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PRESENTATION

Operator

Good day. My name is Victoria, and I will be your conference operator. At this time, I would like to welcome everyone to the 2018 Q1 earnings release conference call.

(Operator Instructions) I would now like to turn the call over to Patrick Burke, Head of Investor Relations. Sir, you may begin.

Patrick Burke - *Callaway Golf Company - VP of Finance & IR*

Thank you, Victoria, and good afternoon, everyone. Welcome to Callaway's First Quarter 2018 Earnings Conference Call. I'm Patrick Burke, the company's Head of Investor Relations. Joining me on today's call are Chip Brewer, our President and Chief Executive Officer; Brian Lynch, our Chief Financial Officer; and Jennifer Thomas, our Chief Accounting Officer.

Today, the company issued a press release announcing its first quarter 2018 financial results. A copy of the press release and associated presentation are available on the Investor Relations section of the company's website at ir.callawaygolf.com. Most of the financial numbers reported and discussed today on today's call are based on generally accepted accounting principles. In the few instances where we report non-GAAP measures, we have reconciled the non-GAAP measures to the corresponding GAAP measures at the back of the presentation in accordance with Regulation G.

Please note that this call will include forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from management's current expectations. We encourage you to review the safe harbor statement contained in this presentation and the press release for a more complete description. Please note that in connection with our prepared remarks, there is an accompanying PowerPoint presentation that may make it easier for you to follow the call today. This earnings presentation is available for download on the Callaway Investor Relations website under Webcasts & Presentations. Also on the same tab, you can choose to join the webcast to listen to the call and view the slides.

As a webcast participant, you are able to flip through those slides.

I would like now to turn the call over to Chip.

Oliver G. Brewer - *Callaway Golf Company - President, CEO & Director*

Thanks, Patrick. Good afternoon, and thank you for joining us for today's call. Starting on Page 4 of the presentation, I am pleased to announce a record start to the year, based on continued strong operating performance, brand momentum and improved market conditions.

Revenues were up 31% to $403 million and fully diluted earnings per share, as well as trailing 12-month EBITDA, more than doubled.

Our new products, particularly the Rogue line of woods and irons, as well as our new Chrome Soft golf balls featuring Graphene, are resonating on a global basis and our new business initiatives continue to perform at or above expectations.

We have made and are continuing to make significant investments in our business, which we believe are paying off nicely for shareholders. Since the beginning of the year, we also repurchased $22 million of our own shares.

As is my custom, I would like to take this chance to thank the Callaway Golf team for delivering these results. The team should be proud of what we've accomplished. I'm also sure they understand we have a lot more to do, and like me, are motivated to take our company to the next level.

Turning to Slide 5. In addition to our strong operating performance, which we will discuss in a moment, in a reversal of trends, our business benefited from 2 significant tailwinds during Q1, both of which were outside of our expectations going into the quarter. First, foreign exchange moved positively for us during the quarter, thus providing upside on the top line. Although, as a reminder, we hedge at 70% to 80%, thus limiting up or downside on profitability and cash flows for any given calendar year. Secondly, despite tough weather conditions in North America and Europe, overall global market conditions turned out to be quite favorable, with significant year-over-year growth in both Japan and the U.S. markets offsetting slower year-over-year conditions in Europe. We anticipate the potential for improved conditions, noting positive trends in average selling price, market dynamics, field inventories, product life cycles, and that the U.S. markets had transitioned well through the disruption of the Golfsmith bankruptcy.

However, the magnitude of the improvement did exceed expectations and helped us, and we believe the industry overall, get off to a strong start to the year.

Turning to Slide 6. Let's now take a deeper look into our operational performance by region. While doing this, it's worth noting that we launched more product in Q1 2018 than Q1 2017 and thus, quarterly comparisons should bear this in mind.

In the U.S., our revenues were up 32% for the quarter. The quarterly performance was driven by double-digit growth in our core business, as well as the addition of TravisMathew, which had an outstanding quarter as well.

Looking at our equipment business, our Q1 hard goods market share was approximately 26%, essentially flat year-over-year. According to Datatech, the U.S. hard goods market at green grass and off-course grew 9.5% during the quarter, and 21% during March alone. This market growth was driven by club sales. Balls were down slightly, most likely reflecting rounds played and weather.

For the quarter, Callaway was the #1 total hard goods brand, #1 in total clubs, woods, irons and putters. In golf balls, we remain the #2 brand, with 16.2% dollar share, up 220 basis points year-over-year.

Our club market share was down 110 basis points year-over-year, reflecting a more competitive market in drivers, but we remain very pleased with our industry-leading position in total clubs. We are showing strength across our entire line and we continue to have strong performance in the driver category, with Rogue as the #1-selling model year-to-date. Additionally, field inventory levels appear to be in line with the market overall, as well as Callaway.

Turning to Page 7. Our Asia business also had a strong quarter, led by Japan. Our revenues from the Japan market were up 42% for the quarter on a currency-neutral basis, driven by an increase in product launches, higher sell-in levels due to continued brand momentum, as well as strong market conditions.

For the quarter, our hard goods dollar market share was 16.8%, which was down 480 basis points year-over-year. This decrease sounds concerning, but after digging into the numbers, we are quite comfortable with our position. Our trends were good in that our March hard goods dollar share increased to 18.4%, up 170 basis points versus February, and we are anticipating further improvement in April. And as in the U.S., we are seeing strength across the entire product line. We also did an extensive analysis of field inventories and concluded we are in good position with this as well.

Korea also had a strong quarter to the year, with currency-neutral revenues up 26% for the quarter. For Asia in total, we anticipate a strong year overall, but our growth here, like our business overall, and this year's product launch cadence, will be front-loaded.

Moving to Page 8. In Europe, the team had a relatively quiet quarter, with revenues up 14.8% in total and 2.5% in constant currency. The European market, and especially the U.K. market, were negatively impacted by poor weather conditions in Q1.

In the U.K., rounds were down 22% and the market was down 7%. However, we remain optimistic for this market as the weather inevitably improves.

For Europe as a whole, through February, our latest data, we remain the #1 hard goods brand, with a hard goods share of 24%, which was down 200 basis points year-over-year.

Now on Slide 9. Based on the strong start to the year, we are raising our full year revenue guidance by $50 million to $55 million and our full year earnings per share by a range of $0.12 to $0.13. This forecast reflects current foreign exchange levels, as well as continued improved market conditions. You will undoubtedly notice that our full year forecast is heavily front-half loaded. This reflects our current estimate of our product launch cadence, with more launches in the first half and less in the second half compared to last year, as well as our estimates of competitive launch activity.

In conclusion, we are excited about our start to the year and cautiously optimistic it's going to be a positive year for Callaway and the industry as a whole. Stepping back for a moment to look at the big picture, I hope you agree we've made significantly -- we've significantly grown and strengthened our business over the last few years, and that barring an unforeseen event, this trend is likely to continue. We are clearly now a product and technology leader in the equipment space. We have momentum and improving overall industry fundamentals. We hope you also agree we are making attractive investments by reinvesting in our core, investments in Topgolf, selectively repurchasing shares and in strategic acquisitions, all areas where we believe we can deliver attractive growth and returns for our shareholders. Brian, over to you.

Brian P. Lynch - *Callaway Golf Company - Senior VP, CFO, Chief Ethics Officer, General Counsel & Corporate Secretary*

Thank you, Chip. As Chip mentioned, we are very pleased with our start to the 2018 golf season. Our consolidated net sales increased 31%, including increases in all operating segments, in all regions and across all product categories. These increases reflect the strength of our 2018 product line, a product launch cadence that is heavily weighted toward the first quarter, the addition of TravisMathew sales, positive changes in foreign currency rates and improved industry conditions. It is nice to have a few tailwinds for a change. Our new product introductions, including the Rogue woods and irons and the new Chrome Soft golf balls, are off to a strong start; and our new businesses, OGIO and TravisMathew, continue to meet and/or exceed their plan.

Although we are mindful that a large portion of first quarter sales represent the early season selling for the new golf season, we are cautiously optimistic for the year. In evaluating our results for the first quarter, you should keep in mind some specific factors that affect year-over-year comparisons. First, the TravisMathew acquisition occurred in August 2017. As a result, that business was not included in our first quarter 2017 results. Second, as a result of the 2 acquisitions, we recorded some non-recurring deal-related expenses. When comparing to our 2017 non-GAAP results today, we exclude the non-recurring deal-related expenses, and that is how we evaluate our performance. Third, during the fourth quarter of 2017, we recorded $3 million of additional tax expense related to the 2017 Tax Cuts and Jobs Act and other non-recurring tax adjustments that impacted the full year. We exclude these from our 2017 non-GAAP results. Also as a result of the tax reform act in 2017, our first quarter tax rate in 2018 was 21.5% compared to 33.8% in the first quarter of 2017. This decreased rate had a positive benefit on our first quarter earnings and will have a positive impact on full year earnings as well.

With those factors in mind, I will now provide some specific financial results. Turning to Slide 12, today, we are reporting consolidated first quarter 2018 net sales of $403 million compared to $309 million in the first quarter of 2017, an increase of $94 million or 31%, and a record for net sales in the first quarter.

Foreign currency positively impacted international net sales by $11 million in the first quarter. The significant improvement was driven by a 19.7% increase in woods sales, a 61.3% increase in irons sales, a 23.8% increase in putters sales, a 13.9% increase in golf ball sales and a 35.3% increase in gear, accessories and other, primarily due to the addition of the TravisMathew business, which was acquired in August of 2017. The increased sales occurred across all regions, with U.S. up 31.9%, Europe up 14.8%, Japan up 49%, the rest of Asia up 35% and other countries up almost 8%.

Gross margin was 49.7% in the first quarter of 2018 compared to 47.8% in the prior year. The 190 basis point increase compared to 2017 reflects continued price increases and scale in the core business, the addition of the TravisMathew business, which was accretive to the company's gross margins and the net favorable impact from changes in foreign currency rates.

Operating expense was $114 million in the first quarter of 2018, which is a $10 million increase compared to $104 million in the first quarter of 2017. This increase is attributable to the addition of TravisMathew operating expenses, increased variable expenses related to the higher net sales and the negative impact of foreign exchange.

Pretax income was $80 million in the first quarter of 2018 compared to pretax income of $39 million the first quarter of 2017. When excluding the non-recurring OGIO expenses, non-GAAP pretax income from the first quarter of 2017 was $43 million. 2018 pretax income increased $30 million or 86% over 2017 non-GAAP pretax income. Other expense was $6 million in the first quarter of 2018 compared to other expense of $5 million in the prior year. The slightly higher other expense in the first quarter of 2018 resulted primarily from higher interest expense.

Fully diluted earnings per share was $0.65 on 97 million shares in the first quarter of 2018 compared to $0.27 per share for the first quarter of 2017. Excluding the non-recurring OGIO items discussed earlier, first quarter fully diluted earnings per share was $0.30 in 2017. Fully diluted earnings per share in 2018 increased 117% over the non-GAAP 2017 results.

As you can see on Slide 13, trailing 12-months adjusted EBITDA ending March 31, 2018, increased 126% to $138 million.

Turning now to Slide 14, I will cover certain key balance sheet and cash flow items. Regarding our asset-based loans, we have $179 million of borrowings at the end of the first quarter of 2018 as compared to $77 million of borrowings a year ago. Available liquidity, which represents additional availability under our credit facilities, plus cash on hand, was $220 million at the end of the first quarter of 2018 as compared to $173 million a year ago.

We are pleased with this level of liquidity, given our recent deployment of capital for the OGIO acquisition and TravisMathew acquisition, additional share repurchases and our incremental investments in Topgolf and the golf ball plant. We believe we are demonstrating our ability to generate free cash flow in the core business and are finding good opportunities to deploy that excess capital in the core business and in tangential areas.

Our consolidated net account receivables were $265 million, an increase of 8% compared to 2017, driven by the increase in sales in the first quarter. Also, DSOs decreased to 63 days compared to 73 days at the end of March 2017. We remain comfortable with the overall quality of our accounts receivable at this time.

On Slide 14, our inventory balance decreased by $83 million to $262 million at the end of the first quarter of 2018. The increase is due to the planned increased launch activity in 2018. We needed to ensure that we had the appropriate amount of inventory to support those launches and we also have inventory from the TravisMathew acquisition that we did not have last year. We remain comfortable with the quality of our inventory at this time.

Capital expenditures for the first quarter of 2018 were $8 million, a year-over-year increase of $2 million. This increase is due mainly to investments in our ball plant.

Depreciation and amortization expense was $5 million for the first quarter of 2018 compared to $4 million in 2017.

Finally, so far this year, we have repurchased 1.4 million shares of stock for approximately $22 million in cash. This includes both open market purchases and shares acquired through the settlement of equity awards.

I'll now comment on our 2018 guidance. As you can see on Slide 15, we are updating our 2018 GAAP guidance and are comparing that to our 2017 non-GAAP financials. The 2017 non-GAAP financials exclude $11 million of non-recurring deal-related expenses resulting from the OGIO and TravisMathew acquisitions and $3 million of non-recurring tax expense mentioned above.

As seen on Slide 15, 2018 net sales are estimated to be in the range of $1.170 billion to $1.185 billion, an increase of 12% to 13% over 2017, and more than $50 million higher than our previous guidance.

Incremental sales growth versus previous estimates is expected to be driven by: Increases in the core business, which are now estimated at 4% to 6% for the full year versus 2017 on a currency-neutral basis; foreign exchange; and to increases in the TravisMathew business.

The increases in core business are being driven by the Rogue line of woods and irons, the new Chrome Soft golf ball, continued success of the Truvis ball franchise and increased sales of putters and Mack Daddy 4 wedges, as well as a healthier retail market.

In addition, the company is currently estimating that year-over-year changes in foreign currency exchange rates will have a more positive impact than originally anticipated. The company currently estimates that changes in foreign currency rates will positively impact 2018 net sales by approximately $19 million as compared to our initial expectations at the beginning of the year of less than $5 million.

We estimate the full year 2018 gross margin will be 47%, which is 50 basis points higher than our previous estimate. The increase is being driven by foreign exchange rates and volume in the core business. We estimate full year 2018 GAAP operating expenses to be $444 million, an increase of $18 million compared to previous guidance. This increase in operating expenses reflects variable costs related to higher sales and performance, the impact of changes in foreign currency exchange rates, as well as targeted investments in the core business.

GAAP earnings per share are estimated to be $0.77 to $0.82 compared to $0.64 to $0.70 in our previous guidance. This would represent a 45% to 55% increase over 2017 non-GAAP EPS of $0.53. The 2018 figures are based on 97 million shares outstanding and we are also assuming a 23% tax rate for 2017 -- 2018.

We estimate our capital expenditures in 2018 to be at least $30 million compared to $26 million in 2017, driven by continued investment in the ball plant and by the new TravisMathew business. Depreciation and amortization expense is estimated to be approximately $21 million in 2018. We estimate EBITDA to be approximately $128 million, a 28% increase versus our 2017 non-GAAP EBITDA, driven by the core business, a full year of TravisMathew and more favorable foreign exchange rates.

We would like to reiterate that the majority of our launches were forecasted in the first half of 2018 and we are expecting launch timing to negatively impact the second half of 2018. As a result, and consistent with our expectations entering this year, we expect second half sales to decrease compared to the second half sales last year. We continue to encourage investors to focus on our full year results, as the quarter comparisons can be materially impacted by new product launch timing.

2018 second quarter net sales are estimated to be in the range of $365 million to $375 million, an increase of 20% to 23% over 2017. The increase is driven by the front-loaded launch timing in the first half in the core business, as well as the addition of the TravisMathew business. We currently estimate that changes in foreign currency rates will slightly help our Q2 2018 net sales by approximately $5 million.

GAAP earnings per share are estimated to be $0.44 to $0.48 compared to the $0.34 we earned in 2017 non-GAAP results. The 2018 figures are based on 97 million shares outstanding.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Steven Zaccone with JPMorgan.

Steven Emanuel Zaccone - *JP Morgan Chase & Co, Research Division - Analyst*

Can you elaborate on the second half revenue outlook in a little bit more detail? It seems like you are seeing very strong results on new product launches and better market growth rates and weather has really just been a headwind to start the year. So what are the key factors you need to see to drive continued top line growth in the second half of the year?

Brian P. Lynch - *Callaway Golf Company - Senior VP, CFO, Chief Ethics Officer, General Counsel & Corporate Secretary*

Well, Steven, based on our current launch cadence, we are growing sales, it's just it's going to be down year-over-year. But the new products are doing well. It's just that we will have less new product launches in the back half of the year, so we would expect to be down. And that was our expectation entering the year, that's not new information for us.

Steven Emanuel Zaccone - *JP Morgan Chase & Co, Research Division - Analyst*

Okay. Then just shifting to the golf ball side, can you talk about some of the traction you are having with the new Chrome Soft offering? Have you seen any price resistance from customers at the higher price point? And then just broadly speaking on the industry, one of your competitors has gotten more aggressive with marketing and also is introducing a new golf ball this quarter. Are you seeing any changes in the competitive landscape, is that impacting your business at all?

Oliver G. Brewer - *Callaway Golf Company - President, CEO & Director*

Steven, it's Chip. The new Chrome Soft with Graphene has been received very well in the marketplace, as shown on our market share, where we've continued to grow, and also in the consumer feedback and player feedback. We think we've got an outstanding product there and a great message. We gained some share over the last few years. We have a nice trend going there. So you would expect some reaction from competitors and we've got that forecast into our guidance the best that we can. But the reaction thus far has been very positive and we continue to be very pleased with the trajectory of our golf ball business.

Operator

Your next question comes from the line of Brett Andress with KeyBanc Capital Markets.

Brett Richard Andress - *KeyBanc Capital Markets Inc., Research Division - Associate VP*

I wanted to go back to the guide quickly. So I'm just curious about your underlying assumptions that is embedded in really the back half, or the full year really, for both domestic industry retail growth, I guess also retail internationally and what you're assuming for market share, as we kind of go throughout the year?

Oliver G. Brewer - *Callaway Golf Company - President, CEO & Director*

Sure, Brett, it's Chip. The -- we are very pleased with the start of the year, obviously, from -- the markets are doing great and we would logically conclude that it's going to be a good year overall. We are optimistic Q2 is also going to be a positive quarter and we've reflected that. As we look further into the year, our crystal ball gets a little fuzzy. There is no reason not to be positive, but you also wouldn't anticipate it being as good as it has been, out of the chute, because that feels unprecedented.

We also like our market share trend right now, but given that we are launching less product during the second half of the year, we would anticipate that our market share position will moderate some during that period and all of that is kind of factored into our guidance.

Brett Richard Andress - *KeyBanc Capital Markets Inc., Research Division - Associate VP*

Got it. That's helpful. And I hate to be the one to ask this, but Chip, I'd like to get your opinion on the proverbial Tiger Woods bump. There's been a lot of headlines, perceived enthusiasm around his return and what that means to the sport, but are you seeing anything anecdotal that maybe confirms that hypothesis, as it relates to your business or the industry?

Oliver G. Brewer - *Callaway Golf Company - President, CEO & Director*

Yes, I can't really tie it directly, but clearly, Tiger coming back is good for the game and exciting and you see the impact so dramatically in the ratings when he is playing, so -- but in addition, we've got a great, young crop of exciting players out there as well. It's not all Tiger, but there can be no doubt that there has been some positive for the sport in total. No idea whatsoever, Brett, if that, that correlation is indeed causality relative to the strong start that the industry is receiving right now. It may be, and it may be completely anecdotal to that. Can't tell, but it's got obviously positive for golf.

Brett Richard Andress - *KeyBanc Capital Markets Inc., Research Division - Associate VP*

Got it. And last one, just on balls. A little surprised to see operating profit in golf balls down. I know you took price on the new Chrome Soft, revenue was strong. Can you give us a little bit more color on what drove that?

Oliver G. Brewer - *Callaway Golf Company - President, CEO & Director*

Yes, the startup of this new technology and the investments we have been making in the plant, the cost of that ball is higher than the previous ball. But also, this is a new technology and we are ramping up capabilities at Chicopee. So we are very pleased with our position and that's something that we would expect to see continued improvement on as we gain more and more experience. But we are on track and good position there.

Operator

Your next question comes from the line of David King with Roth Capital Markets.

David Michael King - *Roth Capital Partners, LLC, Research Division - MD & Senior Research Analyst*

I guess on the balls as a first, the double-digit growth you had there, how much of that do you expect to continue into the second quarter, particularly with some of your competitors launching balls in the soft arena that someone else alluded to? And then how has the sell-through been on the ball business versus that, I think, it was 11.5 constant currency growth you had in the first quarter?

Oliver G. Brewer - *Callaway Golf Company - President, CEO & Director*

David, we don't really break out and we're going to continue that policy, the guidance per quarter per product categories, it's too granular. But we've had a long trend of good momentum in the golf ball business that continued through Q1. So I believe, if I got my numbers correct, and jump in team if I don't, but it's 16.2% up 220 basis points was our market share growth in U.S. green grass and specialty retail channels. So a nice healthy growth. The Chrome Soft launched mid-quarter as well, so we are quite pleased with the reaction and that has been a trend. We are optimistic for the category going forward, but a specific forecast for Q2 is beyond our desires or abilities right now.

David Michael King - *Roth Capital Partners, LLC, Research Division - MD & Senior Research Analyst*

Understood. That helps, that's good color. And then switching gears a bit. The $18 million increase you took in your expense guidance for the year, how much of that is the variable piece versus ForEx, and I guess, targeted investments? And what specifically are those targeted investments?

Brian P. Lynch - *Callaway Golf Company - Senior VP, CFO, Chief Ethics Officer, General Counsel & Corporate Secretary*

Well, some of it's the -- when you look at -- if you look at year-over-year, there is $51 million extra. Some of that's FX, some of it is the TravisMathew and then a lot of it is just reinvest in our core business. It's the cost of living, the variable expenses, the core business investments and marketing tour and the other pieces as well.

David Michael King - *Roth Capital Partners, LLC, Research Division - MD & Senior Research Analyst*

Okay. So in terms of just in how you took up the guidance, the magnitude you took up the guidance, is there any -- is the variable piece driving the bulk of that? Or is there any increased investments that you're making?

Brian P. Lynch - *Callaway Golf Company - Senior VP, CFO, Chief Ethics Officer, General Counsel & Corporate Secretary*

It's mostly variable.

Operator

Our next question comes from the line of Michael Swartz with SunTrust.

Michael Arlington Swartz - *SunTrust Robinson Humphrey, Inc., Research Division - Senior Analyst*

Just I wanted to ask the question in maybe another way on just the timing of revenue this year. I know you said a lot of that has to do with just timing of product launches. But Chip, maybe you can help us understand, how much of that maybe is a factor of just having a little more exposure to green grass and maybe a different wholesale pattern versus the off-course channel?

Oliver G. Brewer - *Callaway Golf Company - President, CEO & Director*

Michael, that's a good question, but I'm not able to answer it, because I don't know what affect that channel mix. We are clearly growing our green grass business. We really have strength across all the channels right now, but if you look at it in macro trend over the last few years, our performance at green grass has really improved and we have some considerable strength there. I'm not sure I know though about what that impact of timing would be at this point, though. I'd have to take some time to reflect on that. So unfortunately, I can't give you much more of an answer at this point.

Michael Arlington Swartz - *SunTrust Robinson Humphrey, Inc., Research Division - Senior Analyst*

Okay. That's fine. And then, a question I know you love to answer, Chip. Just in terms of longer-term profitability outlook, I know that you've said a well-run golf company could operate in kind of the 6%, 7% range. You're now guiding between somewhere between 9% and 10%, and I know there is variability and limited visibility to things like FX. But I mean, have you changed the way you think about the industry longer -- or your business longer term, given how the industry has improved over the past 3, 5, 10 years?

Oliver G. Brewer - *Callaway Golf Company - President, CEO & Director*

Michael, I have, to be direct, and it's as much a reflection of -- one thing that I've been very pleased with and is probably more than I expected is the benefits of scale associated with this business. As we continue to grow the business and have success, our ability to deliver profits that were at levels above where I had initially expected continue to show themselves and so we are very positive on those trends and hopeful and optimistic we'll be able to continue on that.

Operator

Your next question comes from the line of Randy Konik with Jefferies.

Randal J. Konik - *Jefferies LLC, Research Division - Equity Analyst*

Chip, first I just wanted to get an update on OGIO and TravisMathew. Where are we in the distribution story there? Just trying to figure out how you're thinking about those businesses ramping up over the next few years? That's my first question.

Oliver G. Brewer - *Callaway Golf Company - President, CEO & Director*

Sure, Randy, we are very pleased with both of those businesses and acquisitions at this point. They are meeting or exceeding expectations. The TravisMathew one, team there needs to be especially congratulated, a lot of momentum in that brand and we are seeing further distribution growth there. We are seeing strength in the brand across the line, in golf, outside of golf, et cetera. It's still only a domestic business, so there is some opportunity on an international basis that we will be exploring and hope to benefit from over the years ahead. And as mentioned, without getting into a lot of specifics, very pleased with that and there is further distribution opportunity, really on both of those businesses. But both are meeting or exceeding what our initial expectations were and contributing nicely to shareholder value.

Randal J. Konik - *Jefferies LLC, Research Division - Equity Analyst*

And just back on the question you had earlier on the ball side, with the investments and ramping up production to new technology impacting cost somewhat, what would you think in terms of timing to get to normalization back of margin in that business? Given these are just near-term events, what would be like an adequate level of duration for us to think about kind of starting to get economies and ramping that stuff back up so the margins kind of get recaptured in the business?

Oliver G. Brewer - *Callaway Golf Company - President, CEO & Director*

Yes, first of all, I would like to say, I think the margins will get recaptured, I am positive on that. But we are going to be continuing to invest in that facility over a multiyear time period. This is not something that is going to be this quarter or next quarter and over. So you are going to need to look at it over a long period of time. I would anticipate that you'll see some progress along that path over -- by this time next year. But we are -- it's got a long-range plan here really improving our golf ball product, which we think is in great position now, but we've got further plans and positioning in the marketplace.

Randal J. Konik - *Jefferies LLC, Research Division - Equity Analyst*

Great. My last question is, when you think about you had such a great year, great start to the next year here, what are the 3 areas of focus you're kind of telling your team that we have to accomplish or priorities for 2018? And then in the last quarter, in the last 12 months, what would you have liked to have done better? Since you had a great year, just what would you have liked to change or done better and what are the focal items that you're telling the team to execute upon this year?

Oliver G. Brewer - *Callaway Golf Company - President, CEO & Director*

It's a lot of the same things, Randy. We are really focused on improving this business for the long run and sustainable positions in the marketplace. So if you look at the strength across the product line, I am very pleased with that. You look at our strength internationally and our ability to assimilate the acquisitions, quite pleased with all of that.

There is always room for improvement and we are very cognizant of that. Last year, we didn't have as strong a year in the putter category as we would've liked. You see us starting to re-strengthen there, so I'm really pleased with the team's efforts on that and strength on that line. And believe me, we find plenty to be self-critical about, but we are also pleased with the current trend and are trying to further that.

Operator

Your next question is from the line of John Kernan with Cowen.

John David Kernan - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

So I guess, I want to, just within the revenue guidance, delve into woods and irons and what's embedded in your expectations there? Obviously, really strong sell-in with the Rogue irons. The reviews have been really strong. Same with the wood -- the Rogue woods. So I'm just wondering, when you look at the revenue declines that are embedded in your guidance for the back half of the year, how does that break out between woods and irons?

Oliver G. Brewer - *Callaway Golf Company - President, CEO & Director*

John, it's Chip. We are unfortunately not going to be able to give you a breakdown by product category by quarter. As you stated, we are very pleased with the position that we have right now. We are aware of what would be -- well, we have expectations for what competitors are going to launch at different periods of time, and we'll embed that into our forecast. But the Rogue irons are the #1-selling model in irons by a wide margin and the Rogue driver is the #1-selling model driver. So I think it's very fair to say that both of those products have gotten off to a good start. And those are also brand positions now, which as we sustain some of these positions over a long period of time, I think it's very healthy for the company.

Now we're going to let it evolve. From a quarter-to-quarter basis, I'm not going to micromanage any of this share stuff. It may go down in a quarter and that will be the best interest of the business for the long term. You'll see in some quarters, you get into Q3 late in the quarter and Q4, they are very small months. You don't have to sell a lot of product to have a high share and it can look more alarming than it is, when you view it over a big picture. And in order to keep the channel clean and in order to keep your brands strength and be ready for the next plan, you have to show some discipline. Some of this is what we are talking about relative to the second half of the year and that's why we keep telling you, and we understand the challenges with this as well, but we keep telling you to focus on the full year. Any short period, it's so variable to launch timing. But hopefully, I answered some parts of your question there.

John David Kernan - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

That's helpful for us to think about it that way. And certainly, regardless of what happens in the back half of the year, you're off to an impressive start here.

Oliver G. Brewer - *Callaway Golf Company - President, CEO & Director*

And if you look at the full year, I think by most measures, we are expecting some pretty good things.

John David Kernan - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

Absolutely. And then, just if you can help us think about gross margin. It looks like it's, just based on what the Q2 guide is and where you are guiding expenses for the year, it looks like there would have to be a little bit of gross margin pressure, maybe, in the back half of the year. Is there anything -- are there planned, like, markdowns on some of the older launches like EPIC? Or is there some type of mix shift? How do we think about gross margin in the back half as revenue moderates a bit?

Brian P. Lynch - *Callaway Golf Company - Senior VP, CFO, Chief Ethics Officer, General Counsel & Corporate Secretary*

Some of it will be affected by less FX in the back half of the year. You should factor that in as well.

Oliver G. Brewer - *Callaway Golf Company - President, CEO & Director*

John, in our margins naturally, in absence of any significant launches which would change this, they are highest in the first quarter and usually get lower through the year. So that's a natural evolution and you see that. And the only thing that would change that is significant product launches. We are not anticipating on our current guidance any unusual amount of promotional activity out in the marketplace or other activity. We think the market's in good shape and we're -- our positions are in good shape.

John David Kernan - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

And then just one quick follow-up question. The share count, I think, for the embedded guidance is for 97 million, which wouldn't assume any share buyback. Is that -- do you feel like that's conservative, given some of the cash you're spinning off at this point?

Oliver G. Brewer - *Callaway Golf Company - President, CEO & Director*

We don't comment on any plans relative to share buyback going forward. Obviously, we evaluate it relative to other uses of capital and have shown from time to time that we will be active in that market. But as it relates to balance of the year, we don't comment on plans or lack thereof, relative to share buyback.

Operator

Your next question comes from the line of Susan Anderson with B. Riley FBR.

Susan Kay Anderson - *B. Riley FBR, Inc., Research Division - Analyst*

I guess, I wanted to, not sure if I missed this, but I want to dig in on the sales growth, mainly within your new irons and balls. Was this driven -- did you guys kind of break out at all how much of that growth was driven by pricing versus units?

Brian P. Lynch - *Callaway Golf Company - Senior VP, CFO, Chief Ethics Officer, General Counsel & Corporate Secretary*

No, Susan, we did not break that out.

Susan Kay Anderson - *B. Riley FBR, Inc., Research Division - Analyst*

Okay. And any color on it that you could provide just in terms of, was it significantly driven by pricing versus units or vice versa?

Brian P. Lynch - *Callaway Golf Company - Senior VP, CFO, Chief Ethics Officer, General Counsel & Corporate Secretary*

For the ball, there was definitely a price impact from the price increase we had in the Chrome Soft, so that was definitely a factor.

Oliver G. Brewer - *Callaway Golf Company - President, CEO & Director*

Irons, it had to be both, Susan. We had a very strong irons -- so last year during Q1, we didn't have a significant iron launch and this year, the Rogue launch was very significant. So our volumes were up dramatically, both in units and we also took a little bit of price. I don't have the breakdown between the 2, but it was a combination of the 2, probably the majority of volume in irons. And woods, it was probably a majority price, but it would have been 50-50 maybe as well, because we had a very good quarter, hybrid and fairway wood. It was a good quarter driver, but year-over-year growth, as you would hope, in hybrid and fairway.

Susan Kay Anderson - *B. Riley FBR, Inc., Research Division - Analyst*

Great, okay. And then maybe if you could talk a little bit, now that we are going to start to cycle TravisMathew, too, I guess, how are the integrations going still so far? And then how should we think about just the core growth of those 2 brands going forward?

Oliver G. Brewer - *Callaway Golf Company - President, CEO & Director*

TravisMathew, the integration is going extremely well. Very pleased with it, on both of the businesses, and they were very different case studies, quite candidly. The TravisMathew business is growing faster than our business overall, or will on a full year basis. The OGIO business is growing at or approximate to our core right now, but we see further potential in that to grow faster than our core over the long term.

Susan Kay Anderson - *B. Riley FBR, Inc., Research Division - Analyst*

Got it. And then maybe just any color you can give on thoughts around potential acquisitions down the road? Are you still thinking about tangible products? Or how should we think about that, if there is any opportunities?

Oliver G. Brewer - *Callaway Golf Company - President, CEO & Director*

Susan, we are definitely considering that as an option. We are going to be thoughtful and strategic in that, as I hope we have been thus far. But we see ourselves in a position with an opportunity to invest in growth, where we believe it can create shareholder value and so we'll evaluate those as well as other uses of capital as it comes forward. We're not in a position to elaborate on that at this point or provide you any specifics other than what we have shown with the acquisitions that we have done.

Operator

Your last question comes from the line of George Kelly with Imperial Capital.

George Arthur Kelly - *Imperial Capital, LLC, Research Division - VP*

So a couple of questions, first on TravisMathew. Wondering, I may have missed it in your prepared remarks, but did you disclose the revenue contribution from it? And then second question on TravisMathew, how far do you think you are in distribution, since you've acquired it, do you think there is a lot of room left to take it to the channels that your core, sort of, sales force services?

Oliver G. Brewer - *Callaway Golf Company - President, CEO & Director*

George, we did not break out the TravisMathew revenues. It's embedded in gear, accessories and other. And as you can see, that category had dramatic growth. It would have grown without the TravisMathew, but TravisMathew was a considerable portion of it. The distribution of TravisMathew is continuing to grow and we continue to see runway on that, both domestically and internationally. But we are not able to quantify that any further at this point. But the business is obviously doing very well and we are quite pleased with it, from a -- addition to the Callaway family.

George Arthur Kelly - *Imperial Capital, LLC, Research Division - VP*

Okay, and then last question for me, just on TaylorMade. Have you seen any kind of more structural changes there? Or anything, I don't know if it's international or how they're -- anything, if there's, if you wouldn't mind mentioning, that would be helpful.

Oliver G. Brewer - *Callaway Golf Company - President, CEO & Director*

Yes, general rule, George, we don't comment on competitors. Have a lot of respect for TaylorMade. I think they are doing well as well in the marketplace and I am not in a position to comment on anything structural there. There is nothing material for me to pass on to investors on that basis.

Operator

And we do have a last question from Casey Alexander with Compass Point.

Casey Jay Alexander - *Compass Point Research & Trading, LLC, Research Division - Senior VP & Research Analyst*

First of all, nice to hear a year that is front-loaded. I think all of us analysts have heard enough of guys who've said, "We'll make it up in the back half of the year." That's certainly comforting. Chip, let me ask you a question. I mean, obviously, Western Europe has had terrible weather in the first quarter, and the Northeast, East Coast, North Central, again, another one of these very late springs and rounds played thus far this year are down. Do you think that had we had a little bit better weather, that your guidance would be even better than it is right now?

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Oliver G. Brewer - *Callaway Golf Company - President, CEO & Director*

Casey, I'd have to believe so. I can't tell, and it's one of those things that -- by the way, glad you jumped in, I almost missed you. But you can't tell how much on the club side is pulled forward, but it did surprise us, the amount of strength in the marketplace given the weather conditions. I mean, March being up 21% is exceptional and is some portion of that pull-forward, et cetera, but clearly, the consumable portion would have been better if there was more rounds played and I think that's inarguable.

Casey Jay Alexander - *Compass Point Research & Trading, LLC, Research Division - Senior VP & Research Analyst*

And my other question is, and I think you answered this, but it's a little nuanced. You have a $6.7 million increase in golf ball sales in the quarter, but only a $1 million increase in profitability, which suggests that there is a real margin shift there. And does that mean that you really need to push through more of the new ball in order to make the strategy pay?

Oliver G. Brewer - *Callaway Golf Company - President, CEO & Director*

No, I don't think so. It's just a -- when you put this much -- the cost of the new ball is higher. So -- but we've also raised our pricing. So we don't have any issue with that. The efficiencies at the plant, Casey, when you do all those dramatic changes in a plant, it's like making a swing change, right? You get better with time.

Casey Jay Alexander - *Compass Point Research & Trading, LLC, Research Division - Senior VP & Research Analyst*

Don't start, don't start with me.

Oliver G. Brewer - *Callaway Golf Company - President, CEO & Director*

I was trying to put this in a way that you'd get it, but -- and I know you don't have to make too many swing changes. But that's what we are going through here on the plant. It's really performing quite well. You're just seeing a natural progression as they learn to go through with the new equipment and the new process.

Casey Jay Alexander - *Compass Point Research & Trading, LLC, Research Division - Senior VP & Research Analyst*

Is that to say then, that like if we looked out a year from now, on a similar level of sales, you think the margin would actually be better?

Oliver G. Brewer - *Callaway Golf Company - President, CEO & Director*

I do, and the only reason I hedge that a little bit is because we are making further changes in the plant later this year in other areas. So we are going to digest these changes and we'll be improved in that area, and then we are putting in more. And obviously, we believe these are good investments that are going to pay off for us in the long run. But there is a step 2 coming that we'll also be digesting at that point.

Operator

I would now like to turn the call back to Chip Brewer for closing remarks.

Oliver G. Brewer - *Callaway Golf Company - President, CEO & Director*

Well, thank you, everybody, for calling in. Appreciate your support and look forward to talking to you at the end of Q2.

Operator

This does conclude today's conference call. You may now disconnect. Thank you for your participation.
