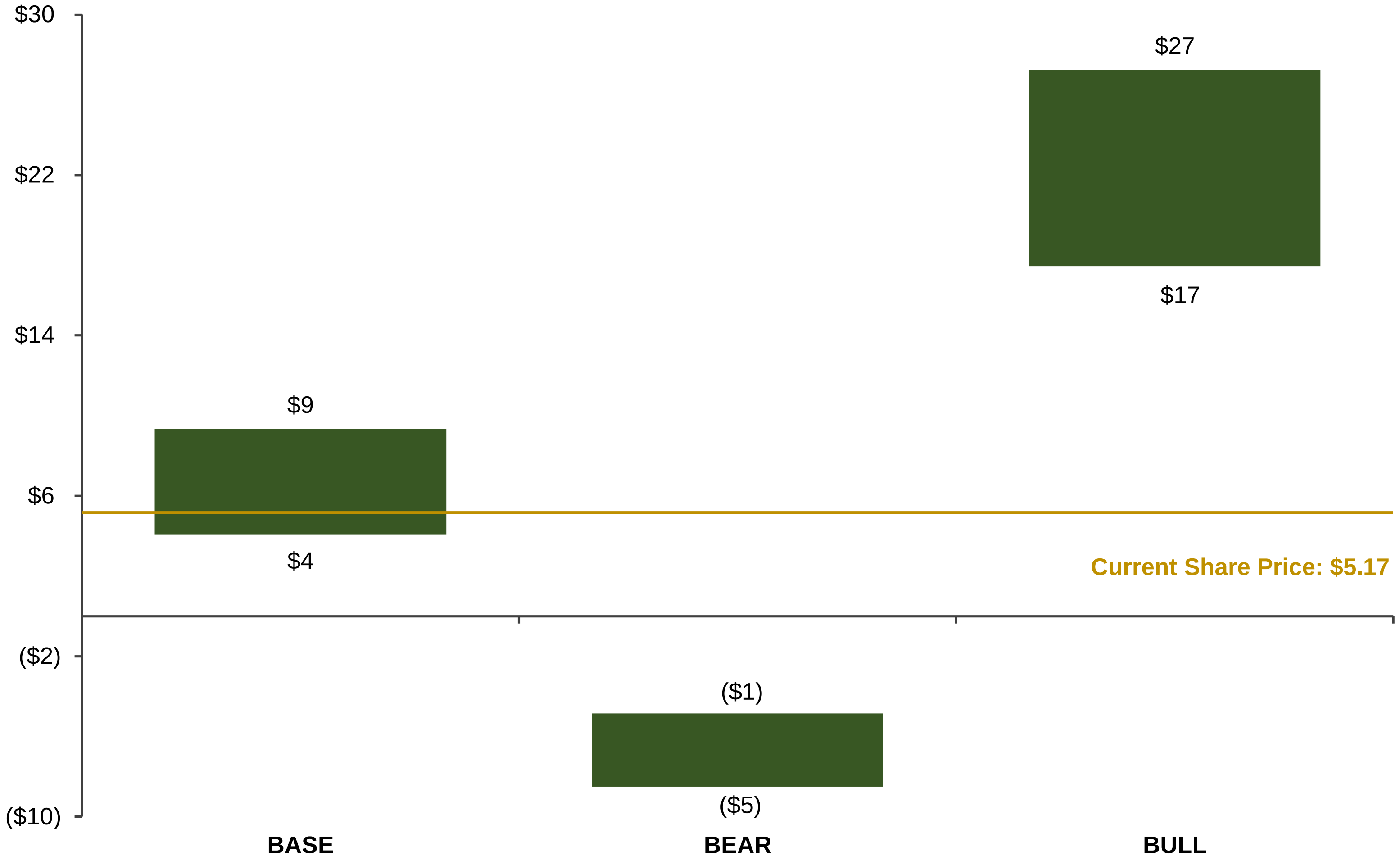
- Joined Drive Shack in November 2018
- **Previous Leadership Experiences**
  - Former CFO for SBE, a lifestyle branded hotel and restaurant
  - Spent ten years at Starwood Hotels & Resorts working in corporate finance
- Led several business expansions and cost reductions at Starwood

Wesley Edens (Chairman of the Board)

- CEO of Drive Shack from inception until February 2017
- Co-founder of Fortress Investment Group; co-owner of Milwaukee Bucks
- Owns 10.16% of total shares outstanding

Source: TopGolf, Capital IQ and Company filings.

Valuation Summary



Key Highlights	
	• Valuation reflects discounted cash flow analysis with projections through 2055 • Hurdle rate of 10% applied, sensitized at 0.5% • Perpetuity growth rate of 2% to reflect inflation • BASE, BEAR, and BULL weighted at 70%, 15%, and 15%, respectively

Final Recommendation—Allocated Buy

While we recognize the legitimacy of key risks and uncertainty, they are outweighed by key positives. Price differential between current price and potential upside justify taking a position

Key Positives

- **Strong Unit Economics**
  - Venue structure allows for quick ramp to strong and steady cash flow generation
  - Flexible offerings allow Drive Shack to pivot between targeting differentiated locations
- **Industry Tailwinds**
  - Legacy golf consumer base ensures constant addressable market growth
  - Eatertainment industry caters beyond legacy consumers
- **Exemplary Management**
  - Experienced management team will capitalize on tailwinds more effectively than competitors with their proven track record

Key Risks

- **Liquidity shortfall:**
  - Divestiture of legacy AGP and internally generated cash will prove insufficient to fund capital expenditures
  - Assuming asset level debt funding of new sites still requires additional capital financing
  - Potential capital solutions may include high yield debt or dilutive new equity
- **Unit Economics Uncertainty:**
  - Single unit yet to achieve run-rate level revenue and EBITDA

Recommendation	• Initiate 2.5% position • Re-evaluate towards the end of 2019 to assess growth in existing/ planned additions and capital markets' appetite towards Drive Shack • Liquidity shortfall not anticipated to occur until 2021