TOPGOLF CALLAWAY BRANDS CORP.
SECOND 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' second 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 second 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.

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

I want to begin by reiterating the announcement we made in our press release about our formal strategic review of the Topgolf business:

We remain convinced that Topgolf is a high-quality business with significant future opportunity. It is transforming the game of golf, and we believe it will deliver substantial growth and financial returns over time.

At the same time, we have been disappointed in our stock performance for some time, as well as the more recent same venue sales performance. As a result, we are in the process of conducting a full strategic review of Topgolf. This review includes the assessment of organic strategies to return Topgolf to profitable same venue sales growth, as well as inorganic alternatives, including a potential spin of Topgolf. Our strategic review of Topgolf is being conducted with the help of outside advisors and is focused on maximizing long-term shareholder value. We are active in this work at present and expect to complete our strategic review of Topgolf expeditiously. We will report back on this when the work is complete.

As you can imagine, I am unable to provide further comments or details on any potential inorganic strategies at this time. I will try to address the organic growth initiatives during my comments and would be happy to answer questions on this portion.

Moving on to a review of the second quarter. Total revenue of $1.158 billion was below our expectations primarily due to lower-than-expected same venue sales at Topgolf, which I will discuss in greater detail in a few minutes. Both the Golf Equipment and the Active Lifestyle segments performed roughly consistent with expectations, including strong market share performance at both Travis Mathew and Callaway Golf Equipment. Total Company Q2 EBITDA of $206 million was ahead of expectations, driven by continued strong operating efficiencies and cost management across the business.

Given these results and current trends, we are lowering our full year revenue expectations by approximately $225 million to a range of $4.2 -$4.26 billion and our full year same venue sales estimates to down very high single to low double digits. As a result, we are revising our EBITDA outlook to $570-590 million, which implies an approximately flat year-over-year EBITDA margin. By segment, we are lowering our second half Topgolf revenue outlook based on our updated same venue sales estimates. This will negatively impact our EBITDA but the flow through will be mitigated by continued improvement in venue operating efficiencies as well as cost savings initiatives. In the legacy, or product side of our business, we are revising our second half revenues down by approximately 2% or $55 million. This reflects the potential for further slowing of consumer activity in the second half of this year; however, we believe we can manage expenses to offset the majority of any bottom-line impact of this modest revenue adjustment in our products business. Finally, as Brian will discuss in a few minutes, our cash flow and financial position remain strong.

I'll now move to segment performance, starting with Topgolf.

I would like to start with what we are seeing from a macro perspective: As has been well-documented, persistent inflation over the last few years has led to belt-tightening across wide portions of consumer discretionary spending. We see it in internal and external survey data where price is the biggest concern for our customers as well as those in both the leisure and restaurant industries. We hear it from our peers, see it in credit card data, and observe it firsthand in our venue business - including feedback from our large corporate clients. In support of this, during the quarter, we saw that our top performing venues were positively correlated with overall household income data.

I'll now turn to our same venue sales results: including what we saw, what we are going to do about it, and then our thoughts moving forward.

What we are seeing: Topgolf same venue sales declined 8% in the quarter, driven by soft overall traffic trends. The year-over-year data shows both the 1-2 bay and the 3+ bay down similarly in the quarter but when you look at the two-year stack and 2019 data it shows the consumer portion of our business remains stronger than our events business. The 1-2 bay trends appear to be moving directionally with that of other similar entertainment experiences and restaurants.

Turning to events and 3+ bay, this is the slowest part of our business; but perhaps the easiest to understand. For the quarter, 3+ bay same venue sales were down 9% YOY, 27% on a two-year stack and 5% versus 2019. We previously thought the events business was stabilizing, but it then deteriorated further in late May and June. We believe the events business results reflect a normalization from a post COVID surge, as well as a softness in demand typical of slowing economic conditions and corporate belt tightening. Based on sales lead data, we now expect this slowness to continue through Q3 with the potential to level off by the end of the year.

Looking at the most recent data, we saw our combined US same venue sales deteriorate in June as there was a step change in macro demand starting in late May. This was despite the roll out, or, more likely, partially mitigated by the roll out, of our Free 30 promotion and Advertising campaign, both of which had tested quite well in May. June's US same venue sales were down 8% when we expected it to be slightly positive. July was down approximately 11%, on a retail calendar basis, with the last two weeks of the month trending better than the first few weeks.

With this as the backdrop we are now forecasting our full year same venue sales to decline very high single digits to low double digits. This implies the trends we have been seeing in June and July continue for the balance of the year. Given the fact, that August through Mid-December should be a period of relatively easier comps, this forecast also allows for some additional slowing of overall demand.

Now turning to what we are doing about it: first of all, we are furthering our digital efforts as well as refining our select promotional offerings.

As I've noted on the last several calls, we believe the biggest opportunity for us, is building out Topgolf's digital business. In fact, our digital sales penetration increased again this quarter by another 50 bps YoY to 35%. This is important as we know that venues with higher digital sales penetration have consistently outperformed our fleet averages. And this is why a significant portion of our investments are focused on strengthening our digital capabilities both from a technology perspective – such as implementing PIE, our reservation system and our consumer data platform – as well as from a talent and organizational perspective. To this end, the digital team is going to be investing further in additional performance marketing, loyalty program and consumer insight expertise.

Turning to promotions: To protect long term profitability and brand value, any promotions that we offer need to be selective and targeted. With this in mind: we have analyzed our Free 30 promotion and found it to be effective in driving traffic and interest from existing customers, smoothing out demand, and driving improved overall results. But it has been less effective in attracting new customers. Many new customers generally visit for the first time by walking in; and we believe they may be reluctant to book a two-hour reservation. Given these insights we will be utilizing our consumer data platform and targeting new customers with a walk-in version of our Free 30 promotion that is redeemable anytime (not only 9-5 weekdays and not requiring a two-hour reservation) while continuing to drive our existing efforts via reservations for customers who value the reservations model we have built. We are trialing this now and look forward to seeing the results.

Partnerships are another way to increase awareness and drive incremental traffic. As we have gained scale, we have been able to find bigger, more national partners. Our recently announced partnership with Visa is a good example of this. With this partnership, Topgolf is being promoted to Cash App Visa cardholders via special offers intended to drive both new and repeat visits.

Lastly, but importantly, we are going to be stepping up our game on delivering newness, continually improving the quality of our experience and reasons to visit. We are a premium experience and thus, by design, we are not made to be cheap; but we are unique, and we can provide more fun, and thus value, than other offerings. By re-focusing on newness, we believe we can give customers more reasons to give Topgolf a try or come back and visit us again. From this point forward, on a national basis, we will be delivering exciting and fun new reasons to visit at least three to four times per year. For Q3, this includes the recently launched "Sure Thing" golf club which was designed by the Callaway engineers in consultation with the Topgolf team and is geared towards new golfers. It features a unique and innovative design that makes it easier to get the ball airborne and forward. Then, in Q4, we will be launching our next new in venue game; and, if you're a fan of video games, we think you'll love it. In addition to these big national programs, there will also be more local initiatives to drive incremental visits and excitement, such as concerts and live DJ nights.

Turning to my thoughts moving forward: Overall, I firmly believe we are already doing a lot of the right things to drive growth in same venue sales over time; including constantly improving our teams and initiatives. As evidence of this I point to the fact that, since launching our spring and summer initiatives; we have seen purchase intent, brand recommendation and price perception scores improve. And perhaps most importantly, our fun scores are up, which we believe is a leading indicator for future growth and it has historically been highly correlated to our consumer's likelihood to both return and recommend Topgolf.

At the same time, we have also identified a few areas where we can do better, and we are putting in the plans and resources to quickly address these going forward. Although it is also clear that some of these initiatives will take some time to implement, and the macro environment remains choppy, I continue to believe in Topgolf's ability to drive same venue sales growth over time.

Shifting gears to our second key performance driver, margin expansion. Our team has consistently shown its ability to drive venue operating margins, both in positive and difficult market conditions. For the quarter, despite soft topline trends, we were able to expand total segment Adj. EBITDA margins 260 basis points year-over-year.

That said, given our lowered revenue outlook for the back half of the year, we now expect full year Venue EBITDAR margins to be roughly flat vs last year, at approximately 34%, which is still quite healthy considering our lower revenue expectations and is a full 100 bps ahead of our 2022 margin, with plenty of room to grow as topline improves.

Moving to new venue openings, we remain on-track to add 7 venues this year. We added Bryan Texas in Q1, successfully opened Durham and Montebello in Q2, and the four remaining 2024 venues are under construction and on schedule. Venues continue to open well and are achieving our high financial targets.

<u>In conclusion on the Topgolf Segment report out</u>: Topgolf is performing well in two of its three key performance drivers including venue margins and new venue development. On the same venue sales front, results have been below our expectations, and we are committed to improving here; however, I believe that the vast majority of what we are seeing is an economic cycle and/or a post COVID normalization in the events portion of our business. Importantly, we are continuing to strengthen our capabilities and expertise to drive positive same venue sales in a normalized environment.

I believe the enduring strength of Topgolf of remains intact, this being that consumers really enjoy the experience. In addition, the sport of golf remains on trend as does Topgolf. And Topgolf retains its strong economic model, a model where the core profitability of our venues, as measured on normalized revenue levels, is increasing over time. This combines well with an

outstanding growth outlook as we can identify and build new venues with high confidence and unmatched execution, and the business benefits from a uniquely strong defensive moat.

Turning now to Golf Equipment, the Callaway Brand remains strong with growing market share positions. This quarter Callaway held its position as the #1 US market share brand in Driver, Fairway Woods and Hybrids. Our Ai Smoke line maintained the #1 US model market share position in Driver, Fairway Woods and Irons. And Odyssey also maintained its position as the #1 Putter brand.

One stat that I am particularly proud of is our June, green grass, woods, market share of 38%. 38% is a terrific number, it showcases the outstanding performance of our Ai Smoke woods in a fitting environment. And the fact that we can deliver this at green grass, also showcases our scale and strength in distribution in this important channel.

Turning to golf ball, the significant and strategic investments we have made in Golf Ball over the last several years continue to pay dividends for the Callaway brand.

A major focus for Callaway this year was to grow in our tour ball segment with our new Chrome Tour product line. Our results show that we are doing just that. As you may recall, last quarter I announced we would be hosting Chrome Tour, ball speed and spin challenges. We have now done hundreds of these, and the results have been impressive. Our test data shows that we are faster in 86% of tests and that we deliver an advantage in pitch shot backspin in 66% of the tests. Our overall June, US, ball market share increased by 120 bps year-over-year to 21.9% and our premium ball share achieved a new record market share of 12%, up 150 bps year-over-year.

Our brand has also had an outstanding year on tour with Yuka Saso winning her second US Women's Open and Xander winning both his first and second major championships: the PGA Championship and then the Open Championship.

Looking at global markets, the core golf markets of the US, Japan, and Europe all remain healthy, with field inventories, consumer demand and overall market conditions steady if not slightly positive. In each of these markets we believe we are slightly outperforming the overall market as measured by revenues and market share. The Korean market, on the other hand, remains soft, down double digits this year; and, unfortunately, we have also underperformed in this market. As a result, we have recently made changes aimed at improving our relative performance here and we are seeing positive signs.

For the balance of the year, we are excited about our recent and upcoming product launches. We just launched our new Opus wedge, and they are already a popular choice on Tour. In my opinion, this is the best wedge we have launched in my time here at Callaway. Congrats and well done to the teams that drove this. And, looking only slightly forward, on next Monday, we

will be announcing the launch of our new Apex line of irons. This is our most premium line of irons, and the product is both beautiful and innovative. I'm particularly excited about the new Ti Fusion technology that will be introduced as part of this exciting new lineup, and I invite you to tune into our launch communication to learn more.

Looking at our full year forecast for this segment, we now see revenues being approximately flat for the full year but up slightly on a currency neutral basis.

Switching gears to our Active Lifestyle segment, Q2 revenues were in-line with expectations.

Travis Mathew had a solid quarter delivering share gains at wholesale and also opening five new retail stores. They are on track to open 10 stores for the full year for a total of 57. The women's initiative also continues to develop nicely and is now approaching 10% of revenues. It appears to be on its way to being a significant portion of this business. In addition, the Travis Mathew team has done a great job growing their outerwear business which in turn is helping them be a less seasonally focused brand.

Moving to Jack Wolfskin, I'd like to commend the team for their hard work as we took significant steps to right size the business since we last spoke on our Q1 earnings call. The brand has successfully shifted its strategic focus back to its core markets in central Europe and China. We are encouraged by recent results, including achieving our sales targets for Q2, and we still expect a positive EBITDA performance in 2024.

Consistent with last quarter's communication, we expect revenues in this segment to decline year-over-year, as we form a new base from which to resume growth.

In conclusion: We are pleased with the overall performance of both our Golf Equipment and Active Lifestyle segments. At Topgolf, we are working through what we view as a short-term cycle of volatility in our same venue sales while, at the same time, significantly improving our organization's ability to drive positive results in a normalized environment. We continue to demonstrate our ability to drive improved operating efficiencies within our venues, to reliably deliver strong performance in newly opened venues with highly attractive financial returns, to grow our digital acumen and penetration, and to build on the overall strength of the consumer experience, an experience which continues to resonate with Topgolf players as one of the most fun entertainment options available.

As we look forward, we remain confident that we have the proper strategy in place to drive long term growth in both revenue and profitability.

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.

Chip covered our announcement regarding the strategic review of Topgolf so I will jump right into our financial results.

I will start with some financial highlights for the quarter:

- Q2 non-GAAP Net Income of $83 million, Adjusted EBITDA of $206 million and EPS of $0.42 were all ahead of expectations, despite a 2% year-over-year decrease in Revenue
- 1H cash provided by operations improved $173 million compared to 1H last year.
- Our inventory reduction initiatives were successful with our consolidated inventory decreasing $193 million since Q2 last year.
- We made a $50 million discretionary payment against the outstanding principal of our term loan debt at the end of May.
- Our available liquidity remains strong and increased $136 million compared to Q2 last year.

Now turning to the specifics.

Q2 consolidated revenues decreased 2% year-over-year to $1.158 billion and were 3% below the midpoint of our guidance, primarily due to softer trends in our Topgolf business. On a year-over-year basis, the decrease was attributable to an 8% decrease in Golf Equipment and 3% decrease in Active Lifestyle – both of which were largely in-line with our expectations. This decrease was partially offset by revenue growth at Topgolf driven by new venues. Changes in foreign currency rates negatively impacted consolidated revenue by approximately $11 million.

Q2 Adjusted EBITDA of $206 million is approximately flat compared to last year and trailing 12-month adjusted EBITDA increased over 10% year-over-year. These results exceeded the high-end of our Q2 2024 guidance range, driven by strong operational efficiencies at Topgolf and reduced costs and expenses across the business.

Q2 Non-GAAP Net income was $83 million, up approximately 10% year-over-year. This increase in net income is primarily due to an increase in investment income and a tax benefit for the quarter. Net income also benefited from lower term loan interest expense as a result of our refinancing.

Moving to segment performance, at Topgolf, Q2 revenue grew 5% to $494 million driven primarily by the new venues opened since Q2 last year. The new venues are performing well and consistent with the financial targets and returns we previously communicated.

Topgolf operating income was $56 million in the second quarter, up 28% compared to the prior year, while Adjusted EBITDA increased 19% year-over-year to $110 million. The adjusted EBITDA growth was driven primarily by the increased revenue and continued strong operating efficiencies, including benefits from our new labor model and cost management initiatives. We commend the team at Topgolf for their ability to drive profit in a volatile topline environment.

Moving to Q2 results for Golf Equipment. Overall, the underlying Golf Equipment business continued to see strong momentum from this year's club and ball launches with strong market shares as Chip discussed earlier. Revenue decreased 8% year-over-year to $414 million consistent with our expectations, primarily due to lapping last year's launch of our Big Bertha woods and irons which had an approximate $30 million impact compared to Q2 this year. This is just timing between quarters, and we still expect Golf Equipment to be up for the full year on a constant currency basis. Our Golf Equipment segment was also negatively impacted by approximately $7 million related to foreign exchange headwinds during the quarter.

Golf Equipment operating income of $77 million, decreased 20% year-over year due to the lower revenue, higher air freight costs and foreign exchange headwinds, which were partially offset by management of operating expenses.

In our Active Lifestyle segment, Q2 revenue decreased 3% year-over-year, which was in line with our expectations and was primarily from softness in Jack Wolfskin due to high field inventories, along with unfavorable changes in foreign currency rates.

Operating income decreased to $15 million compared to $20 million in the prior year primarily due to the lower sales.

Moving to balance sheet and liquidity highlights. We continue to have ample available liquidity. As of June 30, 2024, our available liquidity, which is comprised of cash on hand and incremental borrowing capacity under our credit facilities, increased $136 million to $784 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 regard to inventory.

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 for the same time last year. This increase is attributable to increased venue financing debt related to new venues, partially offset by a reduction in term loan debt due to our recent debt paydown. We also think it is helpful to evaluate our net leverage position by excluding the REIT debt associated with our Topgolf venue financing, which is akin to capitalized rent with no additional principal or bullet repayment required. Excluding the REIT debt from our balance sheet, our REIT adjusted net debt is $981 million dollars compared to $1.2 billion dollars as of Q2 2023.

Our Net Debt leverage, which excludes convertible debt, was 3.9x at June 30, 2024 compared to 4.1x in the prior year. This improvement 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, which burdens EBITDA with the REIT interest expense payments, was 1.9x compared to 2.5x in the prior year. We remain comfortable with these leverage levels.

Speaking of REITs, I want to provide a quick update based on what we are seeing in the market. First, our venues continue to be viewed as very attractive investments and we are seeing strong demand and, in fact, increased interest from new REIT partners for these venues. Second, the cap rates on new venues remain steady and in-line with the rates we have seen over the last several quarters.

Switching gears, our inventory balance decreased $193 million or 23% to $647 million at the end of Q2 2024. We continue to feel comfortable with the current level and quality of our inventory and believe we are essentially at normalized levels for our business with small opportunities in each brand or region that we will continue to pursue.

Capital expenditures for the first six months of 2024 were $149 million and we received reimbursements of $55 million from our REIT partners for net capital expenditures of approximately $95 million.

Now turning to our balance of year outlook. As Chip mentioned earlier, given our revised outlook for same-venue sales, coupled with our expectations for a potentially softer consumer environment across our businesses, we are lowering the midpoint of our full year 2024 revenue guidance range by $225M (or approximately 5%) to a range of $4.200 billion to $4.260 billion. Approximately $170 million (or approximately 75%) of this decrease is attributable to the Topgolf business and the other $55 million to our products business.

As a result, we are also lowering the midpoint of our full year Adjusted EBITDA outlook by approximately $50M to a range of $570 million to $590 million. We were able to mitigate the impact of the change in revenue on EBITDA through cost reductions and strong operational efficiencies.

By segment, at Topgolf, we are lowering our guide to approximately $1.79 billion in revenue and approximately $310 million in adjusted EBITDA which compares to our prior guidance of $1.96 billion and $350 million, respectively. Our outlook now assumes a softer back half of the year with updated same venue sales guidance of down very high single digits to low double digits for the year.

In Golf equipment, our updated forecast now allows for a range of outcomes that includes both a continuation of current trends or some softening of the consumer in the second half of the year. Despite this potential softness and unfavorable foreign currency rates, we expect second half growth in Golf Equipment and are very excited about our Q3 launches of Apex Irons and Opus Wedges. For the full year we anticipate Golf Equipment to be approximately flat year-over-year and slightly up on a currency adjusted basis.

In Active Lifestyle, TravisMathew continues to perform in line with expectations and as Chip noted, we have successfully rightsized the Jack Wolfskin business to focus on its two core markets in central Europe and China. Overall, we continue to expect full year revenue and operating income to be down year-over-year in this segment due to lapping the $35 million corporate channel fill-in last year for TravisMathew and lower sales at Jack Wolfskin.

Foreign exchange rates have improved since we last gave guidance and we are now expecting a full year negative impact on revenue of approximately $35 million and on operating income of approximately $19 million.

Shifting gears, while we continue to expect to be cash flow positive in 2024, we are lowering our outlook for free cash flow. We now expect free cash flow to be approximately $130 million compared to $165 million for our prior guidance. Topgolf is also expected to be free cash flow positive for the year.

From a net CAPEX perspective, we estimate approximately $190 million for the full year with $60 million coming from the non-Topgolf business and $130 million coming from Topgolf.

Now turning to Q3 specifically.

In Q3, we expect consolidated revenue of $970 million to $990 million, vs $1.041 billion in Q3 2023. We estimate Adjusted EBITDA to be in the range of $95 - $105 million, compared to $163 million in the prior year. This decrease is due to the revenue deleverage, increased marketing spend and more hedge losses compared to the prior year.

In Q3 at Topgolf, we expect to be down low single digits in revenue, and we expect operating income to be down more than revenue due to the revenue deleverage and a change in timing of marketing expenses year-over-year, partially offset by continued efficiencies. We also expect same venue sales to be approximately the same in Q3 and Q4.

Golf Equipment sales are expected to be down slightly in Q3, primarily due to unfavorable changes in foreign currency. Q4 revenue is expected to grow due to launch timing and year-over-year growth in golf ball. Operating income is expected to be down in Q3 due to the revenue

decrease and increased marketing spend related to the new product launches. Operating income is expected to be up in Q4 due to the expected revenue growth.

Moving to Active Lifestyle, we expect Q3 revenue to decline compared to last year due to lower sales estimates for Jack Wolfskin in the Europe wholesale channel. We expect growth in Q4 at both TravisMathew and Jack Wolfskin. Operating income is expected to be down in Q3 due to the revenue decrease and is expected to be up in Q4 due to the revenue leverage.

As we conclude, I want to emphasize that the fundamentals of our business remain strong. Participation and interest in golf remains very strong; the TravisMathew and Jack Wolfskin brands are leaders in their core markets; and the fun scores are high and improving. However, outside of our golf equipment business, we are clearly seeing some consumer softness in the current macroeconomic conditions. This is the less fun part of the economic cycle we all expected at some point. While it is having some impact on revenue, we have been able to offset much of the bottom-line impact through operational efficiencies and cost management. We are free cash flow positive and have strong liquidity. We are in a great position to be able to maximize opportunities during this cycle and to take advantage of better conditions as the consumer strengthens again.

With that said, I would now like to open the call for questions.