TOPGOLF CALLAWAY BRANDS CORP.
THIRD QUARTER 2024 EARNINGS CALL PREPARED REMARKS

Katina Metzidakis, Vice President of Investor Relations and Corporate Communications

Thank you, operator and good afternoon, everyone. Welcome to Topgolf Callaway Brands' third quarter earnings conference call. I'm Katina Metzidakis, the Company's Vice President of Investor Relations and Corporate Communications. Joining me as speakers on today's call are Chip Brewer, our President and Chief Executive Officer, and Brian Lynch, our Chief Financial Officer and Chief Legal Officer.

Earlier today, the Company issued a press release announcing its third quarter financial results. We have also published an updated presentation. Our earnings presentation, as well as the earnings press release, are both available on the Company's Investor Relations website under the "Financial Results" tab.

Aside from revenue, the financial numbers reported and discussed on today's call are non-GAAP measures. We identify these non-GAAP measures in the presentation and reconcile the measures to the corresponding GAAP measures 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, Katina, and good afternoon, everyone. Thank you for joining our call today.
I am pleased to report Q3 results which came in ahead of our guidance, in both our Legacy and Topgolf businesses. Focusing first on Revenue, Topgolf's same venue sales came in roughly consistent with our expectations and in our Legacy business we benefitted from product shipment timing moving into the quarter from Q4. Moving to EBITDA, the quarter's outperformance was driven by both venue operating efficiencies and cost management at Topgolf, as well as the shipment timing in our Legacy business. We also had slightly favorable FX

for the quarter relative to our last guide, but this subsequently shifted against us again in early Q4 and remains a headwind on a full year, year-over-year basis.

In the Golf Equipment segment we continue to lead, with 2024 trending to be the third consecutive year that Callaway has earned the #1 US market share position in golf clubs as well as the ninth out of the last ten years in this # 1 position. In the ball business, our investments in the category along with this year's launch of our new Chrome Tour brand, have driven steadily improving performance and record market shares. In Active Lifestyle, TravisMathew continues to grow share of wallet through disciplined category expansion and distribution.

On the other hand, in the Golf Equipment Segment and at TravisMathew we saw slightly slower market conditions than expected in Q3. As a result, we are lowering our full year revenue guidance by approximately thirty million dollars to reflect the lower sell through in that period, a reduction that is spread relatively evenly across the non-Topgolf portion of our business. However, we view this as short-term volatility rather than a new trend; as consumer activity has since picked back up, our brand positions remain strong, and we remain confident in the long-term outlook for our core markets and product categories.
Shifting gears to segment performance, starting with Topgolf.

Starting with same venue sales, the business performed roughly consistent with expectations in Q3 at down 11%. 1-2 bay was down approximately 9% and 3+ bay was down approximately 19%. The 1-2 bay performance was balanced fairly evenly between traffic and spend for the quarter.
For the full year, we are holding our previous guidance for same venue sales to be down very high single digits to low double digits. Early October results were partially impacted by severe weather but recovered nicely during the month, with the full month performing consistent with our implied Q4 same venue sales forecast of down ten to fifteen percent. Additionally, November and December bookings for 3+ bay events indicate the potential for some improvement relative to recent 3+ bay trends. Given all this, if things break our way, we could end up towards the good end of our full year guide; however, given the volatility we have seen, and the potential for adverse weather this time of year, we are holding our previous guide.

Looking forward on same venue sales, the team continues to work on key initiatives to return the business to same venue sales growth. This includes a new game that the team is very excited about: Sonic the Hedgehog, which will launch mid this month and coincides with a new movie coming out in December. Exciting new reasons to visit and enhanced consumer experiences such as this are a key part of how we intend to drive long-term traffic growth and thus we are ramping up our ability to deliver these both more frequently and more effectively. Beyond this, we are full speed ahead on leveraging our new consumer data platform to provide more targeted promotions and offers to lapsed or new visitors, we are also launching new passes and bundles aimed at more frequent visitors, we are expanding our partnership programs, and we are further strengthening the team with experts in performance marketing and loyalty programs. We are also expanding our outbound sales efforts as well as our offerings for 3+ bay business.

On the EBITDAR front the team continues to deliver excellent results. Despite significant sales deleverage this year, we expect to end the year nearly 500 bps higher in EBITDAR margin than in 2019. This performance, along with other cost savings initiatives, is allowing us to increase our full year EBITDA forecast for Topgolf, even with no change to the same venue sales forecast. We are proud of the team's performance in this important area and looking ahead we see significant opportunity for margin expansion when same venue sales returns to growth.

On the venue expansion front we are on track to add seven new owned venues this year, six of which we built, and one acquired. The new venues continue to perform consistent with our proforma. In the quarter we opened in Greensboro, North Carolina and Des Moines, Iowa. Both venues are performing well. By year's end we will have 100 owned and operated venues. On the international front our franchisees recently opened two new venues, one in Jakarta and one in Wuhan China, for a total of seven franchised international venues. Looking forward, we expect to build and open approximately five domestic venues in 2025.

Shifting gears to our Golf Equipment business: the market remains strong overall with U.S. rounds up nicely year-over-year, building on the gains in participation we have seen over the last several years and despite a small decline in playable hours year-to-date due to slightly unfavorable weather. As previously mentioned, Datatech's U.S. sell through for clubs was down a little more than expected in Q3 at minus 4% but remains flat year-to-date which is a reasonably good performance in today's macro-economic climate. Sell through of golf balls was flat in Q3 but is up year-to-date, as has been its trend, and as you would expect given the rounds played data. Furthermore, the U.S. club market sell through results for the second half of September and October bounced back nicely making me think the small dip in Q3 sell through was nothing more than normal volatility.

Within these market conditions, the Callaway club brand remains strong and continues to resonate with consumers, including, according to outside research, the sustained leadership position in technology and innovation. In the market, Callaway remains the overall # 1 market share club brand in the U.S. as measured by Datatech sell through dollar market share, a position we have enjoyed for nine out of the last ten years. During this year, we have had a particularly strong year in woods; with the Ai Smoke line propelling us to leadership positions in the Driver, Fairway Wood and Hybrid categories, as well as the # 1 selling model in Irons. We have also had a terrific year in putters with Odyssey dominating the tour counts including 39 consecutive PGA tour counts extending from the opening event in Hawaii, through the Fed Ex Cup Championship and including all four majors. And Odyssey also won every count this year on the LPGA, Champions and DP World Tours, clean sweeps across those tours. Odyssey was in the bag of 14 winners on the PGA Tour and 52 winners across primary global tours. Globally, our year-to-date

Putter category dollar market share is up 344 bps in the US, 240 bps in Europe and 709 bps in Japan.

In golf ball, we continue to steadily deliver market share and brand growth as well as operational improvements. Our Q3 US market share of 21.8% is up 140 bps year-over-year and represents a new record for us. Additionally, we have now fully worked through our vendors ball plant fire of a year ago, with that plant rebuilt and back online as well as additional capacity developed. And we continue to drive yield and productivity improvements in our Chicopee, Massachusetts facility, where all our premium or tour product is manufactured, to industry leading quality and consistency standards. On the brand side of golf ball, we also continue to make strides: Per Golf Datatech's Summer Ball GPAU report, Callaway's ranking as preferred ball, as measured by the question: "if you were playing in your club championship this weekend, which ball brand would you use" jumped from 16% to 21%, our highest level since tracking began and the first time any brand other than Titleist exceeded 20%.

We of course have also had a few weak points this year including foreign exchange, which is obviously outside of our control, volatile freight rates, which Brian will discuss later, and a slower than expected Korea market, where we initially lost some share but we now see signs of both that market starting to stabilize and our relative performance improving, driven by a new team with renewed energy and resolve. Looking at product category opportunities, the Q3 launches of Opus wedges and Apex Ai irons are both going well, and we think these will shore up what has been relatively weak for us year-to-date performances in these categories. The iron category is a big category, one where we have been a historical leader, and one where the trade is telling us that we are well positioned to gain share over the next year based on the strength of our product line.

While we are on product launches, building on our strong recent performance in the putter category, we will be formally announcing later this week, our entry into a new form of putting most commonly described as Zero Torque, via a new model for us called Square 2 Square. Zero Torque is an interesting category which is experiencing rapid growth. As we enter this category, we believe we can use our proprietary shapes, insert, and Ai technology to deliver an even better product to golfers than is currently available in the category. The Square 2 Square product will be available to consumers in December.

Looking forward, we feel good about both our golf equipment business and the market. Our product pipeline remains strong, and we have started to show our 2025 product line to customers and are receiving positive feedback.

Turning now to the Active Lifestyle segment, revenues and earnings were both down for the quarter but this was largely consistent with expectations, and it masks fundamental improvements that we are making in all businesses within this segment. Turning to each business unit.

At TravisMathew, the overall market continues to be relatively soft with Datatech showing US sell through of golf shirts to be down approx. 9% in its channels; but the TravisMathew brand continues to outperform the market based on strong market share in its core men's product lines, further expansion into strategic categories such as outerwear and women's, and the addition of another ten owned retail stores. On the retail store front, we now have 57 owned retail stores and direct to consumer overall is approximately 40% of our business. The retail stores are high ROI investments and also drive brand growth and wholesale volumes in their markets. As mentioned on previous calls, this year's financial performance has also been challenged by the timing of a large corporate channel stocking order that occurred in 2023 and that did not repeat this year but that opened a new line of business for the long run. Excluding that specific corporate channel timing, TravisMathew is up year-over-year both on the top and bottom line. This is a growing and profitable business with a bright future.

At Jack Wolfskin, the business has been challenged by difficult market conditions in Europe and, outside of China where we continue to perform very well, this business remains a turnaround story. With new leadership in place here, we have been re-scaling our cost base to fit the current revenue base of the business, while at the same time working on our product market fit in Europe by re-focusing on the brand's core products and positioning. All of this turnaround work remains a work in progress and Jack Wolfskin remains a relatively small part of our overall story. However, I feel better about the mid to long-term outlook for this business, as sell through in Europe picked up in late Q3 and early Q4, China continues to perform well, and, by end of this year, we will have a significantly smaller cost base as well as a more focused Europe product strategy.

Lastly in the Active Lifestyle segment, the Callaway and Ogio brands are both performing reasonably well in the U.S. and Europe. In Japan both apparel and performance gear are performing well on a local currency basis year-to-date but show down when re-stated in U.S. dollars due to foreign exchange. And our Korea business is down consistent with both the market and our struggles there; but, as previously mentioned we see improved signs for both our brand and that market in general.

In conclusion, Q3 was a good quarter for us operationally. We remain pleased with the direction of our Legacy business where we are building on our strengths and addressing any weaknesses head on. At Topgolf we performed largely consistent with recent trends including continuing to drive excellent venue profitability given the slower topline environment. And we are taking steps to further strengthen the team's ability to drive positive same venue sales over the long term.
On the strategic front, we continue to believe that separating Topgolf from the Legacy business will maximize shareholder value, and we are fully engaged on this work. I look forward to providing further updates, as appropriate, on future earnings calls.

Brian, over to you.

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

Thank you, Chip, and good afternoon, everyone.

As Chip mentioned, we are pleased with our third quarter results in light of the macroeconomic backdrop. Our business units delivered solid execution, which combined with a shift in timing of shipments in our products businesses as well as slightly favorable foreign currency, allowed us to exceed our guidance for Q3. As we look forward, our business segments are continuing to take action to manage their businesses in the current environment, holding or building their market positions, and staying focused on managing costs and available liquidity.

Some highlights for the quarter include:

- Q3 Revenue and Adjusted EBITDA were ahead of expectations.
- We continued to manage through a softer topline environment with a focus on disciplined cost management, operating efficiencies and cash management.
- Cash provided by operating activities for the first nine months increased $111 million or 49% compared to the first nine months of 2023.
- Our inventory reduction initiatives continue to be successful with our consolidated inventory decreasing $70 million since Q3 last year.
- Our REIT adjusted net debt decreased approximately $220 million or over 20% year-over-year and our REIT adjusted net debt leverage decreased to 1.8x from 2.1x.
- We further strengthened our available liquidity position to $863 million, representing a $129 million increase year-over-year.

Now turning to the specifics.

Q3 consolidated revenues of $1.013 billion decreased 3% year-over-year. This decrease was largely attributable to an 11% decrease in Active Lifestyle revenue, primarily due to an expected decrease in Jack Wolfskin revenue, which reflects the continued soft apparel wholesale market conditions in Europe.

Q3 Adjusted EBITDA of $120 million declined 27% compared to the third quarter last year. I'll describe the reasons for this in my discussion of segment performance.

Moving to segment performance.

At Topgolf, Q3 revenue grew 1% to $453 million driven by the new venues opened since Q3 last year. Our new venues are performing well and are achieving previously communicated financial targets and returns. This increase was partially offset by an 11% decrease in same venue sales.

Topgolf operating income was $28 million, down $11 million compared to the prior year, primarily due to increased depreciation related to the new venues combined with operating expense deleverage due to the decrease in same venue sales. Topgolf Adjusted EBITDA decreased 7% year-over-year to $84 million. EBITDAR margins remained strong due to continued good execution amid the decline in same venue sales.

The Golf Equipment segment had a strong quarter based primarily on this year's new club and ball launches offset by lower sales of older products as we have largely cleaned up our inventory of older product over the last year. Revenue was up slightly at $294 million. This better-than-expected result was primarily due to a shift in shipment timing.

Golf Equipment operating income of $27 million decreased $8 million primarily due to a year-over-year increase in freight costs.
In our Active Lifestyle segment, Q3 revenue decreased 11% year-over-year. This decrease is mainly due to lower sales at Jack Wolfskin, due to continued softness in the European wholesale apparel market. Jack Wolfskin's business in China, however, continues to perform well, showing growth during this period.

Operating income decreased to $21 million compared to $40 million in the prior year, primarily due to the lower revenue volume along with higher freight costs.

Moving to balance sheet and liquidity. Our available liquidity, which is comprised of cash on hand and incremental borrowing capacity under our credit facilities, continued to strengthen during the quarter. As of September 30, 2024, our available liquidity increased $129 million to $863 million compared to the prior year due to better cash flow generation as the company continues to manage working capital.

At quarter-end we had total net debt of $2.3 billion, which per our usual practice excludes convertible debt of approximately $258 million, compared to $2.1 billion for the same time last year. This increase is attributable to increased venue financing debt related to new venues, partially offset by a reduction in term loan debt, including our second quarter discretionary $50 million term loan B principal paydown.

We think it is helpful to evaluate our net leverage position by excluding the REIT debt associated with our Topgolf venue financing, which is akin to capitalized rent with no additional principal or bullet repayment. In Q3 our REIT adjusted net debt was $841 million, over $220 million lower vs last year.

Our net debt leverage, which excludes convertible debt, was 4.1x as of September 30, 2024, compared to 3.8x in the prior year. This increase was primarily due to increased venue financing debt. Importantly, our REIT adjusted net debt leverage ratio, which burdens Adjusted EBITDA with the REIT interest expense payments – which are akin to rent – and which we believe is the most appropriate way to look at our leverage, declined to 1.8x from 2.1x in the prior year. We remain comfortable with these leverage levels.

With regard to new venues, we are on track to open seven new venues this year including one we acquired as part of the the BigShots transaction, but which has now been converted to a Topgolf. We expect to open approximately five new venues in 2025.

Our inventory balance decreased $70 million, or 10%, to approximately $667 million at the end of Q3 2024. We feel good about the current level and quality of our inventory. Year-end inventory levels will depend on whether we receive some the 2025 launch product at the end of December or beginning of January.

Gross capital expenditures for the first nine months of 2024 were $227 million and we received reimbursements of $88 million from our financing partners for net capital expenditures of approximately $139 million.

Shifting gears, we are lowering our outlook for free cash flow commensurate with our change in our Adjusted EBITDA forecast. We now expect free cash flow to be approximately $115 million compared to $130 million in our prior guidance. As mentioned earlier, the timing of the receipt and payment of that inventory could affect the forecasted cash flow.

From a net CAPEX perspective, we continue to expect approximately $190 million for the full year with $60 million coming from the non-Topgolf business and $130 million coming from Topgolf.

Now turning to our full year 2024 outlook.

We are adjusting our full year 2024 revenue guidance to approximately $4.2 billion, which is the low end of our previous guidance. This reflects a $30 million - or less than 1% - reduction from the midpoint of our prior guidance due to lower-than-expected consumer activity in Q3, which affects sell through in that quarter and in turn reorder business in Q4. Consumer activity has since improved and thus it is our opinion that what we saw in Q3 appears to be just short-term volatility rather than a trend. As a result of the lower revenue guide, we are also lowering our EBITDA guidance range by $15 million from the prior guidance midpoint to a range of $560 million to $570 million, with $570 million being the low end of our prior guidance.

At Topgolf, we are reiterating our annual guide of approximately $1.79 billion in revenue and increasing our Adjusted EBITDA guide by $5 million to $315 million largely due to continued strength in venue margins and cost management initiatives.

Moving to Q4, we are lowering our implied guidance to reflect the shift in timing of shipments between Q3 and Q4 as well as slower than expected consumer activity in Q3. We are now forecasting Q4 consolidated revenue of approximately $885 million and Adjusted EBITDA in the range of $74 to $84 million, compared to $897 million in revenue and $70 million in Adjusted EBITDA, respectively, in the prior year. The increase in Adjusted EBITDA is anticipated to be due to the expected improvement in gross margins in the Golf Equipment business.

In Q4 at Topgolf, we expect to be down mid-single digits in revenue compared to last year due to an expected decrease in same-venue-sales as Chip discussed earlier. Topgolf adjusted EBITDA is expected to be down approximately $12 million year-over-year due to the anticipated decrease in same venue sales, partially offset by continued operational efficiencies in the venues.

In conclusion, we are pleased we were able to exceed our Q3 targets. Though the broader consumer discretionary backdrop was a little choppy in Q3, participation and interest in the game of golf remains strong, as do our leadership positions in golf equipment, golf entertainment and active lifestyle. We're proud of our team's ability to continue to find operational efficiencies and show disciplined cost management, particularly at Topgolf, where we raised our 2024 Adjusted EBITDA outlook despite holding the revenue guide. We remain on strong financial footing with a solid balance sheet, including lower year-over-year REIT-adjusted net debt leverage, healthy inventory levels and a strong liquidity position. And, perhaps most importantly, we continue to expect to generate positive free cash flow this year at both the total Company and Topgolf.

With that said, I would now like to turn the call back over to the Operator for Q&A.