# CALLAWAY GOLF COMPANY FOURTH QUARTER & FULL YEAR 2021 EARNINGS CALL PREPARED REMARKS

**Lauren Scott, Director of Investor Relations**

Thank you, operator and good afternoon, everyone. Thank you for your patience. Welcome to Callaway's fourth quarter and full year 2021 earnings conference call. I'm Lauren Scott, the Company's Director of Investor Relations. Joining me as speakers on today's call are Chip Brewer, our President and Chief Executive Officer, and Brian Lynch, our Chief Financial Officer. Patrick Burke, Callaway's SVP of Global Finance, and Jennifer Thomas, our Chief Accounting Officer are also in the room today for Q&A.

Earlier today, the Company issued a press release announcing its fourth quarter and full year 2021 financial results. In addition, there is a presentation that accompanies today's prepared remarks and may make it easier for you to follow the call. This 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 have reconciled the non-GAAP measures to the corresponding GAAP measures at the back of the presentation 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**

Thank you, Lauren. Good afternoon to everyone on this call and thank you for joining us today.

I am pleased to report another quarter of strong results and look forward to providing more detail around our outlook for the year ahead. But first, I want to take a moment to acknowledge the incredible year we just concluded.

2021 was a pivotal year for Callaway, marked by exceptional results, significant growth, and strong momentum across all of our business segments. We closed on the acquisition of Topgolf in Q1, transforming our company into the unrivaled leader in the modern golf and lifestyle apparel space. Over the past five years, we have combined a traditional golf equipment business, with select lifestyle apparel brands, and the world's leading tech-enabled golf entertainment company to deliver a truly differentiated business model. Amid continued high demand for our golf equipment and lifestyle products, our global sales and operations teams worked tirelessly, delivering quarter after quarter of impressive results despite significant, global, COVID-related operating challenges. The team has proven itself to be an impressive and battle-hardened asset for our company. In addition, we have increasingly made key investments in infrastructure and people to support a larger business; and, to set us up for continued growth and financial success. I want to personally thank all of our global employees for their hard work throughout the year – our positive results would not be possible without your dedication and passion for this business.

Shifting to Q4, our results came in better than expected, led by another quarter of exceptional results from Topgolf and continued high demand for both golf equipment and lifestyle apparel and gear. Total net revenue was $712 million, up 90% year-over-year, and adjusted EBITDA was $14 million, up $27 million.

Turning to Topgolf, for the quarter, both walk-in traffic and event sales surpassed our expectations, driving same venue sales to an impressive increase of 6% over 2019 levels. For the full year, same venue sales were approximately 95% of 2019 levels, meaningfully higher than projected and an encouraging and very strong result given the operating environment. A resurgence in corporate events business drove most of the same venue sales positive surprise in Q4. Walk-in sales and smaller social events had been strong for some time and continued their trends.

Having said this, as one would expect, during the last week of December and continuing into January, we have seen some softness in same venue sales as the rise in Omicron has resulted in a decline in group events and increased short-term staffing challenges. While this will have an impact on Q1 results, it was promising to see that our UK venues, which experienced COVID impacts approximately a month ahead of our US venues, bounced back very quickly and are now once again performing quite well. This is a good indicator of the resiliency we expect in our US business through the remainder of Q1 and we are already starting to see some signs of this anticipated improvement. For the first quarter of 2022, we are expecting same venues sales to be down slightly compared to 2019, and for the full year, we anticipate low single digit growth over 2019 levels.

New venue openings continued on-pace, with our 72-bay Ft. Myers, Florida location opening strongly in mid-November. While we are on venues, I want to remind everyone on the success rate we are consistently delivering here. We had nine very successful openings in 2021 and the financial performance of this group is on track to exceed our financial expectations despite the challenging operating environment. I've had a ring side seat watching Topgolf open venues for nearly ten years now; and, in my opinion, we are uniquely good here! As a result of increasing brand strength, the core competency of our real estate team and our operating team's expertise; this is now a proven and repeatable model, a fact I believe the financial community may not fully appreciate yet.

For 2022, we are confident in our ability to deliver at least 10 new venues with the potential of adding an 11th in very late Q4. We are also extremely excited about the line-up for this year, with our first two Southern California locations opening in the Los Angeles area in Q1 and Q2 – one in Ontario, just east of LA and the other in El Segundo near SoFi Stadium. The El Segundo location is particularly intriguing as it is the first venue to include an on-course element. In true Topgolf fashion, this will not be your typical golf course – it will be a 10-hole lighted course, perfect for nighttime rounds, incorporating elements of entertainment and our Toptracer technology to create a truly unique guest experience. Additional locations of note include Seattle and Baltimore, both of which will feature our latest premium venue format enhancements as well as Callaway fitting bays.

It is important to note that, due to the disruption in development activities in 2020, the timing of this year's venue openings will be heavily weighted toward the back half of the year - with 5 expected to open in Q4. This timing will impact this year's contribution from new venues.

Shifting to Toptracer, during the quarter we installed over 1,700 new bays, bringing our total for the year to just under 7,000 new bay installations. We remain encouraged by continued strong demand and expect to install 8,000 bays or more in 2022.

Lastly, within the Topgolf media business, I am pleased to announce that we are leveraging our mobile game development expertise from World Golf Tour to launch a new game later this year that caters to the younger, more traditional gamer, whereas the existing game focuses more on the traditional golfer. While we expect the game to have a minimal contribution to our financial results in 2022, we believe that it will provide future upside as our community of digital customers continues to grow. In addition, in due time, we will integrate this new game into our digital offerings at both our Venues and Toptracer ranges; thus driving synergies from our game development capabilities.

Moving to our golf equipment segment, we are pleased to report that demand remains very high for our clubs and balls and trade inventory remains low across the industry.

According to the National Golf Foundation's annual report, the number of on-course golfers increased by approximately 300,000 in 2021 to 25.1 million players, marking the fourth straight year of increased participation in traditional golf. Off-course participation also continued to grow with 24.8 million people visiting non-traditional venues, such as Topgolf and Five Iron, and approximately half of those playing exclusively off-course. Looking out over the next twelve months and beyond, as Topgolf venues continue to expand, we expect even more new players to be introduced to the sport; both on and off course.

For Q4, our golf equipment results were in-line with expectations. As we explained last quarter, we anticipated some softness in Q4, as we made the decision to shift production to build 2022 new launch product. In addition, we launched several new products in the comparable fourth quarter of 2020 thus creating an uneven year-over-year comparison.

As we look ahead to Q1 and full year 2022, we are seeing promising momentum with the launch of our new Rogue ST family of woods and irons and the new Chrome Soft golf balls. The reception has been very positive so far, pre-books are up significantly and feedback on the product has been outstanding: with Rogue ST being the #1 driver on TOUR in its first week on Tour (at the Tournament of Champions) and Callaway receiving more gold medals than any other manufacturer in Golf Digest's recent Hotlist. The new launch product will be available at retailers starting next week.

For the full year, we are reiterating our view that our golf equipment business will grow based on continued strong demand from consumers, price increases on our new launch product and the opportunity for a restocking at retail.

In our Apparel & Gear segment, revenue was up 33% year over year in Q4, led by a 40% increase in apparel and a 19% increase in gear.

TravisMathew continued to grow at a roaring pace, with our own retail comp store sales up over 67% vs. 2020. Ecommerce sales were also up a healthy 30% vs. 2020. The team also signed a high-profile new ambassador, actor Chris Pratt, during Q4 who helped further increase brand visibility and raise awareness for a multi-day charity flash sale benefitting the Special Olympics. The event was very successful with TravisMathew contributing over $1 million in donations to the cause. On the product side, TravisMathew expanded its product range to include women's apparel as part of the "His and Her Cloud Collection" launched in December, as well as more cold weather gear within their Outerwear Collection. Both additions performed very well with the women's product selling out predominantly in the first 48 hours and jackets and pants accounting for 37% of direct-to-consumer sales.

Jack Wolfskin sales were up in the quarter as compared to both 2020 and 2019, as the public re-launch of the brand's fresh new image was positively received by consumers. Feedback on prebooks has been outstanding and we are excited for the year ahead.

On the sustainability front, Jack Wolfskin launched a new initiative in Q4 called the "Nature Counts" campaign, which is dedicated to forestry re-wilding and conservation efforts. In place of Black Friday and Cyber Monday sales discounts, the brand decided to donate 2 euros from every purchase made during the week to Peter Wohlleben's Forest Academy. We love to see the brand stay true to its roots and continue to be an ambassador for environmentalism.

Lastly, our Callaway Apparel business in Asia continued to thrive. The Callaway Golf brand in Japan held the #1 share in the wholesale channel during the quarter, and direct-to-consumer efforts paid off, with strong sales in our owned retail stores as foot traffic in the region increased.

Looking ahead to 2022, for the consolidated company we believe revenue will increase approximately 21% and we expect Adjusted EBITDA will be between $490 and $515 million.
This strong outlook is underpinned by:

(i) our belief that our golf equipment business will continue to grow, as participation remains high, and supply continues to scale up to match exceptional consumer demand;
(ii) strong pre-books and demand trends for our lifestyle apparel and gear brands; and
(iii) embedded growth in the Topgolf business through new venue openings and year over year growth in same venue sales.

Longer-term, we remain excited and confident about the direction of the business. While macro trends over the past two years have provided favorable tailwinds for golf, we believe there has also been a more sustainable, structural shift in the market that will support all of Callaway's businesses. These structural shifts include what we believe are long term increases in remote and hybrid work, the increased desire to get out into nature, the momentum behind casual lifestyle apparel brands, the growth of new golfers with waiting lists to get into golf courses, and the growth and positive impact of off course golf. Off-course golf experiences, such as Topgolf, are both growing rapidly in their own right and at the same time changing the way people are introduced to the sport of golf, creating increased interest and more new entrants. We believe Callaway is uniquely positioned to engage with these consumers through our differentiated portfolio of brands and look forward to unlocking the embedded growth within this business for years to come.

Before handing the call to Brian, I want to call out two items.

First, I am pleased to announce that we are planning to publish our first comprehensive sustainability report next month. As a company, we were founded under Ely Callaway's view that "good ethics is good business" and we continue to operate with this ethos at our core today. You will see this theme carried throughout the report and through the four strategic pillars of our sustainability strategy: People, Planet, Product and Procurement. I encourage you to review the report when it comes out and engage with our team to discuss the content, as it is an important component of our long-term business strategy.

Second, I am very excited to announce our plan to hold an Investor Day in Q2 where you will have the opportunity to hear from senior executives across each of our business segments and learn more about our medium and long-term vision for the Company. More details for this event will be disseminated by the IR team in the coming weeks and we hope you can participate.

And with that, I'd like to turn the call over to Brian Lynch to discuss our financial results in more detail.

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

Thank you, Chip.

2021 was an outstanding and transformational year for Callaway, which is clearly highlighted in our financial results. The Topgolf business recovered from COVID more quickly and significantly than we expected, and demand for our golf equipment and apparel products remained strong throughout the year and has continued so far in 2022. As Chip mentioned, we believe there has been a structural shift in the market that will benefit each of our businesses, including increased interest and participation in golf, momentum behind casual lifestyle apparel brands, and an increased desire for leisure and entertainment such as Topgolf, hiking and camping. As a result, we expect continued high demand and growth across each of our businesses into 2022 and beyond.

Shifting to our financial results, as shown on slides 10 and 11, consolidated net revenue for the full year 2021 was $3.1 billion dollars, a 97% increase compared to full year 2020 revenue of $1.6 billion dollars. Full year 2021 Adjusted EBITDA was $445 million, an increase of 170% over full year 2020 Adjusted EBITDA of $165 million. The outperformance versus our guidance was related to Topgolf and a resurgence in corporate events during the quarter as Chip mentioned earlier.  The golf equipment and soft goods businesses were in-line with our guidance.

When you look at a breakdown of our 2021 revenue, Golf Equipment represented 39% of total revenue, Topgolf was 35%, and Apparel, Gear & Other represented 26%. We believe Golf equipment will continue to grow at a steady pace and be an important component of our strategy moving forward, but as Topgolf venues continue to expand at the rate of 10+ new openings per year and the strong momentum of TravisMathew and Jack Wolfskin continues, we see a larger portion of our revenue shifting more toward these high growth segments.

For the fourth quarter, consolidated net revenue was $712 million dollars, an increase of 90% compared to Q4 2020. Topgolf was the largest contributor by segment, generating $336 million dollars.  Our strong social events, strengthening corporate events and continued robust demand from walk-in guests collectively delivered 6% same venue sales growth over 2019. Apparel, Gear & Other also performed very well during the quarter, with revenue up 33% year-over-year as strong brand momentum, recovery from COVID and well-positioned products translated to strong sales growth in the quarter. Consistent with our guidance, and as Chip highlighted earlier, the Golf Equipment segment was down year-over-year due to third quarter supply chain disruptions and a shift to prioritizing 2022 new launch inventory over fourth quarter 2021 sales. We also launched several new products in Q4 2020 thus creating an uneven year-over-year comparison. Changes in foreign currency rates had a $6 million negative impact on fourth quarter 2021 revenues.

Total cost and expenses were $755 million dollars on a non-GAAP basis in the fourth quarter of 2021 compared to $397 million dollars in the fourth quarter of 2020. Of the $358 million dollar increase, Topgolf added an incremental $330 million of total costs and expenses. The remaining $28 million increase includes (i) moving spending levels back toward normal levels, (ii) increased corporate costs to support a larger organization, (iii) investments in growth initiatives, including Travis Mathew expansion and the Korea apparel business, and (iv) increased freight costs and inflation.  As we move into 2022, we continue to believe that higher sales volumes and select price increases will balance out inflationary pressures.

Fourth quarter 2021 non-GAAP operating income was a loss of $43 million, down $21 million compared to a loss of $22 million in the fourth quarter of 2020 due to the previously mentioned planned shift in golf equipment supply to 2022 launch products as well as the increased costs previously mentioned.

Non-GAAP other expense was $37 million in the fourth quarter, compared to other expense of $13 million in Q4 2020. The increase was primarily related to a $28 million dollar increase in interest expense related to the addition of Topgolf.

Non-GAAP loss per share was $0.19 on approximately 186 million shares in the fourth quarter of 2021, compared to a loss of $0.33 per share on approximately 94 million shares in the fourth quarter of 2020.

Lastly, fourth quarter 2021 Adjusted EBITDA was $14 million compared to negative $13 million in the fourth quarter of 2020. The $27 million increase was driven by a $46 million contribution from the Topgolf business.

Turning to certain balance sheet items on slide 13.

I am pleased to report that we are in a strong financial position with ample liquidity. As of December 31, 2021, available liquidity, which is comprised of cash-on-hand and availability under our credit facilities, was $753 million dollars compared to $632 million dollars at December 31, 2021, an increase of 19%. In addition, the Topgolf funding requirements from Callaway have improved compared to our initial projections. When we announced the merger over a year ago, the funding needs for Topgolf were estimated at $325 million; as of year-end, their need for funding was significantly lower due to its faster-than-expected recovery and strong 2021 performance. At this point, we estimate that Topgolf will need almost $200 million less funding than we originally anticipated and going forward we estimate Topgolf will only need incremental funding from Callaway of less than $70 million, which would be used for future venue growth. Topgolf is already operating cash-flow positive, and we expect Topgolf will be able to fund its own growth and be free cash flow positive in 2024.

At quarter-end, we had total net debt of $1.4 billion dollars, including venue financing obligations of $593 million related to the development of Topgolf Venues.

Since the merger, our leverage ratios have improved significantly. Our net debt leverage ratio was 3.1x at December 31, 2021, compared to 5.0x at March 31, 2021.

Consolidated Net Accounts Receivable was $105 million dollars, a decrease of 24% compared to $138 million dollars at the end of the fourth quarter of 2020. Days sales outstanding (DSO) for our golf equipment and apparel businesses improved to 35 days as of December 31, 2021, compared to 45 days as of December 31, 2020.

Our Inventory balance increased to $523 million dollars at the end of the fourth quarter of 2021 compared to $353 million at the end of the fourth quarter 2020 as we built supply for our new products within the golf equipment and apparel businesses. In addition, Topgolf added $22 million in inventory.

Capital Expenditures for the full year 2021 were $234 million dollars, net of REIT reimbursements. This includes $173 million dollars related to Topgolf, primarily for new venue openings, for the 10-months since the merger. This does not include $12 million of capex for January and February of 2021 prior to the merger. The full year 2022 forecast for Callaway and Topgolf is approximately $310 million, net of REIT reimbursements, including approximately $230 million for Topgolf. This increase in capital expenditures is due to the timing of REIT reimbursements and investment in systems integration and growth within the golf equipment and apparel businesses.

Lastly, on December 13th, we announced that our board of directors approved a $50 million stock repurchase program. We repurchased a total of approximately 947,000 shares at an average price of $26.41 during the fourth quarter and now have approximately $25 million authorization remaining under this program.

Now turning to our full year and first quarter 2022 outlook on slides 14 and 15.

For the Full Year, we expect revenue to be approximately $3.8 billion dollars. That compares to $3.13 billion in 2021. Our full year 2022 net revenue estimate assumes continued positive demand for our Golf Equipment and Soft Goods segments, and no significant supply chain or retail shutdowns due to any COVID resurgence. It also assumes approximately $1.5 billion in net revenue from Topgolf for the full year.

Full year Adjusted EBITDA is projected to be $490 - $515 million dollars, which assumes approximately $210 - $220 million from Topgolf.

As Chip stated, we plan to add at least 10 new Topgolf venues in 2022, although the venue openings will be heavily weighted toward the back half of the year, with 5 expected to open in the fourth quarter. From a profitability perspective, this means our 2022 venues will have a more limited impact to adjusted EBITDA in 2022 as we will incur full pre-opening costs for those venues with limited revenue.

From a cost perspective, we will be making investments in personnel and infrastructure to support an overall larger business and future growth. We also anticipate continued cost pressure from increased freight costs and inflation, including labor and commodity prices. Lastly, we anticipate a negative impact from changes in foreign currency rates of approximately $54 million on revenue and $38 million on pretax income due to a strengthening U.S. dollar and $8 million in hedge gains that are not expected to repeat. Despite these headwinds, we continue to believe strong demand, sales volumes and select price increases across our business segments, will balance out these pressures and we expect all businesses to grow this year.

Lastly, looking at the share count for full year 2022, we want to note an accounting change taking effect this year that will cause our share count to increase to approximately 204 million shares. This change relates to the accounting for our convertible bond. This new rule will require us to account for the bond assuming it has been converted for purposes of calculating earnings per share. When calculating EPS, we will eliminate the interest paid related to the bond and will add 14.7 million shares to the EPS calculation as if the bond had been converted. For purposes of this calculation, we do not include the benefit of the capped call transaction we entered into at the time of the bond issuance which at maturity would reduce the number of new shares issued by us upon conversion by approximately 4 to 5 million shares at current prices.

Moving to the first quarter 2022 outlook, our revenue guidance is just over $1 billion. Adjusted EBITDA guidance is $130 to $145 million This includes a negative foreign currency impact of approximately $21 million on revenue and $21 million on pretax income, again, including the $8 million hedge gains in Q1 2021 that are not expected to repeat.

I want to emphasize that there are several factors which could cause a positive or negative shift in our financial results between Q1 and Q2. Some of these factors include the timing of when we receive supply in the golf equipment or soft goods segments and whether products scheduled to be shipped at the end of March or beginning of April are deferred to Q2 or accelerated into Q1. Also, our Q1 guidance reflects our assumption that COVID continues to lessen during Q1 and that the Topgolf business, including corporate events, returns close to 2019 levels. The pace at which that happens will affect our first quarter results. We feel good about our full year guidance.

In closing, we are proud of the performance of our business in 2021 and are excited to share our continued progress throughout 2022.

That concludes our prepared remarks today and we will now open the call for questions.

Operator over to you.

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