TOPGOLF CALLAWAY BRANDS CORP. FOURTH QUARTER AND FULL YEAR 2022 EARNINGS CALL PREPARED REMARKS

Lauren Scott, Director of Investor Relations

Thank you, operator and good afternoon, everyone. Welcome to Topgolf Callaway Brands' fourth quarter and full year 2022 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. Jennifer Thomas, our Chief Accounting Officer and Patrick Burke, our Senior Vice President of Global Finance, are also in the room today for Q&A.

Earlier today, the Company issued a press release announcing its fourth quarter and full year 2022 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.

Lastly, to make sure we can accommodate questions from each of our analysts, we ask that you limit your questions to two.

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 our call and thank you for joining us today.

2022 was a very strong year for Topgolf Callaway Brands and for the sport of golf more broadly.

The Modern Golf ecosystem, which is comprised of both on and off course golf, had another record year.

According to the National Golf Foundation, for the first time, US golf participation exceeded 41 million people, up from 37.5 million people in 2021. On course golf grew by just over 500,000 participants, an excellent result coming off of strong performances in the last two years. At the same time, off course golf increased by 3.1 million participants and is now larger than on-course golf. With our increased venue count and same venue sales growth, we believe the off-course golf growth was largely driven by Topgolf. And, this is a growth trend that we have a high degree of certainty will continue, as our venue growth alone, should add approximately 3 to 4 million new unique off course visitors annually. With this, we can now clearly foresee a pattern of structural growth for the Modern Golf ecosystem with Topgolf Callaway Brands positioned squarely at the center of it.

Now, looking at our financial results: full year 2022 revenue was just under $4 billion and full year adjusted EBITDA was $558 million, up 22% and 25% year-over-year, on a twelve-month or full calendar year basis. We are very pleased with these results and I'd like to thank the entire Topgolf Callaway Brands team for helping us deliver them.

Turning to the fourth quarter, we had a strong quarter but a rare miss relative to our quarterly guidance. This was due to both more aggressive internal forecasting, combined with some short-term volatility in weather and expense timing. We see no change in major trends, our earnings potential or the health of our consumers.

We continue to take a long-term view when assessing our performance and feel very good about the trajectory of our business. We remain on track or ahead of our long-term financial targets. We also have increased conviction that our unique collection of brands provides us a competitive advantage in the Modern Golf ecosystem.

Shifting to our segment overview, I will first start with Topgolf's results.

2022 was an outstanding year for Topgolf. And I'd like to thank the entire Topgolf team, especially all of the playmakers at our venues, for making this possible. We delivered over $1.5 billion in revenue and $235 million in Adjusted EBITDA, growth of 26% and 31%, respectively on a twelve-month or full calendar year basis. This growth was driven by strong same venue sales growth, up 7% for the year compared to 2019, continued excellence in opening new venues, and improved operating margins. Most importantly, based on what we learned in 2022, we have more confidence and believe there is a bigger opportunity for this business than we did a year ago. As we enter 2023, we have ongoing brand momentum, and the Topgolf consumer continues to be engaged and strong.

During the fourth quarter, compared to 2019, same venue sales grew by 11% with traffic up 7%. The trends in the events business remained strong, including corporate events. These quarterly growth rates, while good, were a little below our internal forecast as the business was impacted by venue closures due to extreme cold weather during our peak holiday season in late December.

Also during the quarter, we opened 6 new venues for a total of 11 new venues in 2022. We finished the year with 81 owned and operated venues and 5 franchised venues. Two new venues of note are the Boise and Wichita venues, both excellent examples of a new size and format focused on our small to mid-sized markets. The new model is a more cost-effective way to serve our 50- to 72-

bay markets, and one we believe can unlock additional markets for expansion and ultimately increases the total addressable market in the US from 200 venues to 250 venues.

Looking ahead, we expect to open 11 new owned and operated venues again this year. The mix will be similar in size to last year (skewing large to medium) and like last year, it will be back-end loaded with only two venues planned to open in the first half of this year and eight planned to open in Q4.

The growth and operational improvement initiatives Artie spoke about at our Investor Day remain on track, the most impactful being the digital bay management platform. A proprietary system we internally call PIE. This new platform is essentially an inventory management system that will help our venue operations team utilize the bays more efficiently, and also allows for a more advanced reservation system. We believe this system will improve the guest experience and also increase profitability. It also builds a stronger digital relationship between Topgolf and the consumer. At the time of the merger, 10% of the Topgolf business was digital, now it is 30% but it should be more than half, and this digital platform is key to getting us there. The PIE system was in 18 venues as of the end of 2022. We expect to have it in all venues by the end of 2023.

We also continue to make strides on the international front. A significant milestone will be this spring's opening of China's first Topgolf Venue located in the interior city of Chengdu. This will be a massive 104 bay facility; built, owned and operated by our national franchisee there. As you would expect, China represents a massive long-term opportunity for Topgolf and thus both we and our franchisee are excited to get our first venue up and running.

Toptracer opened a little more than 2,300 bays for the quarter delivering just over 7,000 for the year. On the technology front, Toptracer continues to innovate and recently unveiled a new product specifically designed to elevate the golf coaching profession through an immersive data-driven experience. Toptracer is also gaining recognition as the #1 product in driving range tracking technology and recently entered into a partnership naming us "The Official Range Tracking Technology of the PGA of America." We believe this partnership will further strengthen our US green grass pipeline for this business.

Moving to the Golf Equipment segment, the core golf consumer remained strong and engaged throughout the year.

For the full year, our global Golf Equipment segment revenue was up 14% year-over-year or 20% currency neutral. Focusing on the U.S., our Golf Equipment revenues were up 17% year-over-year thus outperforming U.S. hardgoods shipments, which were up 9%, according to the National Golf Foundation. Clearly a strong year for the industry and an even stronger year for Callaway Golf. And, although I quote US metrics here for convenience, we had global success in 2022. Japan and Korea had particularly strong years, though partly masked by currency headwinds. Our US ball share ended the year at 20.5%, a new record, and our golf ball sales eclipsed $300mm for the first time in our history. Our US club market share was also up, finishing the year at 24.3%.

Looking forward to 2023. From a marketing and innovation standpoint, the new Paradym family of clubs represents a complete shift in performance and has been extremely well received both in the marketplace and on Tour. Paradym is a full line of product (driver, fairway woods, hybrids and irons). The driver features a proprietary 360-degree carbon chassis as well as a new version of our jailbreak technology and an AI designed face. On Tour, the Paradym driver has had an amazing start, winning 4 out of the first 5 PGA Tour events of the calendar year. At Callaway we talk about product that is Demonstrably Superior and Pleasingly Different, and the entire Paradym line is a great example of this.

In conjunction with the launch of our new products, we also announced new partnerships with Good Good Golf, an engaging and inclusive golf content platform, and Niall Horan, a famed singer-songwriter and avid golfer, as well as a multi-year extended partnership with Stephen Curry. These partnerships underscore our interest in broadening our reach within the Modern Golf ecosystem and engaging with golfers of all levels.

Turning to Active Lifestyle, we are pleased to report that the segment surpassed our $1 billion revenue goal for the year. This milestone was driven in large part by TravisMathew’s increased scale, continued momentum and increased profitability. TravisMathew delivered excellent results across all channels, including key wholesale partnerships, green grass pro shops, e-commerce and our own retail stores. Focusing on our own stores for a moment, during 2022, TravisMathew opened 11 new retail doors and delivered double digit same store sales growth for existing stores. In 2023 we plan to open another 9 stores for a total of 50 by year end.

While we don't plan to provide financial detail by brand on a regular basis, we are happy to announce that the brand also exceeded the $300 million revenue and $50 million adjusted EBITDA targets shared at our Investor Day. The momentum and growth prospects for TravisMathew remain strong.

The Callaway branded apparel and performance gear businesses also had outstanding years globally.

Jack Wolfskin had a challenging end to the year with COVID related shutdowns in China as well as consumer softness and unfavorable weather in Europe. Although the business is a smaller part of the total Topgolf Callaway Brands story, we feel good about this business's market positioning as well as what we believe are improving trends in both brand and product. Belief that is supported by recent industry awards and recognition at both Europe and U.S. trade shows. With this, we remain optimistic about the long-term potential of this business.

Turning now to our outlook for 2023, we are updating and expanding upon our previously disclosed guidance.

For the full year 2023, we now estimate revenues will be approximately $4.45 billion, up approximately 10-12%; and Adjusted EBITDA will increase approximately 11-15% to $620 to $640 million. On a segment basis, our full year outlook assumes:

- Continued success at Topgolf with approximately $1.9 billion of segment revenue and approximately $310 to $320 million in Adjusted EBITDA. With this forecast, it is worth noting that Topgolf is now forecast to account for approximately half of our total company Adjusted EBITDA. As mentioned, the Topgolf consumer and brand momentum remains strong. As a result, we are projecting a high single digit same venue sales growth for 2023 compared to 2022, with about a third of the growth coming from traffic and two thirds from ticket or price. For Q1, the same venue sales growth is expected to be higher than that of the full year due to the impact of Omicron in Q1 of last year.

- Our Golf Equipment segment revenues are expected to be approximately flat relative to 2022. We feel very good about our relative position and competitiveness in this segment. However, in our forecasting we are also taking into account the inventory catch up that occurred in 2022, some potential economic pressures and more competitor launches this year vs. last.
- And, lastly, Active Lifestyle should continue to grow at a low teens rate compared to 2022 with TravisMathew continuing to grow at a faster rate than the segment at large.

Additionally, we want to emphasize that 2023 is expected to be a significant year for the business, as we transition to being cash flow positive for both our parent company, Topgolf Callaway Brands, and the Topgolf division itself.

Our overall legacy business remains strong, plus we made a big bet on Topgolf that is paying off faster than expected and should continue to ramp from here.

With this, we have continued to strengthen our earnings and expand the growth potential of this unique business even in the face of macro-economic and FX headwinds. And, we remain on plan or ahead of the 2025, $800 million adjusted EBITDA target laid out during our Investor Day.

And now I'd like to turn the call to Brian to discuss the financials in more detail.

And, as a native son of Philly, I'd also like to add: Go Eagles!

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

Thank you, and good afternoon, everyone.

We are very pleased with our results for 2022, the first full year following the merger with Topgolf. It has been exciting to see the transformation of our business, both financially and culturally, as we collectively work to expand our reach and tap into the structural growth taking place within the Modern Golf ecosystem.

My remarks today will be focused more on our fourth quarter performance and forward-looking guidance, but I want to start with a few key highlights from the full year.

During 2022, we generated record net revenue of $3.996 billion dollars, a year-over-year increase of 28%, or 32% on a constant currency basis, driven by broad-based strength across each of our operating segments. This sales growth is despite a $148 million negative impact from changes in foreign currency exchange rates.

Full year non-GAAP operating income increased $42 million to $297 million, an increase of 16% year-over-year. This metric was heavily impacted from changes in foreign currency rates during the latter part of last year. On a constant currency basis, operating income increased 44% and operating margins increased 74 basis points compared to 2021.

Lastly, full year Adjusted EBITDA was $558 million, an increase of 25% or 42% constant currency compared to 2021. This is on track or ahead of our goal of $800 million in EBITDA by 2025.

With that brief overview, I will now review the quarterly results in more detail.

For the fourth quarter, net revenue was $851 million dollars, an increase of 20% compared to Q4 2021 or 25% constant currency. This performance reflects increased revenue across each operating segment, product category and region.

Our fourth quarter 2022 non-GAAP seasonal operating loss was $25 million, a 42% improvement compared to Q4 2021 due to the strong revenue growth. As a reminder, we have historically recognized a loss in Q4 due to the seasonality of our business. On a constant currency basis, non-

GAAP income from operations would have increased 73% and operating income as a percent of sales would have improved 476 basis points compared to fourth quarter 2021.

Non-GAAP loss per share was $0.27 on 185 million shares, compared to $0.19 per share on 186 million shares in the fourth quarter of 2021. Please note that a fully diluted share count, which includes shares associated with our convertible notes, only applies to periods with net income, and therefore a basic share count was used for Q4.

Q4 Adjusted EBITDA was $37 million, up 156%, over Q4 2021 or up 250% on a constant currency basis.

At the segment level, Topgolf contributed $410 million in revenue in the quarter, a 22% increase over 2021, reflecting strong same venue sales growth and additional new venues. Adjusted EBITDA for Topgolf was $43 million, down $3 million compared to Q4 2021 due primarily to higher pre-opening and marketing expenses.

Golf Equipment capped off a very strong year with Q4 revenue of $190 million, an 18% increase over Q4 2021, or a 25% increase on a constant currency basis. Segment operating income increased 103% to $700,000 of income compared to a $25 million seasonal loss in Q4 2021, as pricing and volume benefits more than offset higher input costs and foreign currency headwinds.

Lastly, our Active Lifestyle segment had revenue of $252 million, up 17%, or 28% on a constant currency basis, compared to Q4 2021. Segment operating income increased approximately $2 million year-over-year to approximately breakeven. This increase was led by continued momentum in the TravisMathew and Callaway brands that were partially offset by macroeconomic issues facing Europe and China, Jack Wolfskin’s largest markets.

Turning to certain balance sheet items.

We remain in a strong financial position with ample liquidity. At December 31, 2022, available liquidity, which is comprised of cash-on-hand and availability under our credit facilities, was $415 million dollars compared to $753 million dollars at December 31, 2021. The decrease from last year was due to continued investment in Topgolf and working capital increases in the Golf Equipment and Active lifestyle businesses which will support our growth this year. On a year-over-year comparison, we note that last year's working capital was abnormally low due to the disruptions in supply chain related to the pandemic.

At quarter-end, we had total net debt of $1.88 billion dollars, excluding the convertible debt of approximately $258 million, compared to $1.12 billion at the end of last year. This increase relates primarily to incremental new venue financing and higher working capital.

Our Net Debt leverage, which excludes the convertible note, was approximately 3.4x at December 31, 2022 compared to 2.5x at December 31, 2021. The increase was due to the new venue development and increases in working capital.

Consolidated Net Accounts Receivable was $167 million dollars as of December 31, 2022, compared to $105 million dollars at the end of the fourth quarter of 2021. The increase was due to higher revenues in our Golf Equipment and Active Lifestyle businesses compared to Q4 2021.

Our Inventory balance increased to $959 million dollars at the end of the fourth quarter of 2022 compared to $534 million at December 31, 2021. Days-Inventory-On-Hand are only slightly higher than pre-pandemic levels due to receiving launch inventory earlier than normal. Also, please remember that 2021 was abnormally low. Overall, we feel good about our inventory levels and expect inventory levels to normalize by the end of the year.

Capital Expenditures for the full year were $357 million dollars, net of venue financing reimbursements. This includes $281 million dollars related to Topgolf for the full year. Topgolf capex was higher than originally forecasted due to the timing of venue financing reimbursements. For the same reason, 2023 Topgolf capex is expected to be lower at approximately $175 million, net of venue financing reimbursements. Total company capex for full year 2023 is expected to be approximately $255 million, which includes $80 million of capex for the non-Topgolf business.

Now turning to our 2023 outlook. Our estimates are based upon foreign currency exchange rates as of the end of December 2022 and early January 2023 which is when we implemented our hedging program for 2023.

For the full year, we estimate net revenues will increase approximately 10% to 12% to be within the range of $4.415 billion to $4.470 billion. Topgolf segment revenue is expected to be approximately $1.9 billion, driven by new venue development and same venue sales growth. Golf Equipment is expected to be approximately flat year-over-year, and Active Lifestyle should increase at a low teens percent compared to 2022. The total company revenue estimate includes a $15 million negative foreign currency impact.

We expect full year 2023 Adjusted EBITDA will increase approximately 11% to 15% to be within a range of $620 million to $640 million, with Topgolf generating approximately half of that Adjusted EBITDA. The total company EBITDA estimate includes a $20 million negative FX impact.

For the first quarter 2023, we expect net revenue will increase approximately 9% to 11% to be within the range of $1.135 billion to $1.155 billion. We expect Topgolf segment revenue of just under $400 million, driven by same venue sales growth and the revenue benefit from Topgolf venues recently opened in Q4. The total company revenue estimate includes a $30 million negative foreign currency impact.

We expect Q1 Adjusted EBITDA to be within the range of $135 million to $145 million, which is below Q1 2022 Adjusted EBITDA of $170 million. The decrease is driven primarily by the impact of foreign currency, which we expect to have a $25 million negative impact on EBITDA for the first quarter. The Topgolf segment Adjusted EBITDA in the quarter will be slightly below the $42 million we generated last year, driven by higher marketing expenditures and a return to full staffing in the venues. The first quarter for the Company will also be impacted by the full year impact of corporate investments we made during 2022 to support our larger business.

We also want to note that we are at an inflection point in our business where we expect that both the total company and the Topgolf business will be cash flow positive in 2023 – a year ahead of plan at the time of the merger.

We are proud of our results for 2022 and very grateful to the team of employees around the world who helped deliver them. We remain excited about the growth prospects of our business and are confident that our competitive positioning across each segment and the embedded growth within our business will keep us on track to deliver on our long-term outlook and to create meaningful shareholder value.

And finally, I would like to emphasize what Chip said earlier: Fly Eagles Fly!

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

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