CALLAWAY GOLF COMPANY SECOND QUARTER 2026 PREPARED REMARKS

Patrick Burke, Senior Vice President of Investor Relations and Treasury

Good afternoon, and welcome to Callaway Golf Company's second quarter earnings conference call. I'm Patrick Burke, Senior Vice President of Investor Relations and Treasury. Joining me 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 second quarter 2026 financial results. Our earnings presentation, as well as earnings press release, are both available on our 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. Please review the safe harbor statements contained in the presentation and the press release for a more complete description.

With that, I would now like to turn the call over to Chip.

Chip Brewer, President and Chief Executive Officer

Thank you, Patrick. Good afternoon, everyone and thank you for joining our call today. I'm pleased to report that our company delivered a strong second quarter and a very solid first half. These results show that we are building momentum as a focused, pure-play, golf company. And, our performance reflects healthy market conditions, strong product acceptance, meaningful gross margin improvement, and disciplined execution across the business.

I want to thank our teams for their continued focus and contributions. These teams are executing well in a dynamic environment and managing the business with the right balance of confidence, agility, and discipline.

I'd also like to remind everyone of the significant transformation our company has accomplished over the last year. In late May of last year, we completed the sale of Jack Wolfskin, and then in January of this year, we completed the sale of a 60% interest in Topgolf. Since the beginning of this year: we announced a new $200 million share repurchase program and then repurchased approximately 42 million dollars worth of our stock in both Q1 and Q2, we also paid off in full our $1.2 billion of term loan debt and our $258 million of convertible notes. These moves returned us to a cash generating, pure play golf company, with a terrific balance sheet and a clear capital allocation strategy aimed at steadily returning capital to shareholders. We are now only six months into this renewed journey as a pure play. But, we are showing clear progress strengthening the business, and delivering against our stated financial and capital allocation goals. And, based on the strengths of our business and our history of performance in this space, this is a journey that we are confident in going forward.

Turning to our results. Q2 revenue was $612 million, up 2% year-over-year, and Adjusted EBITDA was $125 million, up 36% versus the prior year. Both of these results were ahead of expectations as we exceeded the midpoint of our Q2 guidance by approximately $15 million in revenue and $22 million in Adjusted EBITDA. The revenue upside was driven by heathy market conditions as well as continued strength in the equipment segment, especially in golf balls. The Adjusted EBITDA upside reflected flow-through from the revenue beat, as well as continued progress on our gross margin initiatives.

For the first half, revenue increased 6% and Adjusted EBITDA increased 33%; highlighting the operating leverage and execution benefits of our more focused golf platform. We believe this performance was better than the broader market across both the Callaway and TravisMathew brands.

Gross margin expanded 460 basis points in Q2 and 360 basis points in the first half. This reflects continued progress against our margin initiatives and the benefits of portfolio actions designed to improve the long-term quality of our revenue and earnings. This gross margin improvement is a step in the right direction, and a testament to the cost management and margin improvement projects that we have been focused on over the last year, and that will continue to be a focus for us going forward.

Turning to market conditions. Healthy golf participation and sell through data continues to be supported by a committed and enthusiastic player base. Consumer interest in the game and overall participation trends remain positive, just as they have been for several years now.

In the U.S., rounds played through Q2 are up approximately 4% YTD. Similarly, we estimate that golf equipment sell-through at key accounts was up low to mid-single digits for both the quarter and year to date. In the UK and Europe, we estimate that our trade partners' sell-through is up low to mid-single digits year to date but that rounds played are down simply due to unfavorable weather year over year. In Japan the market was up low to mid-single digits in Q2 and is now up slightly for the full year, while market conditions in Korea remain down approximately 10%.

Using this data as the backdrop, for the year to date, we appear to have grown our golf equipment revenue faster than the market in all major regions. And, as you step back and think more deeply about this data, in the face of dynamic global macro-economic and political conditions, low consumer confidence readings, increased gas prices, increased golf equipment pricing, and The World Cup; one can't help but be impressed by the resilience of the golf consumer.

Now turning to look at our business by segments.

In Golf Equipment, the portfolio continues to show strength across several important categories.

In Golf Ball, the Chrome Tour family and Supersoft franchises continue to resonate with consumers, and our share progress continues to validate the investments we have made in product performance, manufacturing capabilities, and green grass distribution. Our Q2 Golf Ball revenue was up 15% with our first half up 8%, even with intentionally reducing volume via the elimination of low margin SKUs to support improved efficiency. Our June 2026 US market share established another record high for us, up 250 basis points, year over year, to just over 23% overall and with on-course share just over 24%.

In clubs, the Quantum family of woods and irons has continued to receive positive market feedback. The Quantum driver with Tri Force technology, demonstrates the strength of our product engine, and its performance has been encouraging. In the US, both our year-to-date driver and total woods share is approximately 25%, up 110 bps and 120 bps respectively.

Within the woods category, high-lofted fairway woods have been a particularly strong area for the industry overall and for Callaway. Building on this, and leveraging our tradition of innovation, last Friday we announced the addition of a new approach to high lofted fairway woods we call "Mini Spinners". Available in a 7, 9 and 11 wood; these clubs are easier to hit and, for many consumers, a more effective approach to high-lofted fairway woods. They will be shipping to retail later this month and we anticipate a positive reaction.

In the putter segment, MyGolfSpy recently named the Odyssey Ai-Dual S2S #7 the Best Overall Zero-Torque Putter of 2026, as well as the best zero-torque putter for long putts. Recognition like this is another proof point of our ability to develop and bring differentiated technology to market.

Turning to the apparel and gear segment, the Callaway brand performed roughly in line with expectations while Travis Mathew maintained its strong start to the year and performed slightly ahead of expectations.

At Travis Mathew, consumer response to the women's offering remains positive, and the brand continues to gain ground in the important men's golf category, supported by clearer product pillars, more focused marketing, and exciting new products. We are in the early innings of this men's product merchandising strategy shift; but, based on the consumer reaction thus far, I'm optimistic regarding its potential. Accordingly, in the first half of this year, the Travis Mathew business grew in its DTC business and also had strong performance with key wholesale partners.

One additional area that we are at liberty to discuss now, is the planned closure of four Travis Mathew stores that were not hitting our financial targets. These stores will close in Q4 of this year, and the financial charges for these closures was included in our Q2 financials. This will leave us with a stronger and more profitable retail fleet of 61 stores going into 2027. Similar to our previously mentioned sku rationalization across both the Callaway and TravisMathew brands, this is another strong example of us making disciplined long-term decisions as we refocus on our core business.

Turning to Tariffs, these continue to be a dynamic area but have been a tailwind for us relative to our expectations going into the year. We have also recently begun receiving refunds for the IEEPA tariffs with more expected in the future. Brian will add more color on actual and forecast tariffs in his section. It is worth calling out though, to protect inter-year comparability and to provide what we believe is a cleaner look at our performance, we made the decision to back out the IEEPA refunds from our Non-GAAP numbers and forecasts.

Now moving to our forward guidance. Given the strength of our first half performance and the continued resilience we are seeing in the golf market, we are increasing our full-year revenue forecast by 15 million dollars at the midpoint. This increase reflects the $15 million Q2 outperformance, a $5 million organic increase in our second half outlook, partially offset by a $5 million negative adjustment due to updated FX rates. On the bottom line, we are increasing the midpoint of our full year EBITDA guidance by 31 million dollars. This represents the Q2 beat, improved second half tariff estimates based on the new 301 tariff rates, the flow through from the increase in second half organic revenue, and modestly better gross margin expectations.

As you look at our financial results and expectations, I think it is clear that we are anticipating a good year and that the core business is strengthening. The first half speaks for itself with results that we believe outperform the market and show that our profitability initiatives are working. For the second half, it is worth reminding everyone that, as mentioned on our previous two calls, we are expecting our revenues and profit in the second half of the year to be impacted by strategic initiatives designed to enhance long term profitability. This includes extending product life cycles in our iron business by pushing a significant launch out of this year into next, rationalizing lower margin portions of our business, and increasing our investment in fitting. While these actions will negatively impact the back half of this year, they represent a deliberate, disciplined approach to driving sustainable margin expansion, revenue growth and stronger free cash flow over time.

In closing, we are encouraged by the fact that the game of golf remains healthy, our brands and products are resonating well with both consumers and retail partners, thus allowing us to grow faster than the market for the first six months of the year; and our profitability initiatives are bearing fruit. And, perhaps more importantly, as we are now six months into our return to being a focused, pure play golf company; we are both enjoying and benefitting from the added focus that our new structure provides. This gives us increased confidence that we will be able to further strengthen our business going forward, and we are energized by these prospects.

With that, I will turn the call over to Brian to review our financial results in more detail.

Brian Lynch, Chief Financial Officer and Chief Legal Officer

Thank you, Chip and good afternoon everyone. We are pleased with our second quarter results and encouraged by the progress we have made on our transformation back to a pure play golf company. In the first six months of this year, we have significantly improved the profitability of our business, fortified our capital structure and started returning capital to shareholders. While there is more work to be done, we are energized by the progress to date and excited by what lies ahead.

Now let's turn to our financial results in more detail. Please note that on today's call, I will be discussing our non-GAAP financial results from continuing operations unless otherwise noted. We have provided in our earnings release today a reconciliation of these non-GAAP results to the GAAP results and we provided additional information about the discontinued operations.

With that said, second quarter consolidated net sales increased 2% year-over-year to $612 million. This performance reflected a 4% increase in golf equipment net sales, driven by strength across both clubs and balls. Soft goods net sales decreased 4%, primarily due to the timing of shipments between Q1 and Q2 and FX headwinds in Asia, while Travis Mathew grew slightly in the quarter.

Q2 gross margin increased 460 basis points to 48.5%, driven primarily by continued progress on our gross margin initiatives, including select price increases, cost reductions and rationalizing select lower margin business, with tariffs providing a slight positive impact to the year-over-year increase. Excluding the tariff benefit, Q2 gross margin increased 440 basis points year-over-year. The improvement was broad-based, with gross margin expansion in both the Golf Equipment and Soft Goods segments.

Q2 operating expenses increased approximately $1 million or less than 1%, as cost-of-living increases and inflationary pressures in the Golf Equipment and Soft Goods segments were largely offset by a $4 million (or 13%) decrease in corporate overhead expenses, primarily due to the Company's strategic transformation and related cost-savings initiatives.

Adjusted EBITDA of $125 million increased 36% year-over-year. This improvement was driven primarily by higher net sales, improved gross margins, and corporate cost savings with tariffs providing a slight incremental benefit in the quarter.

Moving to liquidity, we ended the quarter in a net cash position. As of June 30, 2026, we had $74 million of outstanding debt, including $23 million of finance leases, and $278 million of unrestricted cash and cash equivalents. Total available liquidity, which consists of cash on hand and availability under our credit facilities, was $775 million at the end of the second quarter of 2026, compared to $1.16 billion at the same time last year, a decrease of $387 million, which was primarily due to cash used for our debt paydown of $1.4 billion in the first half of 2026.

During the quarter, our $258 million of Convertible Notes matured on May 1 and we settled the notes in cash. Additionally, on May 29, we paid in full the remaining $163 million outstanding under our term loan B facility. We also continued to return cash to shareholders and have now repurchased 5.9 million shares through June for a total cost of approximately $84 million. Broken down by quarter, we repurchased approximately $42 million of stock in the first quarter and approximately $42 million in the second quarter. As of June 30, 2026, we had approximately $120 million of repurchase authority remaining under our current program.

Looking ahead, Callaway Golf's capital allocation priorities remain unchanged as we focus on:

1. Reinvesting in our business
2. Maintaining a healthy balance sheet and
3. Returning capital to shareholders through the $200 million stock repurchase program authorized earlier this year

As we continue to generate free cash flow in excess of our business needs, we will work with our Board to balance cash needed to re-invest in the business and returning capital to shareholders. We still expect to end the year in a net cash leverage position. With regard to future share repurchases, no decisions on the magnitude or timing of repurchases have been made at this point. However, based on our expected continued performance, and subject to market conditions and buying opportunities from time to time, we plan to continue to steadily return capital to shareholders at some level while maintaining a strong balance sheet. And to be clear, the purpose of the share repurchases is not only to reduce dilution from equity awards but also to reduce share count meaningfully over time.

Next, I want to give a quick update on tariffs following the expiration on July 24th of the temporary 10% global minimum tariffs under Section 122 of the Trade Act of 1974 and the implementation of new Section 301 forced labor tariffs, which took effect the following day and ranged between 10% - 12.5% depending on the country.

The tariff situation remains dynamic and there is some speculation additional tariffs under Section 301 or otherwise will be forthcoming. Since we don't actually know if such additional tariffs will be implemented or when or in what amount, our guidance today incorporates only the forced labor tariffs under Section 301 that began on July 25th. We had previously assumed tariffs would increase to 20% once the temporary tariffs expired so the recently announced Section 301 tariffs are upside versus our previous guidance. We now expect that the full year gross tariff expense for 2026 will be approximately $43 million, a net improvement of approximately $7 million compared to our prior guidance. The full year gross tariff expense in 2025 was $34 million.

We continue to believe that we have the opportunity to obtain refunds for tariffs paid up to just under $50 million in the aggregate over the course of the refund program. We have applied for both Phase 1 and Phase 2 refunds, representing approximately $11 million and $32 million, respectively, and have received all of the Phase 1e refunds to date and almost $7 million of the Phase 2 refunds. We expect to receive the balance of the Phase 2 refunds in the second half of this year. There also should be another almost $7 million to apply for in Phase 3, which brings our refund potential to approximately $50 million, consistent with what we discussed last quarter.

One final point for the sake of clarity. On a GAAP basis, we recognized $10.8 million in Q2 for the tariff refunds. We excluded those refunds from our non-GAAP results to give a clearer picture of our period-over-period results. The almost $7 million of Phase 2 refunds we received were recognized in Q3. We will continue to account for additional refunds as we receive them, and we will continue to exclude the refunds from our non-GAAP results.

The cost pressures we discussed last quarter from broader geopolitical activity continue. As a reminder, these include increases in certain commodities and strategic metals such as tungsten which have increased multiples over 2025 costs. In addition, conflict in the Middle East has led to increased petrochemical-based cost pressures, including increased energy costs for us and our suppliers and increased petrochemical-based raw material costs, primarily those used in golf balls. These cost pressures are included in the guidance we provided today.

Now turning to our full year and third quarter 2026 outlook. Given our strong first half results and general health of the golf market, we now expect full year 2026 net sales of $2.045 billion to $2.070 billion, an increase of approximately $15 million at the midpoint. The increase reflects the flow-through of our Q2 net sales beat, as well as an additional $5 million organic raise in the second half of the year, partially offset by approximately $5 million of additional foreign exchange risk.

As a reminder, our net sales in the second half of this year will be impacted by fewer new product launches compared to 2025 as well as the continued rationalization of select lower margin business. We continue to believe these actions will strengthen our business and support higher overall margins over the long-term.

With regard to EBITDA, we are increasing our adjusted EBITDA expectations to $246 million to $260 million, an increase of $31 million at the midpoint of guidance. This increase represents the following:

1. $21 million of the increase is related to the flow-through of the non-tariff Q2 EBITDA exceed
2. Plus an additional $3 million from the flowthrough of our improved net sales outlook and a slightly improved gross margin outlook.
3. Plus an additional $7 million from the revised tariff estimates I discussed earlier.

As a reminder, lower dividend income will be an approximate $12 million year-over-year headwind to adjusted EBITDA in the second half. This is due to the excess cash we held in the back half of last year, generated from the business and the sale of Jack Wolfskin, which we subsequently used along with proceeds from the Topgolf sale to pay down $1.4 billion of debt in the first half of this year. While this reduces EBITDA versus last year, it is a net benefit to free cash flow given the higher cost of debt relative to the yield we were earning on cash.

Turning to cash flow and margins, we expect 2026 capital expenditures of approximately $40 million. While we are not providing specific free cash flow guidance, we do expect the increase in our adjusted EBITDA to generally flow through to additional cash flow.

For gross margin, a reminder that due to the seasonality of our business, gross margins are meaningfully lower in the second half compared to the first half. In addition, while we continue to expect improvement year over year, we anticipate second half gross margins to increase less than the first half due to the lower volumes related to the change in launch cadence we mentioned earlier.

And lastly, remember that our cost savings initiatives began in the second half of 2025, which will affect year over year second half comparisons. As a result, while we expect corporate overhead expenses to decrease for the full year, second half corporate overhead expenses will likely increase compared to last year due to cost of living and other inflationary pressures.

Now turning to Q3 guidance.

For Q3, we are forecasting net sales of $415 million to $435 million and adjusted EBITDA of $10 million to $20 million. The year-over-year decrease in revenue primarily reflects the change in launch cadence, tougher second-half comparisons following 8% U.S. sell-through growth last year, and FX headwinds. The year-over-year decrease in Adjusted EBITDA is primarily driven by the flow-through of lower revenue, lower dividend income, and cost-of-living increases, partially offset by continued gross margin improvement and more favorable tariffs.

Over the past year, we have greatly simplified our business and strategy. We have sold our Jack Wolskin business and 60% of our Topgolf business. We have returned to a pure play golf company and significantly improved our profitability. We have also significantly improved our capital structure, having paid down $1.4 billion in debt and eliminated recourse to Callaway for the Topgolf debt, resulting in a net cash position. And our shareholder value creation strategy is straight forward. That is grow revenue over time faster than the golf market, continue to improve the profitability of our business, generate cash and return capital to shareholders. We are excited by our progress over the last six months and look forward to creating additional shareholder value by continuing to execute upon this strategy.

With that said, I will turn the call back over to the operator for Q&A.