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ELY - Q4 2015 Callaway Golf Co Earnings Call

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OVERVIEW:

Co. reported full-year 2015 consolidated net sales of $844m, pretax income of $20m and EPS of $0.17. 4Q15 consolidated net sales was $153m, net loss was $30m and loss per share was $0.33. Expects full-year 2016 GAAP net sales to be $845-870m and diluted EPS to be $0.15-0.25. Expects 1Q16 net sales to be $270-280m and EPS to be $0.33-0.39.

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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 fourth quarter 2015 Callaway Golf earning conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question-and-answer session. (Operator Instructions). I will now turn the call over to Patrick Burke, Head of Investor Relations. Sir, you may begin your conference.

Patrick Burke - *Callaway Golf Company - Head of IR*

Thank you, Victoria and good afternoon everyone. Welcome to Callaway's fourth quarter 2015 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, and Robert Julian, our Chief Financial Officer.

I would like to point out that any comments made during the call about future performance, events, prospects or circumstances, including statements related to estimated 2016 net sales, sales growth, gross margins, operating expenses, pretax income, taxes and earnings per share, future cost savings, industry or market conditions, market share gains or brand momentum, the success of the Company's future products, long-term profitability or performance, the creation of long-term shareholder value, the collectibility of accounts receivable and salability of inventory, the reversal of the valuation allowance or the use of the NOL, estimated 2016 capital expenditures and depreciation and amortization expenses, the negotiation and completion of the joint venture in Japan, and other future corporate development opportunities including the timing for projected financial effect initiative as well as other statements referring to future periods and identified by words such as believe, will, could, would, expect or anticipate, are forward-looking statements subject to Safe Harbor protection under the federal securities laws.

Such statements reflect our best judgment today based on current market trends and conditions. Actual results could differ materially from those projected in the forward-looking statements as a result of certain risks and uncertainties applicable to the Company's businesses. For details concerning these and other risks and uncertainties you should consult our earnings release issued today, as well as part one item 1A of our most recent form 10-K for the year ended December 31, 2014 filed with the SEC, together with the Company's other reports subsequently filed with the SEC from time to time.

Also during the call, in order to provide a better understanding of the Company's underlying operational performance we will provide certain of the Company's results and projections on a constant currency basis. Which essentially excludes all foreign currency gains and losses recorded during the applicable periods and applies to prior period exchange rate to the adjusted current or future period financial information as though such prior period rates were in effect during the current or future period.

We will also provide information on the Company's earnings excluding interest, taxes and depreciation and amortization expenses. This information may include non-GAAP financial measures within the meaning of Regulation G. The information provided on the call today and the earnings release and related schedule we issued today include a reconciliation of such non-GAAP financial information to the most directly comparable financial information prepared in accordance with GAAP. The earnings release and related schedules are available on the Investor Relations section of the Company's website at www.callawaygolf.com. I would now like to turn the call over to Jeff.

Chip Brewer - *Callaway Golf Company - President and CEO*

Thanks, Patrick. Good afternoon everybody and thank you for joining us for today's call. 2015 was an excellent year for Callaway Golf which concluded with a very strong quarter. In the quarter we grew our business 14% on a GAAP basis or 19% currency-neutral showing broad-based growth across both product categories and regions.

For the year our highlights include significant improvements in market share along with further strengthening of our financial position including marked improvements in gross margins and the elimination of all long-term debt. Most importantly, the Company has recaptured key leadership positions in our club business and developed a profitable and growing ball business.

I would like to start by thanking the Callaway Golf team for their hoard work and commitment to strengthening our business. The team has done a remarkable job changing this business for the better and I want them to know how much we all appreciate their efforts. Let's start by taking a deeper look into our 2015 performance by region.

In the US our revenues grew nearly 6% and our hardgoods dollar market share was 21.1%, up 260 basis points or 14% year-over-year. This is our highest market share since 2003 and represents a 52% improvement over the last three years. We were up significantly in irons, putters, hybrids, wedges and ball.

We have finished the year as the number one selling brand looking at Datatech data at retail and green grass sell-through combined in fair woods, hybrids, irons, putters and total clubs and as the number two brand in golf ball and drivers. We also made excellent progress in growing our distribution sell-through strength in the green grass channel.

In Asia our revenues were down reflecting challenging market conditions and dramatic foreign exchange movement. Our market shares remain strong, though. In Japan our hardgoods share was 15%, up 40 basis points year-over-year and sustaining our position for the number one American club brand in that market.

Turning to Europe we had another very strong year. Our constant currency revenues grew 7% and our most recent market share data through November for that market has us at 20.7% for the year, up 220 basis points year-over-year and placing us as the number one selling hardgoods brand for Europe.

Moving to the operational side of our business, our cost management and overall operating efficiencies continue to drive upside in our business. Our full year gross margin was 42.4% an improvement of 200 basis points year-over-year and exceeding our expectations. In support of this we are becoming world-class in our supply chain including custom fitting which was up 24% in the US during 2015. We are also working on further improvement such as the recent start-up of our UK super hub distribution center.

The super hub located outside London in Swindon, England is a shift from a third-party distribution center to our own facility which we believe will lower our cost and improve our service levels across the European market going forward. We also finished the year with a stronger balance sheet and no debt. A position that lowers our costs an provides financial strength to support strategic opportunities if and when they develop.

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Turning to the product front, we entered 2016 excited about an extensive new line of ball accessories and clubs. In particular we're optimistic regarding our core growth in our ball driver and irons categories over the next year. The new XR 16 driver is a significant product for us and should allow us to gain market share in the driver category this year. The product was designed in collaboration with aero dynamic experts from Boeing thereby allowing us to make it exceptionally fast as well as wonderfully forgiving. Based on my observations I think it's one of the best drivers that I have ever seen and it will appeal to a wide section of the golf market. It is already widely in play on tour and I have seen it wow golfers of all ability levels at demo days.

Turning to irons we're excited about the new Apex irons which incorporate cup faced technology for the first time in a forged construction and we're the only game improvement irons in the 2016 Golf Digest hot list to receive five out of five stars for performance. Apex is our premium iron brand. They combine performance, feel and esthetics in a way that makes them a statement product for us. In the iron category overall we have regained our rightful number one position based on our Cup Face Technology which was first launched in Q4 of 2014. This is a strategical important accomplishment for us which we are very proud of and committed to sustaining.

As a result we have moved all irons to a two-year lifecycle and thus will have less new product during the first half of this year, but we anticipate making up ground in the sell-through season in the second half of the year. Lastly, on the product side, let's spend a minute talking about our ball business. Golf ball is now a profitable $140 million category for Callaway. Over the last year we have grown the business nicely finishing 2015 as the number two ball in the US, but we still only had an 11.4% share so there's still significant upside. In Q4 our overall ball shipments were up 46% reflecting timing of some key account programs and, most importantly, a significant increase in retail sell-through.

Datatech showed a 29% increase in year-over-year sell-through dollars for the US market. As mentioned previously, both Supersoft and Chrome Soft have exceptionally high net promoter scores. Chrome Soft in particular has the highest Net Promoter Score we have of achieved.

We will be building on our position here by launching the new Chrome Soft 16, which has the same great feel of the original Chrome Soft, but with greater consistency and a slightly faster ball speeds on the driver. This is made possible by a slight change to the mantle layer and the addition of a proprietary dual core. It is the outcome of a year of countless prototypes and testing on tour with the world's best players including significant input from Phil.

Looking forward as we move through the turnaround stage and have re-established profitability and financial strength, we are beginning to dedicate increased resources and time to business development and future growth initiatives both in our core business and in tangential areas. To this end we're excited to report that we have reached agreement in principle for a Japan based JV with TSI, a long-term apparel partner in that market which is budgeted to start up in the second half of 2016. By moving from a licensing model to a 52%, 48% JV we believe we will be better aligned to jointly invest in and grow this business.

For 2015 the net costs are budgeted to offset the benefits. However we believe it will be accretive for 2017 and be an increasingly attractive proposition in the long-term. In addition to the TSI JV we have also go in investing in some proprietary projects that we think have long-term potential.

And lastly we are now interested in opportunistically and thoughtfully exploring acquisitions in new ventures. We have staff conservatively support exploring opportunities here and are also increasing investor relation activities. As has been our trend over the last few years we are pleased with the overall direction of our Company.

For 2016 on a constant currency basis our guidance projects a significant increase in EPS with modest overall revenue growth. Most importantly, however, I'm increasingly optimistically about the trends of long-term outlook for Callaway and the golf industry at large. Our relative position in the industry continues to improve. We have shown ourselves to be a formidable competitor and our organization continues to strengthen. Market shares and gross margins are excellent indicators of this.

The fundamentals for the sport of golf are also improving. US participation has stabilized and I believe interest in the game is growing. The popularity of the games young guns, the addition of golf to the Olympics later this year and other initiatives including Top Golf are reason for optimism regarding the game at large. On top of all this, industry conditions and behavior are improving. On a global basis retail sell-through is stabilizing, product lifecycles are lengthening, there has been less overall promotional activity and average selling prices are increasing.

The average selling prices in the US were up 9% overall last year. This improvement is being masked by significant foreign exchange movements as well as inventory reductions at retail. In the US again retail inventory for clubs were down 13% last year overall. This inventory reduction trend is playing out on a global scale and although it creates a current headwind we believe it is positive for the long run profitability of our industry and that the trend will favor large scale brands like Callaway due to our brand strength and operational prowess.

In closing I am confident that Callaway Golf is in a much stronger position today than it has been in quite some time. I'm proud of what we have accomplished over the last few years and optimistic for the future. Robert, over to you.

Robert Julian - *Callaway Golf Company - CFO*

Thank you, Chip. Today we are reporting consolidated Q4 2015 net sales of $153 million. Compared to $135 million in Q4 2014, an increase of 14%. Foreign currency variances negatively impacted revenues by $7 million in Q4. So on a constant currency basis year-over-year net sales increased 19% in Q4. Looking at Q4 revenue on a regional basis, net sales in the US increased 38% to $69 million, net sales in Europe increased 11% to $21 million. On a constant currency basis Europe's Q4 sales increased 20%.

In Japan net sales decreased by 10% to $35 million in Q4 2015. This is a 5% decline on a constant currency basis. For the rest of Asia net sales in Q4 2015 increased by 14% to $18 million. On a constant currency basis net sales for the rest of Asia increased 20%. Net sales for other foreign countries declined by 7% in Q4 2015 to $10 million. However, on a constant currency basis other foreign countries net sales increased by 9%.

Gross margin was 33.3% in Q4 2015 compared to 27.4% in prior year. An improvement of 590 basis points. This increase was driven by favorable price in mix variances less closeouts, less promotional activity and continued operational improvements. This favorability was partially offset by increased costs related to new product technology and negative foreign currency variances.

Operating expense was $80 million in Q4 2015, a 6% increase compared to 2014. This increase was primarily due to increased sales in marketing expenses and higher employee costs. However, operating expenses as a percentage of revenue improved 400 basis points in Q4 2015 versus prior year on the strength of higher revenues. These results generated an operating loss of $29 million in Q4 2015. Compared to an operating loss of $39 million in Q4 2014. Which is a year-over-year improvement of 25%.

We had other expense of $600,000 in Q4 2015 compared to $450,000 in prior year. This change was due to the net impact of changes in currency rates and outstanding foreign currency hedging contracts. These expenses were partially offset by a$900,000 decrease in net interest expense related to the conversion of our convertible notes in 2015 combined with reduced borrowings under our asset based credit facility.

The Company generated a net loss of $30 million in Q4 2015 compared to a net loss of $42 million in 2014. Earnings-per-share improved to minus $0.33 on 92 million shares in Q4 2015. Compared to minus $0.54 on 78 million shares in 2014. On a constant currency basis Q4 2015 earnings-per-share minus $0.29.

Returning to net sales I would like to provide some more details by product category, all on a constant currency basis. Wood sales were $37 million in Q4 2015, a 1% increase versus Q4 2014. This was due to the success of our Great Big Bertha drivers and fairway woods relative to the Big Bertha Alpha 815 and Big Bertha V series drivers in prior year. Partially offset by a decline in sales of Big Bertha hybrids.

Iron and wedge sales were $44 million in Q4, an increase of 15% ventures prior year. This is driven by the successful launch of our Apex irons as well as continued success of our Mack Daddy three wedges. Putter sales were $14 million in Q4 2015, an increase of 59% compared to last year. We had continued success with our in line putters driven by the success of our Odyssey Works putter line. Golf ball sales were $31 million in Q4, an increase of 51% compared to prior year. This was due to the continued success of our Chrome Soft golf ball combined with an increase in sales of our Supersoft line of balls. Accessories and other sales were $34 million in Q4 2015, an increase of 12% compared to prior year.

Now turning to the balance sheet, we ended Q4 2015 with cash of $50 million compared to $38 million for Q4 of 2014, a 32% increase. Regarding our asset based credit facilities we had borrowings of just under $15 million at the end of Q4 2015, essentially flat compared to 2014. Available liquidity at December 31, 2015 including cash, improved to $148 million, a 60% increase versus prior year.

Our consolidated net receivables were $116 million at the end of Q4 of 2015, an increase of 5% compared to 2014. However, DSO decreased to 69 days compared to 75 days in 2014. We remain comfortable with the overall quality of our accounts receivable. Our inventory balance was $209 million at the end of Q4 2015, an increase of 1% compared to Q4 of 2014. We remain comfortable with the quality of our inventory at this time.

Now I would like to discuss full year 2015 results. For the full year 2015 we are reporting consolidated net sales of $844 million, compared to $887 million in prior year. A decrease of 5%. Foreign currency variances negatively impacted revenue by $53 million. So on a constant currency basis year-over-year net sales increased by 1%.

Looking at full year 2015 revenue on a regional basis; net sales in the US increased to $446 million, a 6% improvement over 2014. Net sales in Europe decreased 7% to $125 million, however on a constant currency basis Europe sales grew 7% compared to 2014.

In Japan net sales declined 17% to $138 million in 2015. This equates to a 5% decline on a constant currency basis. For the rest of Asia net sales in 2015 decreased to -- by 22% to $70 million. On a constant currency basis net sales for the rest of Asia decreased by 17%. Net sales for other foreign countries declined by 15% in 2015 to $64 million. On a constant currency basis other foreign countries net sales were relatively flat.

Gross margin was 42.4% for full year 2015 compared to 40.4% in 2014. An improvement of 200 basis points. Foreign currency variances had a negative impact of 310 basis points on gross margin for the year. Therefore, the change in gross margin versus prior year, excluding the impact of foreign currency, is an improvement of 510 basis points. This increase was driven by favorable pricing in woods and irons, better mix in balls due to the performance of Chrome Soft and the extension of life cycles on irons which resulted in less discounting. We also benefited from favorable manufacturing variances in our club assembly operations and golf ball manufacturing operations.

Full year 2015 operating expenses were $331 million, an increase of 1% over full year 2014. Sales and marketing expenses were lower in Japan, China, Canada and the UK due economic conditions and favorable currency variances. This was offset by higher US marketing and tour spend and higher employee costs. The Company generated pre-tax income of $20 million in 2015 compared to pre-tax income of $22 million in 2014. On a constant currency basis 2015 pre-tax income was $58 million, a year-over-year increase of 164%. Earnings-per-share were $0.17 in 2015, a decrease of $0.3 compared to 2014 results. However, on a constant currency basis 2015 earnings-per-share was $0.62, a 210% increase over 2014.

Total net cash flow for full year 2015 was $12 million compared to $1 million in 2014, an improvement of $11 million versus prior year. Lower net cash flow from operations and negative foreign currency changes were more than offset by reduced use of cash and financing and investing activities.

Capital expenditures for the full year 2015 was $14 million, compared to $11 million in 2014. Depreciation and amortization expense was $17 million in 2015 compared to $21 million in 2014. Full year 2015 EBITDA was $46 million compared to $52 million in 2014, a 12% decrease year-over-year. However, the negative impact of foreign currencies on EBITDA was approximately $40 million for the full year.

I will now comment on our Q1 and full year 2016 guidance. For the first quarter of 2016 we estimate net sales to be in the range of $270 million to $280 million compared to $284 million for the first quarter of 2015. On a constant currency basis net sales in Q1 2016 are estimated to be $275 million to $285 million. This currency-neutral growth projection of flat to slightly negative is driven primarily byproduct launch timing and the trend towards lower inventory in the retail channel offset by continuing share gains.

For the first quarter of 2016 we estimate earnings-per-share to be in the range of $0.33 to $0.39 compared to $0.39 in 2015. In constant currency the Q1 2016 earnings-per-share estimates is between $0.36 and $0.42. We estimate the Q1 2016 currency-neutral earnings-per-share to be approximately flat to 2015 due to lower sales volume offset by higher gross margins which continue to be positively impacted by better pricing, lower closeouts and improved operational efficiencies.

We estimate full year 2016 net sales on a GAAP basis to be in the range of $845 million to $870 million. This GAAP estimate includes approximately $19 million of negative currency impact. On a constant currency basis the 2016 full year sales estimate equates to a range of $857 million to $882 million.

This currency-neutral growth of 1.5% to 4.5% is driven by our continued success in the marketplace along with stabilizing industry fundamentals in 2016. I would like to mention here that our joint venture with TSI in Japan is projected to have minimal effect on our revenue in 2016. As the start-up will not occur until sometime in the second half of the year. However, for context, TSI has historically generated revenue in the range of $30 million to $35 million per year and we expect that our partnership will lead to future growth and profitability for this business going forward.

Full year 2016 gross margin is expected -- estimated to be 43.5%, an improvement of 110 basis points versus full year 2015. This improvement is due to continued performance in our manufacturing operations and supply chain, improved sales mix and higher prices in 2016. On a currency-neutral basis gross margin is estimated to be 44.0% for full year 2016 representing a 160 basis point improvement versus prior year.

Operating expenses are estimated to be approximately $345 million for full year 2016. This compares to $331 million in 2015. The increase primarily relates to investments in corporate development including our new joint venture in Japan as well as other current and future business development projects, normal inflationary cost increases and some one-time cost benefits that occurred in 2015 that will not repeat in 2016.

Finally, our 2016 earnings-per-share estimate on a fully diluted basis is a range of $0.15 to $0.25 per share, on 95 million shares outstanding. On a constant currency basis our full year 2016 EPS estimate is a range of $0.22 to $0.32 per share compared to 2015 results of $0.17 per share, an increase of 59% at the mid-point. These figures include a tax provision estimate of approximately $6 million. We estimate our capital expenditures to be approximately $15 million and our depreciation and amortization expense to be approximately $18 million in 2016.

Finally, I would like to mention that our current estimates for 2016 do not include any non-recurring non-cash charges or benefits. For example, we did not include any impact related to the tax valuation allowance on our deferred tax assets. However, as Callaway continues to demonstrate sustained profitability going forward, we expect that this valuation allowance will eventually be reversed. This will generate a large non-cash income tax benefit at that time. It will also result in an increase to our overall estimated effective tax rate to approximately 38.5% at that time as well. Of course, our cash taxes will continue to benefit from our after-tax NOLs of $96 million for some period of time going forward.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). For our first question comes from line of Lee Giordano from Sterne Agee.

Lee Giordano - *Sterne Agee - Analyst*

Good evening, everybody. Chip, I was wondering if you could comment a little bit more on the industry and maybe your key take-aways coming out of the PGA show a couple weeks ago. Just seems like things are moving in the right direction. Seems like you're pretty positive. Any other color you could provide would be helpful. Thanks.

Chip Brewer - *Callaway Golf Company - President and CEO*

Sure. Surely. Be glad to. You know, the industry had an improved year. The trends overall have been moving in the right direction. Certainly in the US retail sell-through was up last year. The mood and momentum of the business appears to be positive and there was energy at the PGA show both at the dental day and then Wednesday, Thursday their attendance was up significantly and the pulse and mood of the show as well as specific to Callaway were all positive.

If you look at the Datatech data, up for the full year it was a little bit softer than we had expected in November, December and I really wouldn't read too much into that. There was some timing of launch changes among the different brands and such, but the macro trends for the industry have been a positive over the last year and we're pleased with that as well as our brand momentum.

Lee Giordano - *Sterne Agee - Analyst*

Great. And then just secondly can you breakout or give us any more color on the costs for the JV in 2016 and how that's going to impact operating expenses?

Chip Brewer - *Callaway Golf Company - President and CEO*

You know, Lee, we're not going to get in to much specifics there. It's slightly negative on a contribution basis for 2016, but we're obviously very optimistic on the long-term of this opportunity and both -- expect it to be accretive in 2017 and to provide us a nice growth opportunity going forward.

Lee Giordano - *Sterne Agee - Analyst*

Great. Thanks a lot.

Chip Brewer - *Callaway Golf Company - President and CEO*

Thank you.

Operator

Your next question comes from the line of Mike Swartz with SunTrust.

Mike Swartz - *SunTrust Robinson Humphrey - Analyst*

Hey. Good afternoon, guys.

Chip Brewer - *Callaway Golf Company - President and CEO*

Hi Mike.

Mike Swartz - *SunTrust Robinson Humphrey - Analyst*

Hey just wanted to follow up on the new Japan JV that you announced. How will you be accounting for that in the P&L? Is that consolidated and then the -- your partner share backed out or that just be coming through an other income line?

Chip Brewer - *Callaway Golf Company - President and CEO*

No. Mike, it was the first that you mentioned. We will consolidate the results, we will see the full revenue and cost of sales and then the profitability will be split 52, 48 on the bottom line.

Mike Swartz - *SunTrust Robinson Humphrey - Analyst*

Okay. That's helpful. Then also just with regards to the first year guidance and just thinking of the cadence to the year. Just give us a little more color on the timing of product introductions and how that's impacting kind of the first quarter, second quarter split.

Chip Brewer - *Callaway Golf Company - President and CEO*

Sure. Glad to do that, Mike. On the first quarter one of the changes that we made over the last few years is lengthening some product life cycles and you can see that playing out well for our business. Part of that includes the XR irons which were launched in Q1 of 2015 and had a phenomenal year. XR was the number one selling iron model and Callaway returned to being number one in that important category for us. We won't have as big a launch of irons in Q1 of this year so you will see a little shift in timing there, but we anticipate that we'll make that up in the sell-through season in the second half of the year.

Mike Swartz - *SunTrust Robinson Humphrey - Analyst*

Okay. And then just final question. I think on the prepared remarks, Chip, you commented just on the new XR 16 driver and had some more comfort with I guess market share gains in the year ahead. Could you just give us a little more color I guess why you're so confident in that product?

Chip Brewer - *Callaway Golf Company - President and CEO*

Sure. First of all real simply it's just a fantastic product. We were able to partner with Boeing in terms of improving the overall aerodynamics of that product in a way that I think is a comparative advantage in the marketplace. You combine that with our internal expertise and we end up with something that I think is both fast and forgiving and will be differentiately positive in its performance for consumers. We clearly have brand momentum and so going into that category for next year I expect that XR 16 driver to do better than the predecessor product and I'm also optimistic on the Great Big Bertha driver relative to its predecessor. So product team does a great job here. We have good brand momentum and that's one of the areas within our core I think you will see some continued progress.

Mike Swartz - *SunTrust Robinson Humphrey - Analyst*

Great. Thank you.

Operator

Next question comes from the line of Scott Hamann with KeyBanc Capital Markets.

Scott Hamann - *KeyBanc Capital Markets - Analyst*

Thanks. Good afternoon. In terms of the gross margin can you kind of give us a little bit of color around what some of the big buckets? I mean you highlighted the buckets but just order of magnitude with what drove 2015 and then what you anticipate is going to look like for 2016. It seems like there had been a lot of price and mix driving gross margin over the last couple of years and I'm just curious if there's some additional buckets maybe in the operations side that Leposky is trying to hammer out there that might be something we quite haven't seen yet.

Robert Julian - *Callaway Golf Company - CFO*

Yes. Scott, so speaking about gross margins on a full year basis and we have talked about the currency-neutral improvement of about 500 basis points, it's split between two major buckets and the first bucket is as you mentioned sort of price and mix and the impact of us being less promotional, less discounting and the second bucket is the operational improvements. And I would say that on a full year basis actually the majority, maybe two-thirds to three-quarters of it is coming from the first category.

We got a lot of improvement relative to price and mix and discounting and so on, although a good third of it also came from operational improvements. The operational side you continue to -- we will approach and Mark Leposky as you had mentioned will continue approach in a continuous improvement type attitude and so we think we should always have some benefit for that going forward. On the pricing and the promotion discount that's tied somewhat to our market share position. The more that our products are successful and well received and when we maintain share we'll get that benefit on price and discounting and less promotional.

Scott Hamann - *KeyBanc Capital Markets - Analyst*

Okay. Great. And then Chip can you talk a little bit about, you mentioned green grass distribution in your prepared remarks and I'm just curious if you could kind of elaborate a little bit on some of the initiatives that you put in place throughout the winter here and how much progress you might have made in getting some more distribution there.

Chip Brewer - *Callaway Golf Company - President and CEO*

Yes. The sales team has really done a nice job growing the green grass channel over the last few years, Scott, and it's a very important channel for us. There's a real positive brand impact by doing well in that channel that is over and above its dollar contribution. But then equally importantly in the golf ball category the green grass channel is very significant, According to Datatech 45% of the golf ball category comes from that channel.

So it's important for us to strengthen our position there and we have been doing just that. We've been increasing our relationship with PGA pros, increasing the number of staff pros that are associated with Callaway, deepening those relationships, and increasing our distribution in that channel. So a trend that we have been working on for some time and really like our results and are optimistic that you're going to see more of that going into 2016.

Scott Hamann - *KeyBanc Capital Markets - Analyst*

Okay. And then just final question on -- there was an investment of just under a $1 million in a golf related venture. Is that safe to say that was Top Golf?

Chip Brewer - *Callaway Golf Company - President and CEO*

Yes.

Scott Hamann - *KeyBanc Capital Markets - Analyst*

Alright. Great. Thanks.

Operator

Our next question is comes from the lean of Randy Konik with Jeffries.

Randy Konik - *Jefferies LLC - Analyst*

Hi. Can you hear me?

Chip Brewer - *Callaway Golf Company - President and CEO*

Hey Randy.

Randy Konik - *Jefferies LLC - Analyst*

Hey, guys. How are you. Thanks for taking my question. I appreciate it. Can we explore the, I guess more appropriately the golf ball opportunity? Because it got really good margins, building really good margins here and it improves kind of the consumable aspect of your business. So I guess my question is from Chip's perspective how do you think about where long-term penetration of the ball business relative to the club business would be over the long-term? And then, Robert from your perspective it seems like there's a more margin expansion opportunity for fixed cost leverage in the ball business. I'm just trying to get a sense of where you think the margin structure of that particular category can go over the long-term. Thanks.

Chip Brewer - *Callaway Golf Company - President and CEO*

Sure, Randy. Good question and you're exactly right. The golf ball category has a lot of benefit to it. We're currently at 11.4% market share. We have made a nice move over the last few years. We're showing nice growth. 10% growth on a currency-neutral basis for the full year. Stunning result in Q4. And for the first half of the year we were actually not showing growth even though we knew we were doing really well because of the timing of launches and relative price points but you really saw it kick into gear towards the end of the year.

I mentioned in my comments in the US market there was a 29% increase in sell-through dollars according to Datatech in the quarter and as you saw our results during the second half of the year really start to outperform expectations, golf ball was a nice contributor to that and as a consumable we're really excited about it. Clearly we think there's more runway to grow. We're not going to put a number on that at this point other than just to point to direction and we think the direction will continue in the trends that we have had of growth.

We're optimistic on that for some very solid reasons. We think we have got a very focused branding message around Soft, we have a technical advantage with Soft Fast Coarse. The products had the highest net promoters scores that we have of seen. We're starting to really make some nice traction in the green grass channel, which was important to the golf ball category. We're kind of doing a lot of the things that we think are going to be very important to building a very strategically important and sustainable business in the channel going forward.

And overseas in Japan another nice thing to help support that growth, Rio Ishikawa, who is a very popular player in the Japan market, transitioned to our golf ball in the off season and we there I that will have upside in that market for our golf ball category. So pleased with the direction. You're exactly right from the consumable perspective and we think it will be a good solid growth category for us going forward. Robert, you want to talk a little bit about that?

Robert Julian - *Callaway Golf Company - CFO*

Yes. So on the question regarding the cost structure and margins and leverage, Randy, I think you know that our manufacturing costs skew more to variable than fixed both in sticks and balls. But relatively speaking it is true that there is slightly more fixed cost and less variable cost in the ball operations. So there is the opportunity for a little more leverage there on volume in balls versus sticks.

However, I would also say that the ball, and we've had a phenomenal turnaround in terms of the profitability of ball and it's already under the current volume slightly accretive to the stick business so there is a sort of a mixed benefit in accretion to growing the ball business faster than the stick business just in the math of that on our overall gross margin potential.

Randy Konik - *Jefferies LLC - Analyst*

That's helpful. So I think you made the comment that -- I think you said the golf ball business isn't about -- I don't know about 45% of it is -- 45% of the industry of golf balls in the green grass channel. Can you give us some perspective on how under indexed your business -- your ball business is to that channel distribution and how long you think based on the strategies you're undertaking with building more relationships et cetera, where you can get that ball business kind of the product in the channel where the most of the ball -- many of those balls are being sold.

Chip Brewer - *Callaway Golf Company - President and CEO*

Sure, Randy. Chip again. What I said is that the golf ball is 45% of Datatech sell-through data. So Datatech measures two specific channels. They measure specialty retail and green grass and so golf ball is -- green grass channel is roughly 25% of all Datatech sell-through for hardgoods, but the golf ball is 45% at green grass. So green grass is a very important channel among those channels.

There are other channels out there that are also in this, but when I'm quoting market share data, et cetera, it is Datatech usually and usually specifically to green grass and specialty retail. And we are -- our market shares in that green grass channel are historically lower than they are in the specialty retail or retail channel. In the golf ball I mentioned that we have an 11.4% market share overall for the full year.

Green grass is -- I don't have that number directly in front of me, but it's roughly 8.5%, maybe a little above that, and it's trending nicely, but it lags our overall share and we do expect growth just as we grew this year. I think we grew from somewhere 9.5% market share to 11.4% and so we made nice progress and I think we will continue to make progress. It's not going to be an overnight sensation, but I do think we will grow and I think we will grow faster in the green grass channel as we move forward.

Randy Konik - *Jefferies LLC - Analyst*

Got it. I promise my last question here and, again, on the golf ball side. How do you think about skew management? Because it sounds like you have a really exciting opportunity here with the Chrome Soft 16. Sounds like Pro V1, Pro V1 X, you're utilizing that base brand power of the Chrome Soft. How should we be thinking about skew changes in the golf ball business from your perspective and how do you think about marketing dollars in the shift of dollars or not versus fixed versus ball category going forward? That's my last question. Thank you.

Chip Brewer - *Callaway Golf Company - President and CEO*

Sure, Randy. We're not going to break out our marketing mix between balls and clubs. We're very comfortable we can support both and will continue to do so and results indicate that. We're investing in both categories and performing well in both. The -- in terms of product line, I think we have an advantage over some of our competitors because we have a very focused and narrow product line in golf balls and a very simple message that extends across our entire line and that is soft fast course, golf balls that are high performance and feel better than the competition and the net promoter scores would indicate that we're delivering on those promises.

Others are trying to be a little bit all things to players so they may have a normal tour ball and then another ball that is soft and they will try to tell you that one is for certain players. The guy -- our players on tour are playing Chrome Soft golf balls. We're marketing Chrome Soft golf balls we're marketing Supersoft goal balls. It's a very narrow focused message and offering and I think that should allow us to compete favorably to own that mine space with consumers.

Randy Konik - *Jefferies LLC - Analyst*

Thanks, guys. I appreciate it.

Chip Brewer - *Callaway Golf Company - President and CEO*

Thank you.

Operator

Your next question comes from the line of Andrew Burns with D.A. Davidson.

Andrew Burns - *D.A. Davidson & Co. - Analyst*

Hi, guys. Congrats on solid 2015.

Chip Brewer - *Callaway Golf Company - President and CEO*

Thank you.

Andrew Burns - *D.A. Davidson & Co. - Analyst*

In regards to your cash deployment strategy, it's interesting to hear about the apparel JV in Japan, exploring growth opportunities in adjacent areas including potential acquisitions. This is vastly different commentary than 2012 and 2013 when Callaway was shedding ancillary businesses to focus on equipment and so I was hoping you could spend a little more time maybe talk about how significant this is in terms of a change of approach and what criteria you're using to analyze potential investments. Thanks.

Chip Brewer - *Callaway Golf Company - President and CEO*

Great question, Andrew, and you couldn't be more right than that. It's a dramatic change and we're -- we have been at this for a little while now and we're moving through the turnaround stage into sustainable profitability, strong balance sheet, and now driving to growth both in the core and as announced with the JV and in our stated intent to very thoughtfully look at some acquisitions and such, grow with external opportunities and we're excited about that. That's a testament to the progress we have made as a Company.

The strong position we are in in the core categories and now the opportunity to again thoughtfully look at external opportunities. We aren't going to go through any specifics of what types of opportunities we'll look at. We have given that considerable consideration. We have developed a model by which we will evaluate opportunities and sift through the ones that will be of most interest to us, both with internal and external resources and also in concert with our Board. And there's nothing that we're going to be announcing imminent right now in this that we haven't discussed today, but we do think it's a significant step for the Company to be in a position to look at these growth opportunities going forward. The TSI JV we have started investing some other proprietary projects and obviously external (inaudible).

Andrew Burns - *D.A. Davidson & Co. - Analyst*

Great. Thank you. And in terms of the inventory reductions at retail I believe I heard down 13% year-over-year exiting the year and I believe that was an industry number. At some point inventories on hand for retailers if they shrink enough would start to really impact their sales and a little surprised to see the inventory work down continuing into year two. So do you think we are close to the end of that process?

Chip Brewer - *Callaway Golf Company - President and CEO*

Another good question, Andrew. We made great progresses in industry last year so we talked about it on the call probably this time last year, but there hadn't been as nearly -- I can't remember if there was progress or if we were just talking about making progress at that point. But there was a nice reduction in inventory and it's a trend that's happening on a global basis. You're exactly right. It's definitely positive for the industry, but you could go too far. Not -- I don't think there's any risk of that.

I do think it favors companies like Callaway with our quick turnaround and global reach and the great custom fitting capabilities. You see us going up 24% in our custom fitting business in the US. That's a great fit for this change in environment and I think we'll thrive and be able to support it and are we all the way through it, are we partway through it? It's hard to be sure.

People are still talking about lowering overall inventories out there so we're not all the way through it, but inventory levels are down and we're at least partway through it, if not more than part. So I can't really predict what that end point is, but I know we're making good progress there and I think it will be a good thing in the long run.

Andrew Burns - *D.A. Davidson & Co. - Analyst*

Great. Thanks and good luck.

Chip Brewer - *Callaway Golf Company - President and CEO*

Thank you.

Operator

Your last question comes from the line of Casey Alexander with Ladenburg Thalmann and Company.

Casey Alexander - *Ladenburg Thalmann & Company - Analyst*

Hi. Good afternoon. Most of my questions have been answered. The only one I have left is, you talked about you have an 11 plus market share in balls but 8.5 at green grass. How much of a challenge is it to get that shelf space in green grass? Particularly, given the advent of sort of the cushion at only green grass shops that are out there. How do you get past that?

Chip Brewer - *Callaway Golf Company - President and CEO*

Yes, that's a great insider question there that somebody knows the industry, Casey. That -- at some places we won't be able to, but we'll show nice progress. We're increasing our staff position and green grass is in general a lagging indicator. In other words, they take less risk on inventory. So when we launched Chrome Soft in 2015 and shipped in February of 2015 and we're trying to sell it in the fall, we were in telling them the story about how we finally got it right and this was going to be the ball that changed the ball and, quite frankly, the green grass guys probably thought yes, I have heard that before and so it was a very hard sell.

And our distribution at green grass was a bit of a slugfest. Now as we go into green grass they will have seen that the Chrome Soft performed beautifully and that consumers were asking for it and it was the fastest growing ball in the category last year and so it will be easier as we become a proven player, momentum is a great ally in that perspective and we are growing the green grass so I expect us to make progress, I like the direction. There will still be some accounts that have some very strong brand (inaudible) we won't get into, but -- and I'm already seeing we are number two in market share and we should be number two and growing in our distribution strength at green grass as well.

Casey Alexander - *Ladenburg Thalmann & Company - Analyst*

Well, to that point, a few years ago we saw the advent of the White Driver which was very visible on tour.

Chip Brewer - *Callaway Golf Company - President and CEO*

Yes.

Casey Alexander - *Ladenburg Thalmann & Company - Analyst*

And created sort of an ask for mentality out there amongst the consumer. Is there any chance of getting some of the Truvis technology in tour play because that would be very visible on tour, on screen and perhaps if people saw that that would encourage them to be going and asking for it at retail.

Chip Brewer - *Callaway Golf Company - President and CEO*

Well, first I think I got to get you playing it, Casey, but assuming that that may take me awhile. The -- yes, that will help. And you may or may not have seen Tom Watson played it in his debut with us in Hawaii and he created some interest and excitement about it. And we have seen accounts that have been exclusive to other brands, have never brought in a Callaway ball and they have called their rep begrudgingly needing to bring in what they call the soccer ball. And so we will look for opportunities to have it gain more exposure, including potentially some tour play and it's not an overwhelming portion of our business right now, but it's a fun little niche that you never know if it did catch on it certainly differentiated.

Casey Alexander - *Ladenburg Thalmann & Company - Analyst*

Well, it seems to me that nobody who is using the white ball is going to stop using the white ball because Truvis exists but you might get some people who are using another brand to try it because Truvis exists.

Chip Brewer - *Callaway Golf Company - President and CEO*

We have a 100% market share of those that like us soccer ball (inaudible).

Casey Alexander - *Ladenburg Thalmann & Company - Analyst*

Okay. Thank you for taking my questions.

Chip Brewer - *Callaway Golf Company - President and CEO*

Thanks, Casey. Appreciate it.

Operator

There are no further questions. Chip Brewer do you have any closing remarks.

Chip Brewer - *Callaway Golf Company - President and CEO*

I want to just thank everybody for dialing in today to the Callaway team. Great job on a strong 2015 and looking forward to keeping it going in 2016. Thank you for the call.

Operator

This concludes today's conference call. You may now disconnect.
