



# Acquisition of Jack Wolfskin

November 2018





## Important notices

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Forward-Looking Statements: During this presentation, any statements relating to future plans, events, financial results, performance or prospects, and statements relating to the expected benefits of the Jack Wolfskin transaction, including future synergies and growth opportunities, and the estimated financial results, sales and earnings contribution from Jack Wolfskin, are forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995. These statements are based upon current information and expectations. Accurately estimating the forward-looking statements is based upon various risks and unknowns, including the risk that the Jack Wolfskin transaction may not close on the terms or timing described herein, or at all; unanticipated difficulties or expenditures relating to the transaction or the realization of the anticipated synergies and growth opportunities; the response of customers, suppliers and others to the announcement of the transaction; potential difficulties in employee retention as a result of the transaction; consumer acceptance of and demand for the company's products; the level of promotional activity in the marketplace; unfavorable weather conditions; future consumer discretionary purchasing activity, which can be significantly adversely affected by unfavorable economic or market conditions; future retailer purchasing activity, which can be significantly negatively affected by adverse industry conditions and overall retail inventory levels; and future changes in foreign currency exchange rates and the degree of effectiveness of the company's hedging programs. Actual results may differ materially from those estimated or anticipated as a result of these risks and unknowns or other risks and uncertainties. For additional information concerning these and other risks and uncertainties that could affect these statements, see Callaway's Annual Report on Form 10-K for the year ended December 31, 2017 as well as other risks and uncertainties detailed from time to time in Callaway's reports on Forms 10-K, 10-Q and 8-K subsequently filed with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Callaway undertakes no obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.



## Non-GAAP, IFRS and Unaudited Financial Information

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The financial information for Jack Wolfskin presented herein, including net sales, EBITDA and adjusted EBITDA, has been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union, and is based on preliminary unaudited results provided by Jack Wolfskin. These preliminary estimates are subject to finalization of year-end financial and accounting procedures (which have yet to be completed) and have not been audited or reviewed by Callaway's or Jack Wolfskin's independent public accountants. As a result, such estimates are forward-looking statements and are not guarantees of future performance or outcomes, and actual results may differ materially.

The GAAP forecasted amounts contained in this presentation have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). To supplement the GAAP results, Callaway has provided certain non-GAAP financial information as follows:

**Acquisition-Related Adjustments.** Callaway presents the expected future dilutive or accretive impact of the Jack Wolfskin acquisition on EPS excluding non-recurring transaction costs, amortization of financing fees, and incremental non-cash expense resulting from the acquisition purchase accounting adjustments.

**Adjusted Jack Wolfskin EBITDA.** Callaway provides information about Jack Wolfskin's fiscal 2018 results, as well as forecasted EBITDA, excluding interest, taxes, depreciation and amortization expenses, as well as further adjusting for restated product costs at an assumed Euro/USD exchange rate of 1.140. Callaway has included in the schedules to this presentation a reconciliation of Jack Wolfskin's fiscal 2018 net sales to adjusted EBITDA, based on preliminary unaudited results prepared in accordance with IFRS and provided by Jack Wolfskin.

**Adjusted Callaway EBITDA.** Callaway provides information about its results for the trailing twelve months ended September 30, 2018 excluding interest, taxes, depreciation and amortization expenses, as well as non-recurring OGIO and TravisMathew transaction-related expenses incurred in the quarter ended December 31, 2017.

Callaway believes this presentation of Jack Wolfskin's and Callaway's EBITDA and adjusted EBITDA is useful and helps management, investors and rating agencies enhance their understanding of the impact of the Jack Wolfskin acquisition on Callaway's financial performance. However, EBITDA and adjusted EBITDA do not have a standardized meaning, and different companies may use different EBITDA and adjusted EBITDA definitions. Therefore, Jack Wolfskin's and Callaway's definitions of EBITDA and adjusted EBITDA may not be comparable to the definitions used by other companies.

Non-GAAP financial measures should not be considered in isolation or as a substitute for financial information calculated in accordance with GAAP. Investors are encouraged to review the reconciliation of EBITDA and adjusted EBITDA to the most directly comparable GAAP financial measure. A reconciliation of Jack Wolfskin's EBITDA and adjusted EBITDA to net income and net sales is provided in this presentation.



# Callaway Strategic Review

# Callaway overview and strategic transformation

## Callaway historically

- Global leader in advanced golf technology
- Manufactures and sells golf clubs, golf balls, apparel and accessories under our standout brands

## Ongoing strategic transformation of Callaway

- Successfully executed turnaround to reinvigorate brand
- Continued investments in both core and complementary areas in active lifestyle space
- Now pivoting to a growth strategy
- Significant opportunity in the Outdoor and Lifestyle categories

*Acquisition of Jack Wolfskin furthers Callaway's stated plan of strategic investment in complementary areas*





## Strategic rationale and acquisition highlights

**Invest in high-growth active lifestyle markets that are complementary to Callaway**

**Geographically complementary to Callaway with opportunities to grow in new markets**

**Innovative product offering that further diversifies portfolio of hard & soft goods with long-term synergies to existing soft goods portfolio**

**Potential for synergies in distribution, supply chain, marketing and international expansion**

**Opportunity to leverage Callaway's expertise in branding, marketing, design and distribution to drive continued growth and expansion**

**Attractive financial profile with strong, long-term revenue growth, EBITDA and cash flow accretion**

**Jack Wolfskin is a unique and transformational opportunity that is complementary across geographies, customer demographics and product capabilities to Callaway**



# Jack Wolfskin at a glance

## Company overview

### Leading brand in outdoor & active lifestyle apparel

- #1 market position in DACH region (Germany, Austria & Switzerland) and top 3 in China
- Well-recognized brand with over 37 year history

### Premium & innovative products

- German-engineered and developed in-house
- Commitment to quality, design and sustainability

### Global omni-channel presence

- Sales in 40 countries and on 5 continents
- Over 3,000 points of sale worldwide
- Balanced mix of ~70% wholesale and ~30% DTC

### Integrated supply chain

- Long-term manufacturing partnerships
- State-of-the-art distribution center in Germany

### Strong & experienced management team

- Led by Melody Harris-Jensbach
  - More than 30 years of experience in the Fashion and Sportswear industry
  - Previously served as Vice Chairman & Chief Product Officer at Puma and Chief Product & Design Officer at Esprit

## Financial highlights

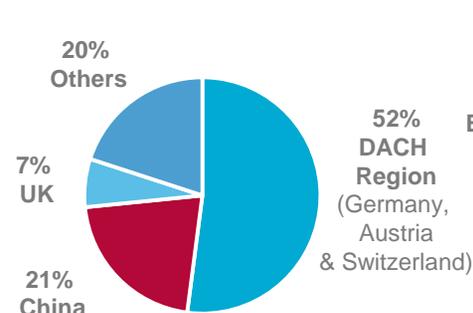
~\$380mm

LTM Net Sales<sup>1</sup>

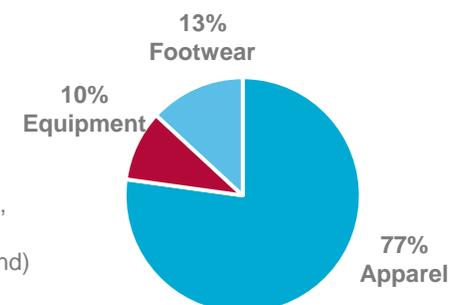
~\$40mm

LTM Adjusted EBITDA<sup>1</sup>

### Geographic revenue mix<sup>2</sup>



### Product revenue mix<sup>2</sup>



### Attractive financial profile

- Well positioned to capitalize on expected growth in outdoor apparel market in Europe, Asia and North America
- Improving margins with additional long-term upside
- Stable free cash flow generation

<sup>1</sup> Converted at EUR/USD of 1.140x; See appendix for detailed adjusted EBITDA reconciliation

<sup>2</sup> Based on fiscal 2018 (ended 9/30/2018)

# Jack Wolfskin's premium and innovative product offering

## Function + Style

### Active Outdoor

- Premium performance
  - Ski & snow sports
- High function & protection
  - Hiking
  - Trekking
  - Cycling
- Function & versatility
  - Essential & base layers



## Innovation + Sustainability

### Texapore Ecosphere

- First 100% recycled outer shell and recycled lining
- Exclusive technology (for 2 years)



### Urban Outdoor

- Premium urban style
- Outdoor and travel
  - Functional & lifestyle
- Basics
  - "Comfort and function"



### Tech Lab

- Combines modern style with JW technology
- Focused on premium marketplace
- Recent co-lab with Versace

*All products are German-engineered and designed & developed in-house*

# Leading outdoor lifestyle brand in attractive markets

*Geographically complementary to Callaway*



## DACH

- The largest footprint in the second largest outdoor market
- Strong brand recognition and over 1,400 Points of Sale in Germany

## China

- Well-positioned to capture significant potential
- Top 3 brand with over 580 Points of Sale

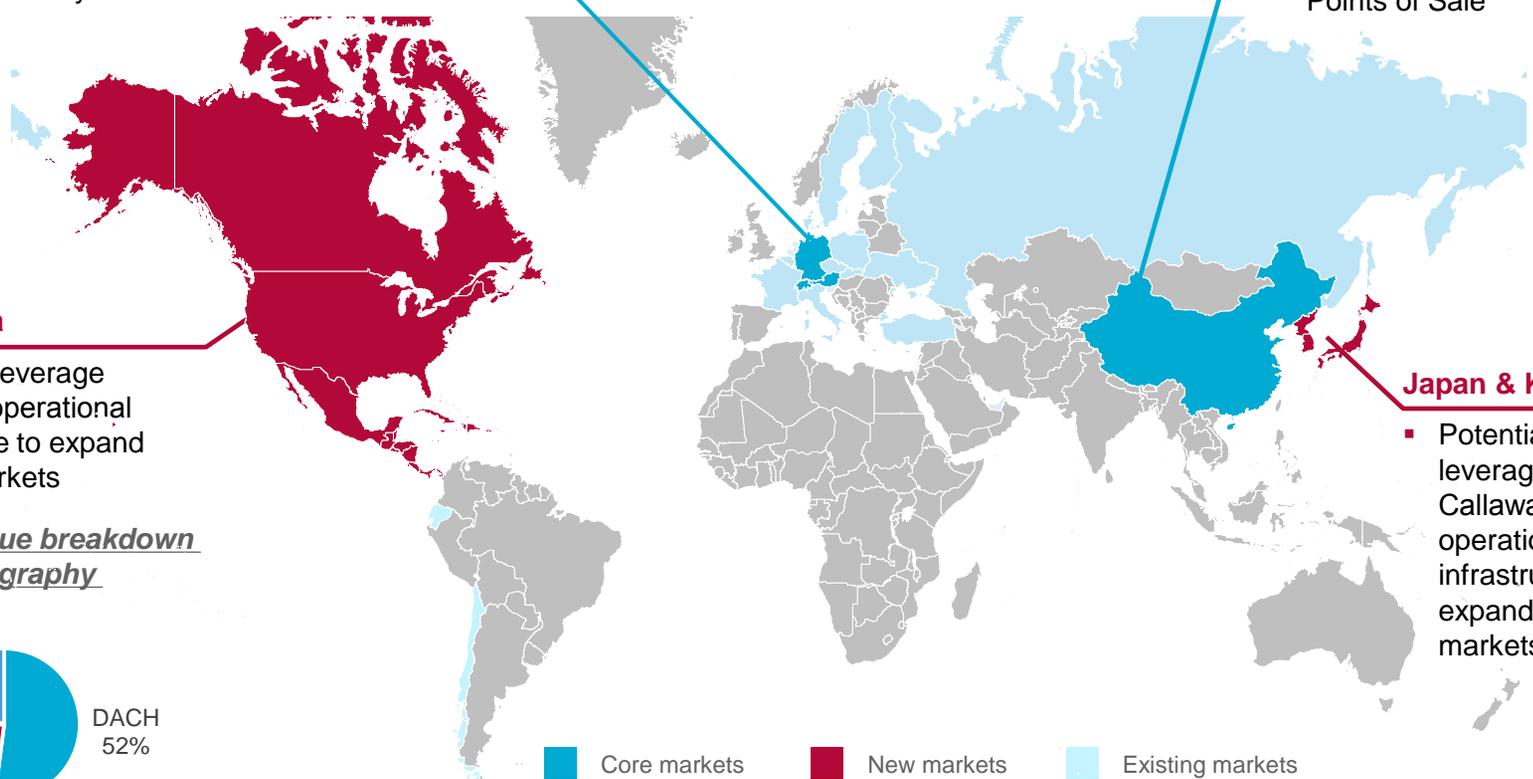
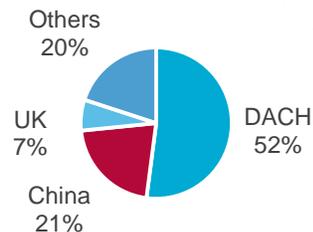
## North America

- Potential to leverage Callaway's operational infrastructure to expand into new markets

## Japan & Korea

- Potential to leverage Callaway's operational infrastructure to expand into new markets

## 09/2018 revenue breakdown by geography



**Significant opportunity to enhance Jack Wolfskin's brand presence in core markets and expand the brand globally under Callaway ownership**

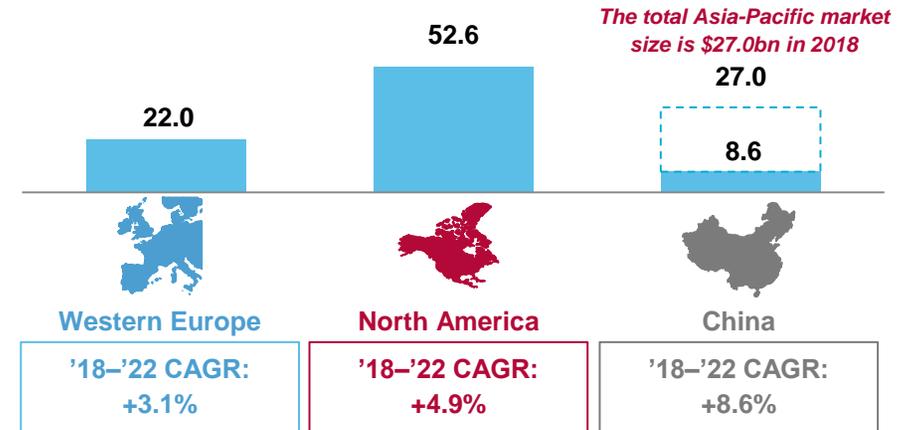
# Global outdoor market continues to grow

*Jack Wolfskin is well positioned in both mature and fast growing markets around the world*

## Key observations impacting the industry

- The global outdoor and performance apparel market is expected to outpace GDP over next four years
- Growth driven by increased focus on healthy living and increased connection to the outdoors
- Consumers exhibit a willingness to pay a premium for functional products, particularly those with sustainable solutions

## Outdoor & Performance Apparel market size in 2018 (\$bn)

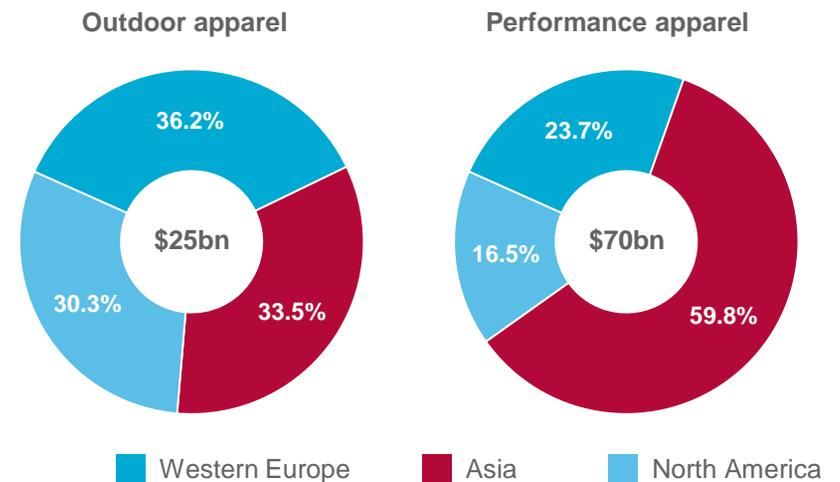


## Global growth trends, market outlook and geographic breakdown<sup>2</sup>

(\$ in billions)



## Breakdown by region<sup>1</sup>



Source: Euromonitor, company presentations

Note: <sup>1</sup> As of 2017A; <sup>2</sup> Represents Western Europe, North America and China



# Transaction Overview

# Transaction overview

## Purchase price

- €418mm / \$476mm<sup>1</sup> purchase price
- Represents ~12x fiscal 2018 adjusted EBITDA multiple<sup>2</sup> (before synergies or potential tax benefits)

## Financial metrics

- ~\$380mm<sup>1</sup> LTM revenue and ~\$40mm<sup>1</sup> LTM EBITDA
- Acquisition represents ~23% and ~19% of total pro forma combined LTM revenue and EBITDA<sup>3</sup>, respectively
- 2019 EBITDA forecasted to be lower due to near-term investments to drive sustainable long-term growth
- Long-term EBITDA margins are accretive to Callaway's current EBITDA margins
- Non-GAAP EPS<sup>4</sup> accretive and GAAP EPS neutral by year two

## Financing

- Intend to finance the transaction with a \$476mm Term Loan B
- ~2.9x pro forma 12/31/2018 debt / EBITDA<sup>5</sup>
- Ample capacity to continue to fund growth opportunities

## Expected closing

- Expected to close Q1'19
- Subject to regulatory approvals and other customary closing conditions

Note: LTM figures represent last twelve months as of 09/30/2018 (most recent Callaway quarter); See appendix for detailed adjusted EBITDA reconciliation

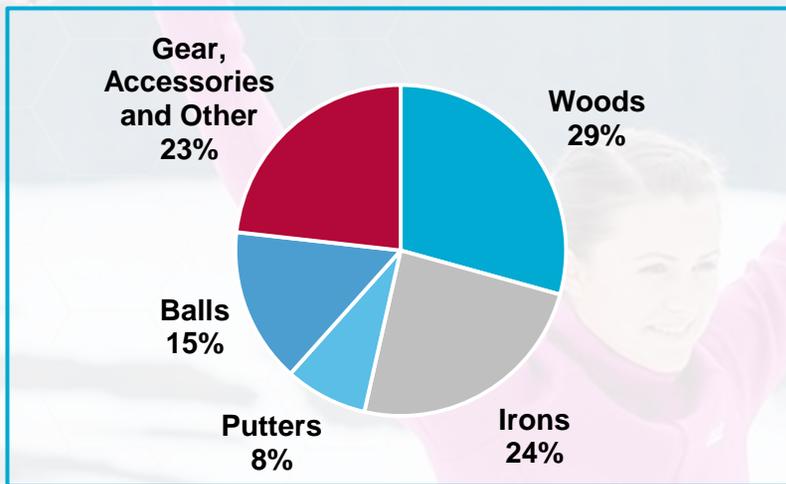
<sup>1</sup> Converted at EUR/USD of 1.140x; <sup>2</sup> Based on fiscal 2018 (ended 9/30/2018) adj. EBITDA of €35mm / \$40mm; <sup>3</sup> Based on Callaway 9/30/2018 LTM revenue and reported adj. EBITDA of \$1,254mm and \$173mm, respectively; <sup>4</sup> Non-GAAP EPS excludes non-recurring transaction costs, amortization of financing fees, and incremental non-cash expense resulting from the acquisition purchase accounting adjustments; <sup>5</sup> Based on Jack Wolfskin 12/31/2018 estimated EBITDA of ~\$40mm and previously disclosed Callaway full-year 2018 EBITDA guidance of \$153mm

# Diversifies Callaway's Hard Goods exposure and international presence

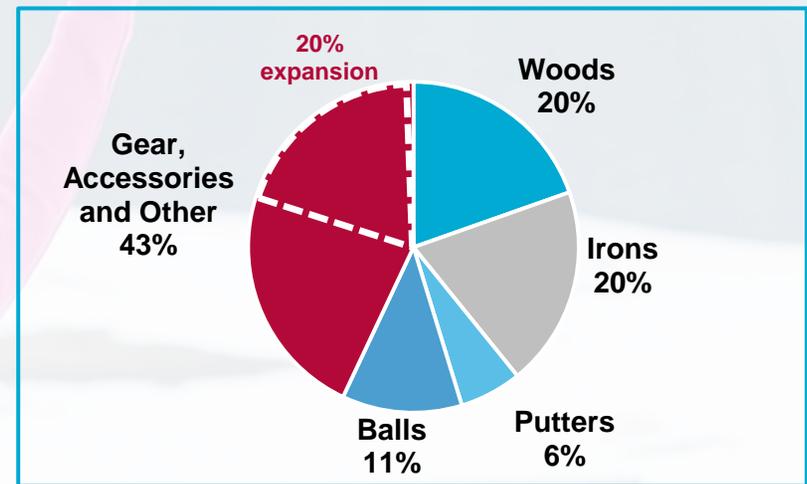


**Product**

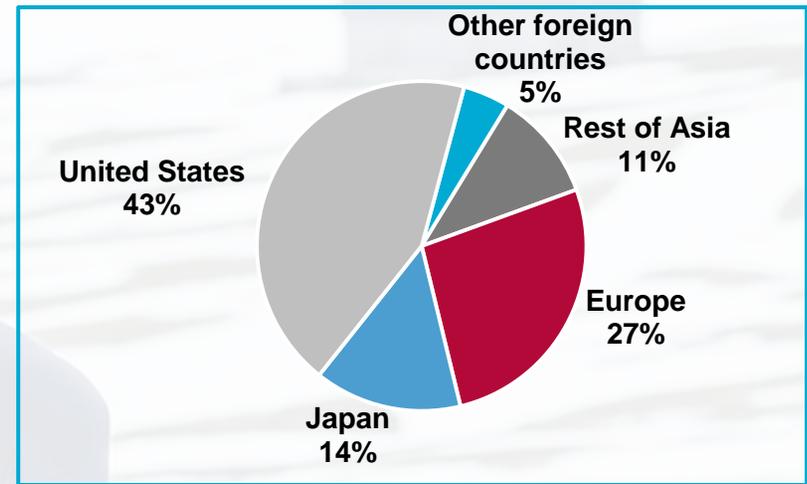
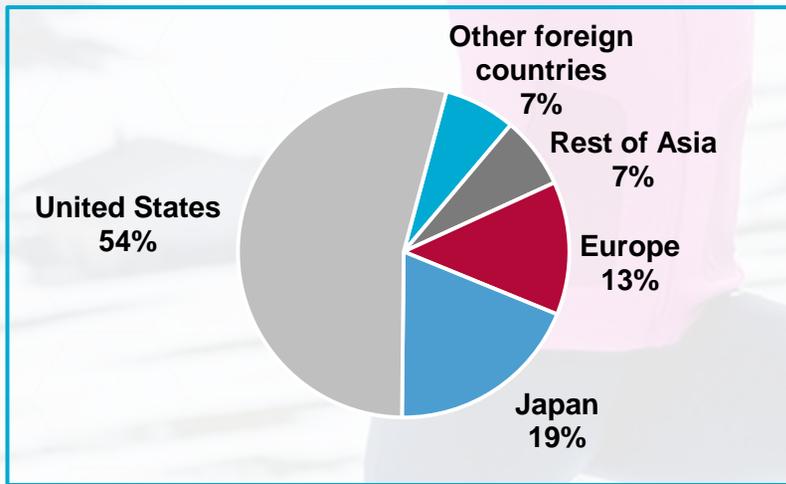
Callaway (2017A)



Callaway + Jack Wolfskin (9/30/2018 LTM)



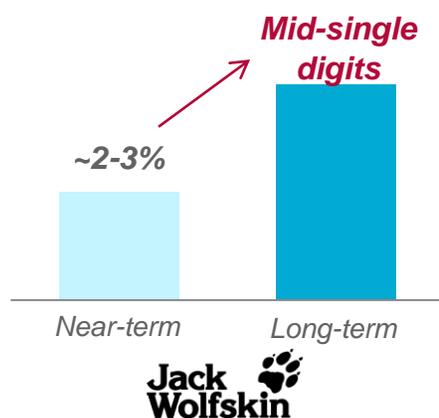
**Region**



# Acquisition supports Callaway's financial aspirations

## Enhance top line growth

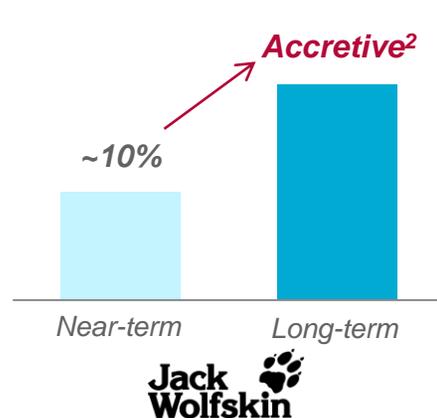
Revenue growth per year



- Tailwinds in Outdoor market
- China Winter Olympics (2022)
- Expansion into North America

## Profitability

EBITDA margin



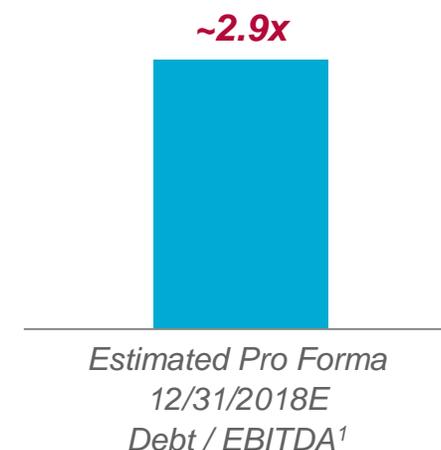
- Near-term investment in SG&A and marketing to drive growth
- Leverage ELY management focus on operational improvement
- Potential synergies

## Synergies



- Opportunity to leverage Callaway's expertise in branding, marketing, design and distribution
- Provides new potential European hub for distribution

## Healthy balance sheet



- Ample liquidity on balance sheet
- Strong free cash flow allows for quick deleveraging
- Maintain capital deployment priorities
- Counter-seasonal brand
- JW expected to be cash flow accretive by year 2

<sup>1</sup> Based on Jack Wolfskin 12/31/2018 estimated EBITDA of ~\$40mm and previously disclosed Callaway full-year 2018 EBITDA guidance of \$153mm

<sup>2</sup> Margin accretive relative to Callaway's LTM EBITDA margin of 13.8%

# Jack Wolfskin is a strong fit with Callaway's long-term strategy



- ✓ *Attractive business & industry*
- ✓ *Complementary from a geographic & product line perspective*
- ✓ *Long-term synergy potential*
- ✓ *Meaningful scale with low leverage*

Metric	Targets
Jack Wolfskin Revenue	<b>\$400 million</b> in near- to medium-term
Jack Wolfskin EBITDA	<b>\$50 million</b> in 3-4 years
Consolidated Callaway Portfolio of Revenue	<b>\$1.6+ billion</b> in near- to medium-term
Consolidated Callaway EBITDA	<b>\$200+ million</b> in near- to medium-term



# Appendix

# Adjusted EBITDA reconciliation



12 Months Ended September 30, 2018  
(Unaudited)

*All figures in thousands*

	As Reported* in Euro	Converted to USD **
Net sales	€ 333,723	\$380,444
Gross profit ***	162,168	184,871
% of sales	48.6%	48.6%
Operating expenses ***	130,258	148,494
Income from operations	31,910	36,377
Interest expense	15,713	17,913
Income (loss) before income taxes	16,196	18,464
Income taxes	6,898	7,864
<b>Net Income</b>	<b>€ 9,298</b>	<b>\$10,600</b>
Interest expense	15,713	17,913
Income tax expense	6,894	7,860
Depreciation and amortization expense	8,593	9,796
EBITDA	€ 40,499	\$46,169
Estimated difference in product costs using current Euro/USD FX rate ****	(5,361)	(6,112)
<b>Adjusted EBITDA</b>	<b>€ 35,138</b>	<b>\$40,057</b>

\* As reported per IFRS standards

\*\* USD figures converted at assumed EUR/USD conversion rate of 1.14

\*\*\* Distribution expenses reclassified from Operating Expenses to COGS

\*\*\*\* A significant portion of product cost is purchased in USD. This adjustment represents a restatement of those purchases at 1.14 Euro/USD spot rate as compared to actual rates at the time of purchase.



## Adjusted EBITDA reconciliation

	2018 Trailing Twelve Month Adjusted EBITDA				
	Quarter Ended				
	December 31, 2017	March 31, 2018	June 30, 2018	September 30, 2018	Total
Net income (loss).....	\$ (19,386)	\$ 62,855	\$ 60,867	\$ 9,517	\$ 113,853
Interest expense, net.....	2,004	1,528	1,661	1,056	6,249
Income tax provision (benefit).....	(4,354)	17,219	17,247	1,335	31,447
Depreciation and amortization expense.....	4,799	4,737	5,029	4,996	19,561
EBITDA.....	\$ (16,937)	\$ 86,339	\$ 84,804	\$ 16,904	\$ 171,110
Ogio & TravisMathew acquisition costs.....	1,677	—	—	—	1,677
Adjusted EBITDA.....	\$ (15,260)	\$ 86,339	\$ 84,804	\$ 16,904	\$ 172,787