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

Katina Metzidakis, Vice President of Investor Relations and Corporate Communications

Thank you, operator and good afternoon, everyone. Welcome to Topgolf Callaway Brands' first quarter earnings conference call. I'm Katina Metzidakis, the Company's Vice President of Investor Relations and Corporate Communications. Joining me as speakers on today's call are Chip Brewer, our President and Chief Executive Officer, and Brian Lynch, our Chief Financial Officer and Chief Legal Officer. Earlier today, the Company issued a press release announcing its first quarter financial results. We have also published an updated presentation. Our earnings presentation, as well as the earnings press release, are both available on the Company's Investor Relations website under the "Financial Results" tab. 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 identify the non-GAAP measures in the presentation and reconcile the measures to the corresponding GAAP measures in accordance with Regulation G. Please note that this call will include forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from management's current expectations. We encourage you to review the safe harbor statements contained in the presentation and the press release for a more complete description.

And with that, I would now like to turn the call over to Chip Brewer.

Chip Brewer, President and Chief Executive Officer

Thank you, Katina, and good afternoon, everyone. We appreciate everyone joining our call.

I am pleased to report strong Q1 results, continued brand strength across our portfolio and improving operating efficiencies that are driving high confidence in our full year EBITDA forecast and higher estimates for both EPS and cash flow.

Focusing on Q1, our revenue of $1.14 billion was in line with guidance, as was Topgolf's same venue sales performance. As expected, we also gained market share in golf equipment, based on compelling product launches in both clubs and balls. This on-track revenue performance combined

with stronger than anticipated operating efficiencies, some favorable timing of expenses, and currency hedge gains, delivering better than expected EBITDA of $161 million and EPS of 9 cents in the quarter. We also delivered better-than-anticipated cash flow.

As we look towards the full year, we are lowering our full year revenue expectations by $80 million, a little under 2% of full year expected revenues, due to an approximate $45 million reduction in expected Jack Wolfskin revenues due to challenging market conditions in its European business as well as an additional currency headwind since our last call of approximately $35 million. Even with this revenue change, we remain confident in our overall full year EBITDA forecast based on our currency hedging programs, improving operating margins at both our venues and our Golf Equipment business, as well as confidence in our core brands and market conditions. We are also increasing our full year EPS by five cents per share and raising our free cash flow and embedded free cash flow estimates by approximately $60 million and $40 million, respectively.

In short, we remain on track for our organic revenue growth targets in our key brands, our overall EBITDA growth targets for both this year and longer term, and we are ahead of schedule in delivering operating efficiencies, cash flow and EPS, as well as now beginning the process of paying down term debt. As I see it, the fundamental engine of our business continues to strengthen.

Moving to our business segment performance.

Topgolf continues to make strides on our three key performance drivers: same venue sales growth, venue margin and returns, and new venue development. As I will walk you through in a moment, we have multiple initiatives in place to lay the foundation for durable growth, attractive venue returns and the expansion of our footprint, all of which are highly complementary to the products side of our business.

First, Q1 same venue sales growth of down 7% was in-line with our expectations. As a reminder, Q1 was impacted by a post-COVID surge in our corporate events business in early 2023 as well as extreme cold weather during January of this year, which we highlighted during our February earnings call. Our Q1 same venue sales stabilized after the January weather normalized.

As we drive towards positive same venue sales growth, we are executing against three key areas of opportunity: Digital, Experience and Value.

Digital is the most rapidly developing opportunity for us to drive sales at Topgolf and I am pleased that our digital revenue penetration in Q1 increased to 35% vs 33% from the same period last year and the percentage of visitors that come through digital channels is now 62%, up 710 bps year-over-year. Our new and evolving digital and commercial teams are getting smarter every day, unlocking key insights and driving results. Building on this, I am pleased to report that our cross-

brand Consumer Data Platform is now live – ahead of schedule – and we expect this will greatly improve our ability to gather player insights, tailor more compelling products and offerings; and, importantly, serve as the backbone necessary for a Topgolf Callaway brand loyalty program slated to be in trial mode at Topgolf by the end of this year.

Our second area of opportunity to drive same venue sales is experience – we are continuing to uncover new ways to improve the player experience and offer more curated products. Towards this end, during Q1 we introduced "Block Party," our first new Topgolf game since Angry Birds which launched back in 2020. One of the great aspects of this new game is that it is fun for all player skill levels, as you score points by hitting the ball literally anywhere in the outfield. Player response has been extremely positive so far and we intend to invest in media to support greater awareness as we enter our peak summer months.

On the synergy front, we held Callaway club fitting events in venues across the country during the week of the Masters. We also implemented the Callaway Club Upgrade Program – which allows players to upgrade their Topgolf gaming experience by upgrading to our latest Callaway clubs in all venues. And, all venues now sell and promote our new Chrome Tour golf ball as well as Callaway seasonal decorated golf ball offerings. Our goal is to ensure that the Callaway brand is top-of-mind for the on-course golfers that visit Topgolf every day - a number we believe is approximately 40% of all US golfers annually - as well as the new beginner golfers that Topgolf is creating.

Value is our third sales growth opportunity. As you are aware we launched an in-app only, half-off game play promo on Mondays and Wednesday in Q1 and also promoted our half off Tuesdays. We have been pleased with the results; but, perhaps more importantly, this offering was a first step towards a broader strategy to build a compelling portfolio of value offerings for our players. Looking ahead Topgolf's commercial and digital team will continue to test and learn what works best and our new consumer data platform will make it easier for them to gain insights as well as take action.

To this end, this summer's primary value offering will be our new "Free:30" campaign which offers players 30 free additional minutes of gameplay when they book a bay online during specified hours on weekdays. The booking requires a small reservation fee consistent with our other reservation products. We believe this will increase what we know are more valuable digital consumers; and, based on trial results to date, this offering is expected to more effectively drive visits. With the help of our new consumer data platform, we will also be experimenting with passes and bundled offers to drive repeat visits within 60 to 90 days of an initial visit. It is worth mentioning that you can count on us to communicate these programs in a thoughtful manner so that they increase both our bottom line as well as our topline. And, this communication will increasingly be digital, personalized and effective.

Looking forward, for Q2 we are forecasting same venue sales to be down low single digits, a nice improvement from Q1. This takes into account a slower than expected first three weeks of April as we, like many other companies, struggled with slow sales associated with year-over-year spring break and Easter timing. As we have moved past this period, over the past two weeks sales trends have returned to more normalized and expected levels; however, we are now slightly behind our full year targets and given the choppy market conditions we have seen and could continue to see, we are widening our full year same venue sales guidance from approximately flat to a new range of slightly positive to down low single digits. Most importantly, we have confidence in same venue sales improving in the second half of the year, as our biggest marketing spend and consumer programs go live starting Memorial Day, and compares vs last year become easier. And, to be clear, our internal goal is for us to transition back to positive same venue sales in the second half of this year. The teams have been working hard for this and, now that the unusual laps are behind us they believe they will start to deliver improved results. I for one, am confident in their direction and remain convinced we will be able to grow same venue sales low single digits or better over the long term.

Shifting to margin expansion: in Q1 we again saw strong margin performance including a 180 basis point year-over-year increase in our venue-level EBITDAR margin. We continue to benefit from our PIE inventory management system and new labor model which have both now been rolled out system wide and are delivering clear results. In addition to the efficiency gains, our Q1 margin also benefitted from a shift in timing of our marketing spend to focus more on post-Memorial Day programs and products. We continue to feel confident in, and are consistently proving, our ability to drive venue operating margins over the long term and in all kinds of market conditions. With this, we remain on track to hit our 35% EBITDAR margin target for the full year. Furthermore, as the profitability of our venues continues to increase, and same venue sales transitions back to growth, our already attractive venue returns will become even stronger than they are today. This positions us extremely well as we continue to grow our footprint against a backdrop of significant white space.

Speaking of whitespace and our new venue growth opportunity, in January we purchased a Bigshots venue in Bryan, Texas. In April we opened a new venue in Durham, North Carolina and just last week we opened in Montebello, California. The Montebello venue is in our most densely populated venue trade area and represents our second public private partnership. It is quite unique in that it is adjacent to two municipally owned green grass courses: one a traditional nine-hole course and the second a new par 3 nine-hole course with night lighting. While we don't own or operate these courses, we believe they will be synergistic with our venue in driving interest and excitement.

We are now 92 owned and operated venues in the US, 4 internationally owned venues and over 100 globally when you include franchisee's – a testament to the strength of the business and strong execution by our world class real estate team.

Today we are also updating our venue opening expectations for 2024 due to a delay in permitting which will push a venue planned for New Braunfels, TX that we had expected to open in late Q4 into 2025. We now expect to add 7 venues in 2024 versus the 8 previously communicated, a change that should be largely immaterial to both our 2024 and long-term financial outlook. Looking ahead, excluding this year where we intentionally pulled back to accelerate cash flow, we remain confident in our ability to average 10 new venues per year over the foreseeable future. We also remain confident in our TAM of 250 venues in the United States with a similar number available internationally.

Turning to Golf Equipment, I'm pleased to report the Callaway Brand continues to shine. In Q1, thanks to the incredible work from our teams across R&D, supply chain, sales, marketing and corporate, we gained share year-over-year in both golf ball and clubs. In Q1 Callaway held its position as the #1 US market share brand in Driver, Fairway Woods and Hybrid. And focusing on our latest club launch, Ai Smoke woods achieved the #1 US model market share position in Driver, Fairway Woods and Irons. In Q1, we also gained the # 1 US dollar market share position in Putter, a position we have not enjoyed for some time and a testament to the strength of our Ai One putter launch.

Golf ball has also shown nice growth, especially in the premium or tour category where Callaway achieved a new record US market share of 11% and also delivered an overall share of 19.3%, up 120 bps year-over-year. That said, the strong feedback we have received on the new Chrome Tour product performance gives us conviction that we have further room to grow and hopefully more record market shares to report in the future. We are going to be driving this with strong advertising as well as field activation via our Chrome Tour speed and spin challenges.

I am very pleased with the performance of our new launches and will look forward to providing more color on sell through performance on our next earnings call.

In other categories, we continue to see strong package set sales which leads us to believe that the positive momentum we have seen over the last several years with new entrants into the game of golf continues. And finally, I'd also like to highlight that in Q1 we saw record 16% share in golf glove, leveraging our brand and distribution strength.

Looking at the golf equipment business by geography: the US market and our business both remain strong with field inventories and consumer demand both in line with expectations. The European market started the year a little slower than expected due to poor weather conditions in the UK, but we gained share and appear well positioned to continue to do so. The Japan market overall is up

slightly on a constant currency basis but our business in Q1 was down in real terms due to currency trends as well as lower sell-in volumes this year vs. last year as retailers are being more conservative. And, lastly, the Korea market has been tough thus far in 2024 with sales down double digits as well as currency headwinds.

As we look towards the balance of the year, it is worth mentioning that we have both more and larger product launches planned for the second half of this year than we had in 2023 and thus our growth will be more second half weighted. This was always part of our plan and consistent with similar fall launches and product cadences that we have done in previous years.

We remain on track to grow the golf equipment segment for the full year, and we continue to feel good about the overall health of golf globally.

Turning to our Active Lifestyle segment: as expected, and communicated on our last call, Active Lifestyle was the one segment that was down year-over-year in Q1. It is also now expected to be down for the full year.

We are pleased with our Q1 performance at TravisMathew which was in-line with expectations but, as expected, down versus Q1 last year. As a reminder and as mentioned during our February call, we lapped a corporate channel sell-in that occurred primarily in Q1 last year and was significant relative to the size of this brand. Excluding this impact, underlying sales trends remain healthy and growing. We also remain on track to open approximately 10 stores this year, with 7 leases already signed.

TravisMathew also celebrated the one-year anniversary of our Women's launch, and we remain confident in our ability to continue to grow that business. We are also pleased with the re-launch of our shoe business under the TravisMathew brand.

Finally, Jack Wolfskin remained under pressure in Q1 largely due to a tough macro environment including an over inventoried channel and soft overall market conditions in Europe. As a result, we are lowering our full year revenue expectations for this brand. However, I think it is worth noting that despite this market pressure, we still expect positive EBITDA growth and performance in 2024. We also continue to be pleased with the brand's performance in China. Looking forward, we are certainly not accepting of the status quo. Earlier this year we transitioned to a new European leadership team which has been proactively taking action to stabilize this business, return it to profitability and drive future growth. There has been considerable progress already made, with more to come in the next few months. Although this business is a relatively small portion of our annual revenue and an even smaller portion of our annual profit, we will update you further on these actions and our progress during our Q2 call.

In closing I'd like to thank the Topgolf Callaway Brands teams for their hard work and solid execution. Overall, we feel good about our start to 2024 and the strength of our core brands and markets. We remain confident in our EBITDA targets for this year and are taking up our cash flow and EPS targets as well as starting the process of paying down debt. Perhaps most importantly, we believe the fundamental engine of our company is continuing to strengthen and we feel great about our long-term direction and opportunity.

With that, I'll turn the call over to Brian.

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

Thank you, Chip, and good afternoon, everyone.

As Chip mentioned, despite some unfavorable foreign currency rates and some revenue softness in our Jack Wolfskin business, we had a strong start to the year overall.

- We had better than expected adjusted EBITDA and EPS on in-line revenue.
- Our cash used in operations improved by $79 million compared to Q1 last year.
- Our 2024 golf equipment product launches, including Ai Smoke woods and irons and the Chrome Tour golf balls were well received at all levels and grew market share.
- Our inventory reduction initiatives were successful with our consolidated inventory decreasing $227 million since Q1 last year.
- We successfully repriced our Term Loan B, reducing our interest rate by 60 basis points and saving approximately $7 million on an annualized basis based on current debt levels.
- We repurchased an additional one million shares of our common stock since our last earnings call.
- And today we announced plans to pay down $50 million of the term loan debt at the end of May.

All in all, a very good quarter in what appears to still be a choppy consumer environment.

I mentioned during our last call that 2024 would be an investment year and I want to provide a little color on what we have accomplished year-to-date. I am pleased to announce that in March we successfully transitioned to our new Workday enterprise management system across most of our business globally. This will improve access to and management of human capital data which has become extremely important post-merger now that we have over 30,000 employees, and it will also enhance our training, career development and recruitment processes. Separately, in early April we launched our Consumer Data Platform ("CDP"). The CDP will enable us to better understand consumer behavior, preferences, and trends across our brands. We will leverage these insights to drive more impactful personalized strategies and engagements with our consumers. I want to recognize and thank our teams for their hard work bringing this to life.

Now turning to our first quarter results.

Consolidated revenues decreased 2% year-over-year to $1.144 billion, which was in line with our Q1 guidance range. This decrease is attributable to a 15% year-over-year decrease in our Active Lifestyle business. As mentioned last quarter, we had to lap an approximate ~$35 million corporate channel inventory fill-in that occurred in the first half of 2023 in our TravisMathew business that did not repeat in 2024. Most of this impact was in Q1. These results were partially offset by the 5% year-over-year growth at Topgolf and 1% year-over-year growth in Golf Equipment. Currencies negatively impacted consolidated revenue by approximately $8 million, most of which impacted the Golf Equipment segment, which grew 3% on a constant currency basis.

Non-GAAP first quarter net income decreased approximately $17 million compared to last year, largely due to increased D&A and interest expense related to new Topgolf venue development.

Adjusted EBITDA of $161 million increased 2% compared to last year and exceeded the high-end of our guidance range due to strong venue margins at Topgolf, timing of OpEx, which shifted into the balance of the year, and some incremental FX gains.

Moving to segment performance, at Topgolf, Q1 revenue grew 5% driven primarily by new venues, partially offset by a 7% decline in same venue sales, which was in-line with expectations given the post-covid surge in the corporate events business in Q1 2023 as Chip mentioned earlier.

Topgolf operating income was $3 million in the first quarter, up slightly compared to the prior year, while Adjusted EBITDA increased $12 million to $60 million. The adjusted EBITDA improvement was driven primarily by the continued improvement in venue execution and margin, as well as increased revenue. Venues continued to benefit from PIE, as well as the new labor model, which has now been rolled out system wide. Topgolf margins in Q1 also benefitted from a shift in the timing of marketing spend to be more weighted toward the summer to support our exciting summer programs.

We have confidence in same venue sales improving in the second half of the year given the upcoming marketing and consumer programs Chip mentioned and as the most challenging same venue sales comps in 2023 are now behind us. Our internal goal is to transition back to positive same venue sales during the second half of the year.
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Moving to Q1 results for Golf Equipment, revenue increased 1% year-over-year to $450 million, primarily due to strong momentum from our recent club and ball launches, partially offset by unfavorable changes in foreign currency rates and softness in Asia. Importantly, our core U.S. golf equipment business revenue grew high-single digits.

Golf Equipment operating income of $82 million, increased 1% year-over year due to the increased revenue.

In our Active Lifestyle segment, Q1 revenue decreased 15% year-over-year, primarily due to lapping the corporate channel sell-in at TravisMathew that I mentioned earlier. In addition, our Jack Wolskin business, which represents less than 10% of our total sales, is facing challenging market conditions in Europe, including high retail inventory levels and overall soft market conditions. As a result, we expect that business to be down for the full year. As Chip mentioned we have a new management team, and we are actively working to optimize that business.

Operating income decreased to $25 million compared to $37 million in the prior year. This decrease was driven by the lower sales.

Turning to the balance sheet, I'd like to highlight the debt repricing we successfully completed in March, which lowered the interest rate on our Term Loan B by 60 basis points and resulted in annualized interest savings of $7 million based on current principal levels. In addition, since our last earnings call, we've repurchased one million shares in open market transactions for a total cost of $16 million.

Moving to balance sheet and liquidity highlights. We continue to have ample available liquidity, which is comprised of cash on hand and borrowing capacity under our credit facilities. As of March 31, 2024, our available liquidity increased $94 million to $720 million compared to the prior year due to better cash flow generation as the company continues to manage costs and more efficiently manage working capital, especially with regards to inventory. Given our strengthened cash flow outlook and strong liquidity position, we now plan to pay down $50 million of the principal amount of our term loan debt at the end of the month.

At quarter-end we had total net debt of $2.4 billion, which excludes convertible debt of approximately $258 million, compared to $2.2 billion in Q1 2023. This increase is attributable to increased venue financing debt related to new venues. As a reminder, we think it is also helpful to evaluate our net leverage position by excluding the venue financing REIT debt, which is akin to capitalized rent with no additional principal or bullet repayment required. Excluding the REIT debt, our REIT adjusted net debt is $1.1 billion dollars compared to $1.3 billion dollars as of Q1 2023.

Our Net Debt leverage, which excludes convertible debt, was 4.0x at March 31, 2024 compared to 4.1x in the prior year. This change was driven by increased EBITDA and improved cash flow, which more than offset the increased venue financing debt. Our REIT adjusted net debt leverage ratio is 2.2x compared to 2.5x in the prior year. We feel very comfortable at these leverage levels.

Our inventory balance decreased $227 million or 24% from $930 million as of Q1 2023 to $703 million at the end of Q1 2024 – a significant achievement by our teams who have worked diligently to manage inventory to more reasonable levels after a post-Covid surge. We feel good about our current level and overall quality of our inventory.

Capital expenditures for the first three months of 2024 were $65 million dollars and we received reimbursements of $27 million dollars from our REIT arrangements for net capital expenditures of $38 million, of which $28 million dollars is related to Topgolf.

Now turning to our balance of year outlook. As I mentioned earlier, given the unfavorable change in FX rates and the softness in the Jack Wolfskin Europe business we are lowering our full year 2024 revenue guidance range by $80M to a range of $4.435 billion to $4.475 billion. Approximately $35 million of this decrease is attributable to FX and the other $45 million to Jack Wolfskin.

Despite the drop in revenue guidance, we remain confident in our Adjusted EBITDA guidance given the strength of our core business and FX hedging program. As a result, we are reiterating our full year adjusted EBITDA guidance of $620 to $640 million dollars.

By segment, at Topgolf, we continue to guide to approximately $1.96 billion in revenue and approximately $350 million in adjusted EBITDA which is unchanged from prior guidance. As Chip mentioned we are slightly adjusting our Topgolf same venue sales growth expectations to a range of slightly up to down low single digits, which includes an anticipated improvement in trends in the second half of the year as our summer initiatives take hold and also as year-over-year comparisons become easier.

In Golf equipment, even after taking into account the increased FX headwinds, we expect to grow revenue in this segment this year given the strength of our product line and incremental second half launches. It is important to highlight that overall, our new product launches will be more weighted towards the back half of 2024 vs. last year when new launches were more Q2-weighted. We also continue to expect profits to be up in this segment for the year.

In Active Lifestyle, given unfavorable FX rates and the softness in the Jack Wolfskin business, we expect revenue and operating income to be down year-over-year in this segment.

As a result of the repricing of our Term Loan B, anticipated debt paydown and higher cash flow outlook, we are raising our full year EPS guidance range by 5 cents to $0.31 to $0.39. Our debt repricing will provide approximately 2.5 cents benefit in 2024, the $50M expected paydown in

debt should also provide approximately 1 cent benefit and the balance is related to higher expected income on investing the increased cash flow.

Shifting gears, as compared to prior guidance, free cash flow is expected to improve by approximately $60 million due to working capital improvements, lower cash interest and a shift in timing of growth CapEx to next year. We are also forecasting better than expected embedded free cash flow vs prior guidance due to working capital improvements in our Golf Equipment and Active Lifestyle segments.

As a result, free cash flow and embedded free cash flow are expected to be approximately $165 million and $265 million, respectively, which represents a $60 million and $40 million dollar improvement vs prior guidance, respectively.

We expect Total Net CAPEX to be $20M lower than our previous guidance of $200M due to timing of Topgolf Growth CAPEX mentioned above.

Now turning to Q2 specifically.

In Q2, we expect consolidated revenue of $1.18 to $1.20 billion, versus $1.18 billion in Q2 2023, or in other words flat to up slightly. We estimate Adjusted EBITDA to be in the range of $191 - $201 million, compared to $206 million in the prior year.

In Q2 at Topgolf, we expect to be up in revenue and operating income year-over-year due to the new venues since Q2 last year.

In Q2 in Golf Equipment, we are being impacted by the shift in timing of launches from Q2 last year to the second half of 2024. In Q2 last year, we launched our Big Bertha woods and irons which is an approximate $30 million impact compared to Q2 this year. As a result, we expect this segment to be down in revenue and operating income year-over-year for the second quarter but as previously mentioned up for the full year.

In Q2 in Active Lifestyle, we expect to be down in revenue year-over-year as TravisMatthew will be lapping the remaining portion of the corporate channel fill-in and, separately, market conditions in Europe in our Jack Wolfskin business are expected to remain soft in Q2. As a result, we would expect to be down in operating income as well.

Overall, we are pleased with our start to the year and are confident in the strength of our core business. As a result, we feel comfortable committing to paying down the $50 million of term loan debt. We are optimistic for the balance of the year.

We will now open the call for questions. Operator over to you.