TOPGOLF CALLAWAY BRANDS CORP.
SECOND QUARTER 2025 EARNINGS CALL PREPARED REMARKS

Katina Metzidakis, Vice President of Investor Relations and Corporate Communications

Good afternoon, and welcome to Topgolf Callaway Brands' second quarter earnings conference call. I'm Katina Metzidakis, Vice President of Investor Relations and Corporate Communications. Joining me on today's call are Chip Brewer, our President and Chief Executive Officer, Brian Lynch, our Chief Financial Officer and Chief Legal Officer and Artie Starrs, Chief Executive Officer of Topgolf.

Earlier today, the Company issued a press release announcing its second quarter 2025 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 Katina.

Good afternoon everyone, and thank you for joining our call today.

Starting on slide 4: Q2 was another strong quarter for our company, as we met or beat expectations across all three segments of our business. I was particularly pleased with the continued consumer strength in our Golf Equipment business, our margin improvements there, and the excellent consumer response to Topgolf's value initiatives, which have significantly improved our traffic and sales trends. On the strategic front, we closed our previously announced sale of Jack Wolfskin, thus enabling greater business focus, as well as providing further financial flexibility as we move forward on our strategic process for Topgolf.

As you can see on slides 5 through 7, given the strong year-to-date results, as well as our confidence in our ongoing initiatives, we are raising our full year guidance for the consolidated business, adjusted for the sale of Jack Wolfskin in May of this year. This includes higher full-year estimates for both Topgolf and our Core business. And, we are doing this while absorbing the impact of the additional tariffs that were announced after this year's initial guidance was provided in February.

Turning to tariffs, our best estimate of this year's impact is now approximately 40 million dollars, up from 25 million at the time of our last call. This estimate is included in our full year guidance, net of our mitigation and cost reduction initiatives which are, of course, ongoing. We believe we are benefitting from having been proactive on cost and margin initiatives over the last 12 months, as well as our scale in our category, and the expertise of our supply chain team.

Before going further, I'd like to thank all of our employees and partners for their outstanding work year-to-date, in driving our better-than-expected performance in what is an uncertain and challenging operating environment. The strength and dedication of our teams is making a big difference and is highly appreciated.

Now turning to our segment performance, and starting with Golf Equipment, both revenues and operating margins were ahead of expectations and market conditions remain healthy, especially in the important US market.

For the quarter, our operating margins are approximately flat year-over-year, despite incremental tariff expense, and benefiting from cost reduction and margin initiatives that we put into place over the last 12 months as well as healthy market conditions and some help from year-to-date improvements in foreign exchange rates.

US rounds played are down a little year-to-date, simply reflecting the weather; but are approximately flat on a playable hour adjusted basis. As mentioned, the US golf consumer remains healthy and engaged. Looking outside the US, market conditions remain strong in the UK and Northern Europe markets, but are a little softer year-over-year in Asia and Central Europe.

Our market shares are down a little this year, reflecting a more competitive launch cadence and one hundred percent consistent with our previously communicated expectations. I continue to feel good about the golf equipment segment, our brand and our outlook.

In the second half of this year we will be launching several exciting new products, including our new single piece forged line of X Forged and X Forged Max irons as well as our new premium Opus SP wedges featuring Spin Pocket technology. These are exciting new products that we believe will be well received in the marketplace. We also created some fun brand energy via our partnership with the Happy Gilmore movie and our Odyssey Hockey Stick putters and Chrome Tour golf balls. Perhaps even more importantly, we remain confident in our product development pipeline and the products that we will be launching in 2026 and beyond. We believe our continued commitment to product development and innovation will drive our long-term brand and technology leadership positions.

As a result of all of this, we are raising our full year revenue expectations for our golf equipment segment.

In the Active Lifestyle segment there is little new to report from an operational basis. Based on third party data, market conditions for the athleisure category remained down mid-to-high single digits during Q2. Our revenues reflected these market conditions, partially offset by the continued growth of the Women's category at Travis Mathew and positive sell through trends in the Callaway apparel brand in Japan. Segment operating margins are up year-over-year, benefiting from our cost reduction and margin initiatives, as well as the sale of JackWolfskin.

Turning to Topgolf, our traffic trends improved considerably, with same venue sales finishing Q2 down approximately 6%. This was better than our expectations, as our value initiatives and our Summer Fun Passes both exceeded our forecasts. same venue sales for the first four retail weeks of July continued the positive trend at down approximately 3%. Perhaps most importantly, our traffic results were up 6% in Q2 and 12% in that same July period.

Last quarter, we explained that third party research shows that the consumer continues to enjoy the Topgolf experience but that we have to reposition our value perception. As shown on slide 11, this continues to be the case, as HundredX data measuring 21 Entertainment and Dining Brands ranks Topgolf #1 in the important metrics of Fun, Atmosphere, and Food and Drink; but, only 16th for Value and 19th for Price. Data like this drove the team to lean into the expanded value initiatives we implemented during Q2 and, after doing so, the definitive consumer reaction to these initiatives reinforces our belief that we are on the right path. And, let me be clear, given the strength of our concept along with its substantial defensive moat, we view this as a big strategic move with significant upside. One that will be particularly important as Topgolf transitions to an independent company. As we change the consumers' value perception on Topgolf, and continue to drive the quality of the experience, we are opening ourselves up for both more new and repeat customers, as well as sustained performance throughout inevitable economic cycles.

Turning to margin, the team also continues to do an excellent job in this area, again exceeding our internal expectations and delivering Venue-Level EBITDAR margins that were approximately flat year-over-year, despite eliminating booking fees, adding significant value and the already mentioned decline in same venue sales. These results reinforce our long-term conviction for upside in venue-level margins, even while driving improved value. Artie will give you more color on this, during his comments.

Turning to Topgolf's balance of the year same venue sales and revenue guidance: we are revising the same venue sales guidance from down 6 to 12% to down 6 to 9%. For Q3 specifically, we expect same venue sales to be down low-to-mid single digits.

During his section, Artie will provide you with more specifics on the key initiatives that have driven our stronger than expected results for Q2 and that we are excited about for the balance of the year.

Now switching to the Topgolf Process: we remain 100% committed and active in the process, we are still evaluating both a spin and a sale. However, the pending change in leadership at Topgolf – which we announced last week – makes a spin impractical for the second half of this year. If a spin is the ultimate shareholder value maximizing path, it will most likely occur in 2026 after we have a new CEO in place.

In conclusion: I'm pleased with our results and the direction of our business. I believe our teams are doing an excellent job managing a complex and at times uncertain environment, while also staying focused on continually improving our Core businesses and effectively managing our strategic process. We remain energized and excited about our future.

Before I turn it over to Artie, I'd like to thank him for his leadership at Topgolf over the last four and a half years and wish him well in his new opportunity.

Now, Artie, over to you for a more in-depth view of Topgolf and then to Brian for CFO comments.

Artie Starrs, Chief Executive Officer, Topgolf

Thanks Chip.

I'd like to share our performance for each of our key focus areas along with what to expect for Q3 2025 and balance of year starting with same venue sales.

In Q2, our core 1-2 Bay business was down 5%, with traffic up mid to high single digits and our 3+ Bay / Corporate Events business was down 12%, with traffic up low single digits. We are particularly excited about the brand's 6% traffic growth overall in the quarter alongside EBITDAR margins that were approximately flat year-over-year despite the added value mix and the removal of booking fees. Our playmakers across the organization are focused on driving profitable traffic growth and it's clear our players are responding to the strategic pivot we made in Q2.

As mentioned on last quarter's call, our number one priority is to drive traffic growth and improve value perception. Our value offerings: Sunday Funday, Topgolf Nights, early week value and the Summer Fun Pass have seen an immediate positive response and resulted in traffic accelerating throughout the quarter and into the beginning of the 3rd quarter. June traffic was up approximately 10% and July traffic was up approximately 12% with same venue sales for retail July (the first four weeks of the quarter) down approximately 3%. I'm very pleased with the balance of new and repeat players that are enjoying these offerings, which make up approximately one third and two thirds, respectively. Our strategy of offering more compelling and accessible value is working and we plan to stay the course as these offers continue to build momentum. I'd like to specifically call out the Summer Fun Pass which offered unlimited play during non-peak weekday hours exceeded our expectations – selling more than 2x the number sold when we last offered a pass in 2022. The success of our Summer Fun Pass gives us a lot of enthusiasm ahead of the launch of our new subscription program which we will be rolling out in a sampling of venues in late Q3, in a process similar to the value rollout that's been successful in Q2, with broader implementation during Q4. It's clear that players see value in these passes and subscription-based offerings, and it's a natural fit for the Topgolf target audience– especially families and golfers.

While the 3+ Bay events business will likely remain challenged in the near term, as lead volumes remain down, we are encouraged by the changes we have made, providing more flexibility on rates and times for event planners, which have increased conversion rates year over year. Despite the soft outlook for 3+ Bay events, as Chip mentioned, we have increased our overall 2025 same venue sales guidance given the momentum we are seeing in 1-2 Bay. We are seeing strong continued growth in youth events in 3+ Bay events and are building an additional layer which will support the business long term when the corporate events environment reverts and improves.

We have continued to make enhancements to the experience, our 60- and 90-minute reservations – rolled out system-wide in Q2 – are mixing at approximately half of total digital reservations. Our rollout of the Toast point of sale system is on track – with approximately 20% of venues on the new point of sale system and we expect a little over half of our venues to be on Toast by year end. Early signs show that spend per visit has improved in these venues given the more seamless and speedier playmaker service. As we get deeper into the rollout, we'll see increasing benefits including mobile order in the bay which we expect to further boost spend per visit, improve player experience, and allow our Playmakers to do what they do best – interact with players to bring more joy to their Topgolf experience.

Finally, on the games front, we had a successful launch of our second Marvel experience, bringing the Fantastic Four into our Block Party game. This brings newness to an existing Topgolf equity in Block Party and leverages a powerful partnership with another global entertainment brand. To capitalize on the upcoming football season, we are launching our first ever Topgolf football game in the fall. In 51 venues, we are in the process of installing professional football spec field goal posts with a Topgolf game that creates a fun, competitive environment where the task is simple – hit a golf ball through the posts. Our marketing calendar will be focused on activating the Topgolf occasion around the biggest sport in America. We are very excited to bring football to life at Topgolf with our new game complemented by new offerings to encourage gathering at Topgolf to watch football this season.

On the development front, we opened Panama City Beach at the end of the quarter. It's been another strong opening, consistent with modeled returns, and a 72-bay hybrid venue. Player response to the brand in the market has been outstanding. We will open three more venues this year, so four total in 2025, with New Braunfels, Texas, Woodbury, Minnesota, and Avon, Ohio set to open late in the fourth quarter.

In closing, I'm very pleased with the accelerating traffic results in Q2 that continued in July. We are expecting Q3 same venue sales to sequentially improve from Q2, down low- to mid-single digits, and we are committed to continuing to refine our offerings to respond to what we know players want from Topgolf.

Though I will be staying through September to ensure a seamless transition, this will be my last earnings call, and I would like to take a moment to recognize the accomplishments the team has had over the last four plus years. These include, but are not limited to, the step change improvement in margins alongside Player Experience enhancements, our now robust digital business which has enabled the immediate change in perception on value and sustaining the amazing culture in our venues and Venue Support Center that makes Topgolf such a differentiated brand.

Chip, I'm particularly grateful for your support and mentorship throughout.

The future is very bright for Topgolf, and the leadership team is well positioned to drive future profitable growth.

Over to you, Brian.

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

Thank you, Artie and good afternoon, everyone.

We are pleased with our second quarter results in the current environment as we exceeded our forecast for the second quarter, allowing us to absorb the recently announced incremental tariffs and increase our full year guidance for our ongoing businesses.

Before moving to Q2 results, I want to comment on the sale of the Jack Wolfskin business. Our teams did a great job hustling to close the transaction one month earlier than anticipated. Compared to last year, this resulted in approximately $15 million less in revenue, but more importantly resulted in approximately $7 million more in adjusted EBITDA as we avoided the June loss that typically occurs at Jack Wolfskin due to the seasonality of that business. In addition, the closing of this transaction marks a significant milestone as we continue to realign our strategic priorities toward our core businesses and enhance the Company's financial flexibility in preparation for the planned separation of Topgolf.

Turning to our Q2 results, consolidated revenues were $1.11 billion, representing a 4% year-over-year decrease primarily due to decreased revenue in the Active Lifestyle segment, which in turn was primarily due to decreased revenue in the Jack Wolfskin business. Excluding the impact from Jack Wolfskin, sales would have declined approximately 2%, primarily due to the decline in Topgolf Same Venue Sales. Overall results exceeded our expectations, largely due to stronger-than-anticipated performance in the Topgolf and Golf Equipment segments.

Q2 Adjusted EBITDA of $196 million decreased 5% year-over-year, primarily due to the decreased revenue, incremental tariffs and increased foreign currency hedge losses, partially offset by the impact from the sale of Jack Wolfskin, gross margin improvement initiatives and cost savings initiatives in the Topgolf and Golf Equipment segments.

Moving to segment performance.

In Golf Equipment, Q2 revenue was approximately flat year over year at $412 million, which exceeded our expectations going into the quarter. Despite tariffs and an unfavorable FX impact to COGS, gross margin in our Golf Equipment business was up slightly.

Golf Equipment Q2 operating income of $76 million decreased -1% year-over-year, with gross margin and cost savings initiatives mostly offsetting the slight decrease in revenue and incremental tariffs. Year-to-date operating margins for Golf Equipment are up over 200 basis points.

In Active Lifestyle, Q2 revenue decreased $36 million year-over-year to $214 million, primarily due to Jack Wolfskin, including the sale which resulted in one less month of revenue, as well as soft market conditions in the active apparel industry, as Chip mentioned.

Active Lifestyle operating income increased by $6 million to $21 million, primarily driven by the sale of Jack Wolfskin and cost savings initiatives, partially offset by the lower sales volume.

Moving to Topgolf, Q2 revenue decreased 2% year-over-year primarily due to a 6% decline in same venue sales, partially offset by higher revenue from new venues. Topgolf same venue sales of down 6% was ahead of our expectations, primarily due to improved traffic trends as previously discussed.

Topgolf Q2 operating income of $55 million decreased 1% due to increased depreciation from new venues, while Adjusted EBITDA increased $1 million year-over-year to $111 million. These better-than-expected Adjusted EBITDA results reflect approximately flat EBITDAR margin resulting from on-going cost reduction efforts and improved operating efficiencies. The Topgolf team has done great work finding opportunities to improve same-venue-sales trends, including the implementation of the value offerings and the Summer Fun Pass.

Switching gears to balance sheet and liquidity, our available liquidity, as of June 30, 2025, increased $378 million to $1.16 billion due to increased cash compared to second quarter 2024, primarily driven by approximately $290 million in cash proceeds from the sale of Jack Wolfskin, as well as proceeds from lease financing and cash from operations.

At quarter-end, net debt was $2.39 billion down from $2.62 billion last year primally due to cash proceeds from the sale of Jack Wolfskin.

Excluding venue financing debt, which is essentially capitalized rent related to our Topgolf venues, and including the convertible debt, our REIT-adjusted net debt was $853 million, down $387 million year-over-year as a result of the increased cash.

Net debt leverage improved to 4.1x from 4.4x, driven by the higher cash balance. REIT-adjusted net leverage, which includes rent interest payments - improved to 1.8x from 2.4x. We are comfortable with these leverage levels.

Our inventory balance decreased $38 million versus the end of Q2 2024 to $609 million at the end of Q2 2025, primarily due to a $113 million decrease from the sale of the Jack Wolfskin business. This more than offset increases in Golf Equipment inventory levels due to year-over-year timing differences and the normalization of golf ball inventory after a supplier factory fire in late 2023.

Now, let's turn to our outlook for the remainder of the year. As a reminder, the full-year guidance we provided in May incorporated the full year financial forecast for the Jack Wolfskin business – please see slide 19 for details. With the successful completion of the Jack Wolfskin sale, we are now updating our guidance to remove Jack Wolfskin and to reflect an improved outlook for our ongoing businesses.

Moving to specific guidance, the sale of the Jack Wolfskin business reduces our full year forecast by approximately $265 million in revenue and $26 million of adjusted EBITDA. These numbers represent the forecast for Jack Wolfskin from June through December 2025. Given the sale occurred in May, the seasonality of that business results in an outsized impact on adjusted EBITDA this year as we incurred the seasonal losses during the first five months of 2025 but don't receive the second half EBITDA it typically generates.

Our updated revenue guidance of $3.80 billion to $3.92 billion represents an increase of just over $30 million at the midpoint vs. prior guidance, excluding Jack Wolfskin. This updated guidance also reflects an improvement in the midpoint of our Topgolf same venue sales outlook which, as I will discuss in a moment, more than offsets some timing headwinds in the business from one less venue opening in Q4 which has now moved to 2026.

Moving to Adjusted EBITDA, we are also raising the midpoint and narrowing the range of our full year Adjusted EBITDA guidance. Given the improving trends, we are essentially covering the loss of the $26 million second half Jack Wolfskin adjusted EBITDA and the approximate $40 million expected headwind from tariffs this year. Excluding Jack Wolfskin, the midpoint of the updated guidance range of $430 million to $490 million represents an increase of just over $25 million vs. prior guidance.

Our business is benefiting from better-than-expected sales and the team's excellent work finding additional cost efficiencies, as well as our on-going gross margin initiatives. This outcome is a significant accomplishment in this difficult operating environment.

Turning to Topgolf, we are revising our same venue sales guidance from down 6-12% to down – 6% to -9%. As a result, we are narrowing the range of our full year Topgolf Revenue guidance to $1.71 billion to $1.77 billion, which is $5 million higher than previous guidance at the midpoint. We are also narrowing the range of our full year Topgolf Adjusted EBITDA guidance to $265 to $295 million, which represents a $10 million increase vs. prior guidance at the midpoint.

With regard to CapEx, given the changes in timing of lease financing proceeds, our outlook for Topgolf's net capex has changed to $110 to $120 million from $90 to $100 million. Separately, we are lowering our Core business Capex outlook from $60M to $50M. We continue to expect to be free cash flow positive at both the Total Company and at Topgolf in 2025.
Now turning to our outlook for the quarter. In Q3, we are forecasting consolidated revenue of $880 million to $920 million, vs. $905 million in Q3 2024, which for comparison purposes excludes the Jack Wolfskin results in 2024. This estimate reflects projected Topgolf same venue sales of down low- to mid-single-digits and the more competitive golf equipment environment we mentioned previously.

We estimate Q3 Adjusted EBITDA to be in the range of $78 - $98 million, compared to $119 million in the prior year, excluding Jack Wolfskin. This decrease is primarily due to the projected decline in Topgolf same venue sales as well as the impact of tariffs announced this year.

In summary, we are pleased with our financial performance in Q2 but even more encouraged by the current trends in our business, including continued consumer strength in our golf equipment business and improving trends in same venue sales at Topgolf. We have made good progress with our value initiatives at Topgolf and our gross margin and operating expense initiatives in our Core business. These trends and actions are allowing us to increase our guidance despite the incremental tariffs. Our available liquidity remains strong and was bolstered by the sale of the Jack Wolfskin business. In addition, our strategic initiatives are ongoing, and we remain committed to generating value for our shareholders through the separation of Topgolf from our Core business.

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