THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

ELY - Q4 2016 Callaway Golf Co Earnings Call

EVENT DATE/TIME: FEBRUARY 02, 2017 / 10:00PM GMT

OVERVIEW:

Co. reported full-year 2016 consolidated net sales of $871.2m and EPS of $1.98. 4Q16 consolidated net sales were $163.7m and EPS was $1.28. Expects full-year 2017 pro forma constant-currency net sales to be $938-963m and pro forma constant-currency EPS to be $0.31-0.37. Expects 1Q17 pro forma constant-currency net sales to be $279-289m and pro forma constant-currency fully-diluted EPS to be $0.21-0.24.

CORPORATE PARTICIPANTS

Patrick Burke *Callaway Golf Company - Head of IR*

Chip Brewer *Callaway Golf Company - President & CEO*

Robert Julian *Callaway Golf Company - CFO*

CONFERENCE CALL PARTICIPANTS

Dan Wewer *Raymond James & Associates, Inc. - Analyst*

Michael Swartz *SunTrust Robinson Humphrey - Analyst*

Dave King *Roth Capital Partners - Analyst*

Susan Anderson *FBR Capital Markets - Analyst*

George Kelly *Imperial Capital - Analyst*

Casey Alexander *Compass Point Research & Trading LLC - Analyst*

PRESENTATION

Operator

Good afternoon. My name is Mariama and I will be your conference operator today. At this time I would like to welcome everyone to the Callaway Golf Q4 and full year 2016 Earnings 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 would now like to turn the call over to Patrick Burke, Head of Investor Relations. You may begin your conference.

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

Thank you, Mariama, and good afternoon everyone. Welcome to Callaway's fourth quarter 2016 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.

Any comments made during the call about future performance, events, prospects or circumstances including statements related to estimated 2017 net sales, gross margins, operating expenses, taxes and earnings-per-share, future industry or market conditions, the success of the Company's 2017 product line or other future products, projected market share gains, future profitability, growth or performance, the creation of long-term shareholder value, the collectability of accounts receivable and salability of inventory, estimated 2017 capital expenditures and depreciation and amortization expenses, estimated transaction and transition costs related to the OGIO acquisition, future investments, initiatives or corporate development opportunities, the ability to benefit from the Company's net operating loss carry forwards or section 338 election related to the OGIO acquisition 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 material from those projected in the forward-looking statements as a result of changes to or risks and uncertainties inherent in the Company's business or factors affecting the Company's business. 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 31st, 2015 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. One, on a constant currency basis, which essentially applies the prior period exchange rates to the adjusted current or projected future period financial information as though such prior period rates were in effect during the current or future period.

Two, excluding the tax consequences related to the reversal of the valuation allowance. Three, excluding the gain on the second quarter 2016 sale of a small portion of the Company's Top Golf investment. Four, excluding the estimated OGIO transaction and transition expenses and, five, excluding interest taxes and depreciation and amortization expense as well as the Top Golf gainer proceeds. 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 schedules 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. Before turning the call over to Chip I would like to briefly explain a new addition to the earnings materials which we are introducing today.

In conjunction with Chip and Robert's prepared remarks there is a power point presentation where everyone can follow along. This Earnings Presentation is available for download on the Callaway Investor Relations website under the webcast and presentation tab. Also in 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 the slides as they go through their prepared remarks Chip and Robert will queue the audience to inform you of when to advance to the next slide. So feel free to follow along.

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

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

Thanks, Patrick. And good afternoon everybody and thank you for joining us for today's call. Let's start on page 4 of the presentation. 2016 was an excellent year for Callaway Golf which concluded with a very strong quarter. For the quarter and the year we once again grew revenues, margins, profitability and improved our liquidity via operating performance in our core business. These results strengthened our Company and drove shareholder value.

We also made significant progress on the strategic side and have been quite pleased with the investment opportunities that we have developed both internally within our core golf equipment business but also in tangential areas such as the Japan apparel joint venture that we started in July of last year and the recently announced purchase of OGIO. We believe that these investments represent intelligent deployment of capital that they will create future growth opportunity and in due course drive long-term shareholder value.

I would like to start by thanking the Callaway Golf team for their hard 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.

Turning to page 5. Let's now take a deeper look at our 2016 operational performance by region. In the US our revenues were roughly flat for the year despite challenging market conditions including the bankruptcy of Golfsmith. This performance was driven by excellent market share performance. Our full year hard goods market share was 22.6%, up 150 basis points year-over-year as well as double-digit growth in both Green Grass distribution and custom product.

We both sustained our leadership position in clubs with 25.6% share, up 180 basis points and strengthened our brand momentum position in golf ball with 13.8% share, up 280 basis points. We are very pleased with our US business performance over the last several years. This business is now strong and well-positioned.

Turning to page 6. Market conditions in Asia were also challenging, but we were able to grow our business thanks to the addition of our Japan apparel joint venture as well as strong market share performance in our core business. Our full year hard goods share was 15.7%, up 70 basis points year-over-year. With the addition of the joint venture we expect Japan in particular and the region in general to be a source of growth for us in the coming year.

Moving to page 7. In Europe both our business and the market overall had excellent years although some of this performance is being masked by currency movements. Our year-to-date European hard goods market share is at record levels of 22.2%, up 140 basis points year-over-year and we remain the number one brand in that market.

Turning to page 8. On the product front we entered 2017 excited about an extensive new lineup of ball accessories and clubs. In particular, we are optimistic regarding core growth in the woods, putter, ball and accessories categories over the next year. The hero of our 2017 lineup is our new EPIC driver which features a proprietary new technology we call jailbreak which creates a more efficient energy transfer and thus faster ball speeds and longer drives. It has gotten off to a fast start both on tour and at retail including impressive pre-sale numbers.

It's the most exciting new driver I have ever been part of and although it's a little early yet to predict, the technology and the buzz are such that I believe it will provide us nice upside in the driver category. On the putter side we are introducing micro-hinge technology in the Odyssey O-Works line. A proprietary technology that improves roll quality and thus helps make more puts. I'm expecting we will gain share in this category as well. In the ball category we are introducing Chrome Soft X. A companion ball to our highly successful Chrome Soft product that has been so successful over the last two years.

The addition balances and completes our tour ball offering in a manner recognizable and understood by most avid golfers. In the accessories category we have strengthened our Callaway Golf line and are now adding the OGIO business and the full year effect of our Callaway apparel joint venture in Japan. We also have fantastic new irons, wedges, fairway woods and hybrids, but for the sake of brevity I won't go into these now but will instead refer you to our website to learn more.

Moving to page 9, operationally we are very pleased with our performance. However, perhaps even more importantly, I believe we are increasingly well-positioned for the future. We believe we are number one in golf clubs on a global basis. Our strength here is the summation of a well-rounded performance across all categories and is being driven by proprietary technology as well as strength in the key areas of operations, distribution, marketing and tour. Our golf ball business has been steadily growing and is now our most profitable category as a percentage of sales.

Additionally at only 13.8% US market share we believe we have more runway in this category. Our gear and accessory category is now with the addition of both the Japan apparel JV and OGIO a very significant category and poised for further growth. Market conditions have been choppy with softness in both Asia and Americas. However, I believe the market is becoming more rational which bodes well for the long run.

Positive indicators include less promotional activity, less excess inventory and several participants pulling back or exiting the space. Within the golf equipment space we are in an increasing strong position. Relative to most of our competition we believe we have a structural advantage driven by our momentum, scale and commitment, proven operating ability and strong capital structure.

Turning to page 10 now. With others pulling back or exiting we are finding what we believe are attractive opportunities for investment both internal and external to our core business. Since the external investments have already been well publicized let me take a moment to outline a few of the internal ones. These include increases in tour and player development, mostly young guns you will start seeing on Sundays such as this years edition of Daniel Berger and Patrick Rogers but also an increased emphasis on developing relationships among marquis college and junior talent.

Operations and infrastructure to drive revenue growth in cost reduction. In 2017 we plan to increase our CapEx spend by approximately $11 million to $27 million. And are including several capital investment projects in our Chicopee golf ball plant which will deliver attractive returns and improve our product capabilities. As well as new store openings via our Callaway apparel JV in Japan.

We're investing in distribution and customer attention in order to further our momentum in the green grass and custom fitting. These have been our fastest growing channels and our business segments over the last few years. R&D investments, for example the hiring of additional resources and advanced research. And the addition of management talent including more dedicated management and marketing attention for our putter business.

Turning to page 11 and in closing. 2016 was another strong year for our Company and there could be no denying we have strengthened our business over the last five years. This progress has not been easy, there have been headwinds and there is no doubt we will continue to face challenges. However, we believe the newest and most salient information is positive for the long run. That being industry conditions are slowly improving.

Our position in the industry is structurally favorable and we are demonstrating a strong operating acumen in our core business and at the same time finding attractive investment opportunities both in our core business and in tangential areas. I believe if we continue on this path we are likely to create a wonderful business and meaningful long-term shareholder value. Robert, over to you.

Robert Julian - *Callaway Golf Company - CFO*

Thank you, Chip. Before we dive into our fourth quarter and full year financial results I would like to remind everyone that in Q4 of 2016 we reversed the valuation allowance on our US deferred tax assets. As a result we generated a large non-recurring non-cash income tax benefit. The reversal of the valuation allowance also resulted in an increase to our overall effective tax rate for 2016 and for subsequent periods. For 2017 we used a 38.5% tax rate to estimate our earnings-per-share.

It's important to note that despite the reversal of the valuation allowance and the resulting increase in our accrued taxes for purposes of calculating EPS, our cash taxes will continue to benefit from our after-tax NOLs of nearly $74 million for some period of time into the future. Our cash taxes will also benefit from our Section 338(h)(10) election as it relates to the OGIO acquisition, which allows us to treat this stock purchase as an asset purchase for cash tax calculations. Creating additional value for the shareholders of Callaway Golf.

Starting now on slide 13. Today we are reporting consolidated Q4 2016 net sales of $163.7 million compared to $153.3 million in Q4 of 2015 an increase of 6.8%. The $10.4 million increase in sales is attributable to the Japan joint venture and the success of the 2016 product lineup led by golf balls which grew by 4.1%. The Company also continues to see improved average selling prices across multiple product categories. As you can see on the slide the gross margin was 38.6% in Q4 2016 compared to 33.3% in the prior year, an increase of 530 basis points.

This increase was driven by favorable pricing in the woods, irons and golf balls, the extension of product life cycles to two years in the woods category and operational efficiencies. Operating expense was $79.9 million in Q4 2016 which was down slightly compared to Q4 2015. Operating expense as a percent of revenue was 48.8% in Q4 2016 compared to 52.4% in the prior year. An improvement of 360 basis points.

As a result of higher sales and gross profits our pre-tax loss was $13 million in Q4 2016 compared to a pre-tax loss of $30 million in Q4 2015. As you can also see on this slide other income was $3.8 million in Q4 2016 to compared to other expense of $600,000 in the prior year. This improvement was the result of net gains from foreign currency contracts and the reduction of interest expense as liquidity continues to improve.

Earnings-per-share improved to $1.28 on 96 million shares in Q4 2016 which includes the $140.6 million or $1.46 per share net impact from the reversal of the valuation allowance discussed earlier. Due to the seasonality of our business we usually report a loss in the fourth quarter. On a non-GAAP basis, excluding the net impact of the valuation allowance reversal, the Company reported a loss per share for the fourth quarter of 2016 of $0.18 compared to a loss per share of $0.33 on 92 million shares for the fourth quarter of 2015 which is a year-over-year improvement of 45%.

Turning to Slide 14. Today we are also reporting consolidated full year 2016 results. As you can see on the slide, we achieved net sales of $871.2 million, an increase of 3.2% compared to 2015 results. The $27.4 million increase in net sales is attributable to the Japan joint venture and the success of the 2016 product lineup led by golf ball which grew 6.4%. Gross margin increased 180 basis points year-over-year to 44.2%.

You can also see that operating expense was $340.8 million in 2016 which increased compared to 2015 but remained essentially flat as a percentage of revenue. 39.1% in 2016 compared to 39.2% in 2015. As a result of higher sales and gross profits, pre-tax income was $58.4 million in 2016 compared to $20 million in 2015, an increase of 191%. The 2016 figure includes a $17.7 million gain on the sale of the small portion of our Top Golf stake completed in the second quarter of 2016.

Also included on Slide 14 earnings-per-share improved to $1.98 on 96 million shares also including the $140.6 million or $1.47 per share net impact from the reversal of the valuation allowance discussed earlier. Excluding the net impact of the valuation allowance reversal, the Company achieved its full year earnings-per-share guidance target of $0.50 to $0.54 with full year 2016 results of $0.51 in pro forma earnings-per-share including the $0.18 pre-tax Top Golf gain.

Excluding the Top Golf gain earnings-per-share were $0.33 compared to $0.17 on 85 million shares in the prior year. A 94% improvement. The last row on this slide shows EBITDA which increased 65% to $75.7 million in 2016 including the Top Golf gain. Excluding the Top Golf gain EBITDA increased 27% to $58 million in 2016.

Turning now to Slide 15, I will cover certain key balance sheet and cash flow items. As you can see, cash and equivalents was up 152% year-over-year to $126 million. Regarding our asset based loans we had $12 million dollars of borrowings at year-end, which is 20% lower than the borrowings at the end of the previous year. Available liquidity ended the year at $213 million, an increase of 52% versus prior year.

Our consolidated net accounts receivable for $128 million, an increase of 11% compared to 2015. Also DSO decreased to 72 days compared to 69 days last year due primarily to the past due balances of Golfsmith International. Partially offset by an improvement in payment terms in most regions. We remain comfortable with the overall quality of our accounts receivable at this time.

Also displayed on Slide 15, our inventory balance decreased by 9% to $189 million at the end of 2016 driven by improvements in our sales and operations planning process, and by the strategic decision to extend product life cycles in woods and irons. The decline in our inventory balance is particularly notable given the inconclusion of the Japan joint venture inventory in the Q4 figures. Excluding the inventory from the Japan JV, our inventory balance decreased by 13.3%. We remain comfortable with the quality of our inventory at this time.

Capital expenditures for 2016 were $16.2 million dollars, a year-over-year increase of 13% due to investments in our core business and in new retail outlets for the Japan joint venture. Depreciation and amortization expense was $16.6 million in 2016, which is down slightly compared to $17.4 million of depreciation and amortization in 2015. Finally, in 2016 the Company repurchased 572,000 shares of stock for approximately $5.1 million in cash.

I'll now comment on our 2017 guidance. As you can see on Slide 16, we are providing guidance in three different forms. GAAP, pro forma and pro forma constant currency. The pro forma 2017 estimate excludes approximately $7 million of non-recurring transition and transaction expenses resulting from the OGIO acquisition which closed in mid-January. Given the significant negative effects that foreign currencies are expected to have on the Company's GAAP results in 2017 we are also providing the pro forma guidance on a constant currency basis.

We believe these results best reflect our operating performance as compared to 2016. Therefore, I will focus solely on these pro forma constant currency figures in my comments. Regarding full year 2017 pro forma constant currency projections, net sales are estimated to be in the range of $938 million to $963 million, an increase of $67 million to $92 million over the prior year or 8% to 11% net sales growth. We estimate the full year 2017 gross margin will increase to 45.4%, an improvement of 120 basis points.

As you can see on the slide, operating expenses are estimated to be approximately $375 million. Earnings per share are estimated to be $0.31 to $0.37, a year-over-year increase of $0.07 to $0.13 or 29% to 54%. These figures are all based on 96 million shares outstanding and a tax rate of 38.5%. We estimate our capital expenditures in 2017 to be approximately $27 million and as Chip mentioned we are encouraged to have found attractive investment opportunities in both our core and non-core businesses that we believe will create even more shareholder value. Depreciation and amortization expense is expected to be approximately $18 million in 2017.

Turning now to Slide 17, I will now discuss Q1 2017 pro forma constant currency projections. Again, for this slide I will focus on pro forma constant currency guidance. Net sales are estimated to be in the range of $279 million to $289 million, an increase of $5 million to $15 million or 2% to 5% net sales growth. The increase in net sales is due to the incremental revenues from the Japan joint venture and the OGIO acquisition largely offset by lower retail selling of core golf equipment in Q1 caused by fewer total retail doors and a reduction in channel inventory.

We anticipate that the lower core golf equipment sales in Q1 will be corrected on a full year basis by relatively higher reorder sales in Q2 and Q3. First quarter 2017 earnings-per-share on a fully diluted basis are estimated to be in the range of $0.21 to $0.24 compared to $0.26 in 2016.

This year-over-year decrease in EPS for the first quarter is due to the change in sales mix mentioned previously. Because of seasonality the Japan joint venture and the OGIO business have lower Q1 profitability as compared to the core golf equipment business. However, on a full year basis and excluding the non-recurring costs related to the OGIO acquisition these new business ventures are accretive to our operating income rate. That concludes our prepared remarks today.

We'll now open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Your first question comes from Dan Wewer with Raymond James. Your line is open.

Dan Wewer - *Raymond James & Associates, Inc. - Analyst*

Thanks. Robert, can you give us some help on the guidance in terms of just the golf only business in 2017 and what the golf only revenues looked like in the fourth quarter?

Robert Julian - *Callaway Golf Company - CFO*

I'm not going to break it out in detail, Dan. We're not disclosing that. I will say that a large portion of our revenue growth in 2017 is coming from the OGIO acquisition and the Japan joint venture. We're also seeing some growth in our core business. We're very negatively impacted by foreign currency, but I'm not -- I don't think I'm going to be able to provide more detail than that.

Dan Wewer - *Raymond James & Associates, Inc. - Analyst*

Okay. Chip, I wanted to ask you about the expense growth, particularly the tour sponsorships. Are you expecting that to begin to peak in 2017 or do you think that's going to wrap-up the endorsements opportunities for Callaway or is this going to be continuing to grow in out years?

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

Hey Dan. It obviously is not going to grow indefinitely, but at present we believe these have been good investments and beneficial to shareholders and so we do continue to see further investment on the tour side as we look forward.

Dan Wewer - *Raymond James & Associates, Inc. - Analyst*

Okay. The last question I have for now can you give some more detail what the investments in Chicopee are going to be and what that -- what kind of payback you will get from that?

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

You know, those -- I can't give you real specific for competitive reasons, but there are both efficiency improvements and product capability improvements that we've developed or come across relative to Chicopee specifically. So obviously golf balls has been a great growth opportunity for us and you can see that we're investing in that business both from a capital, which we're talking about now in Chicopee and there's going to be a meaningful investment there but also on advanced research and on the marketing front and you're seeing that pay off. So these are attractive financial investments as well as attractive strategically.

Dan Wewer - *Raymond James & Associates, Inc. - Analyst*

Is the thought that it's still the polyurethane balls that are being manufactured by Callaway in Chicopee and then the -- at a lower price point balls are manufactured by third parties? Is that -- does that strategy change?

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

No. At this point, Dan, that strategy is still our operating mantra and we have flexibility around that, but Chicopee is focused on the Chrome Soft product and the urethane product and we have overseas opportunities for other products.

Dan Wewer - *Raymond James & Associates, Inc. - Analyst*

Okay. Great. Thank you.

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

Thank you.

Operator

Your next question comes from Michael Swartz with SunTrust. Your line is open.

Michael Swartz - *SunTrust Robinson Humphrey - Analyst*

Hey. Good evening, guys.

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

Hi Michael.

Michael Swartz - *SunTrust Robinson Humphrey - Analyst*

Hey Chip, question for you. A lot of buzz around this EPIC driver and I think you led off the call talking about the strong pre orders for that product. Is there any context you can give us or frame of reference relative to the past driver launches in the past several years where EPIC stands today?

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

You know, Michael, I'm not going to be quantitative here so I apologize in advance if you were hoping for that.

Michael Swartz - *SunTrust Robinson Humphrey - Analyst*

I tried.

THOMSON REUTERS

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

But I can tell you that it's the most exciting driver launch I've ever been part of. Both from a technology performance buzz and clearly the reaction to it is very strong right now. It's also very early in the year and as you know we're not ones to get ahead of ourselves, but we are calling out that we expect to have driver market share growth this year and the early response is -- have been very strong quite frankly.

Michael Swartz - *SunTrust Robinson Humphrey - Analyst*

Okay. And then just questions on currency and relative to your full-year outlook when you gave it at the end of the third quarter sales came in at the -- I guess the implied low end of the guidance range for the fourth quarter. How much of that was driven by inter-quarter currency changes? In other words, versus where you gave guidance in November what was the change to the top line from translation?

Robert Julian - *Callaway Golf Company - CFO*

Yes, Michael. This is Robert. From the change in currency from the time we gave our guidance to reporting Q4 results hurt us by about $3 million on the top line. So we reported $871 million of revenue. That would have been $874 million had currency stayed the same as the rates we used when we provided guidance. I would also mention that it negatively impacted our gross margins as well by about 30 basis points so the 44.2% as reported if currency had stayed the same from the time we gave guidance that we would have reported 44.5%. So it hurt us both on the top line and in gross margin.

Michael Swartz - *SunTrust Robinson Humphrey - Analyst*

And I would assume that's a couple cents to EPS as well?

Robert Julian - *Callaway Golf Company - CFO*

Well, it's not as much of an impact on the EPS due to hedging and other factors. It could be a penny.

Michael Swartz - *SunTrust Robinson Humphrey - Analyst*

Okay. That's fair enough. And then just sticking on currency for 2017 you're outlook and I think in the back of the press release your assumptions for currency seem to be a bit more conservative than current spot rates. If you can just talk around just your stance there and I guess if currency shakes out where it is in current spots relative to your, what's in your guidance what does that imply in term of maybe some upside?

Robert Julian - *Callaway Golf Company - CFO*

Yes, Michael. This is Robert again. Our policy or procedure is that around the end of the year when we're committing and locking on our goals for 2017 we will hedge and lock in currency rates for that purpose around the end of December, beginning of January sort of timeframe. And so spot rates have continued to change since that time a little bit and, of course, it's hard to predict upside, downside. There could be a little bit of benefit that we would see based on current spot rates, but it's not a huge impact at the moment and.

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

No, Michael. No. Because we have already hedged at the rates that -- for majority of our forecasted revenues.

Michael Swartz - *SunTrust Robinson Humphrey - Analyst*

Okay. Great. Thanks, guys.

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

Thank you.

Operator

Your next question comes from Dave King with Roth Capital. Your line is open.

Dave King - *Roth Capital Partners - Analyst*

Thanks. Good afternoon, guys.

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

Hey Dave.

Dave King - *Roth Capital Partners - Analyst*

I guess a follow-up on the top line guidance a little bit that 2% to 5% sort of organic. I guess how should we be thinking about that in term of by market, what can you share in terms of what you're thinking about the various markets at this point? Has Asia caught up? Are there any signs of improvement in Asia at this point on the equipment side? And I guess what sort of factored into the outlook there?

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

Sure, Dave. This is Chip. If you look at market conditions last year, they were soft in the US and in Asia. Both those markets underperformed our expectations for the full year although, particularly in the US, we're heartened by some of the changes that occurred in the marketplace in the structural improvement that I think is occurring. The outlook as we look forward, we are cautiously optimistic that it will be improved operating environment into the year.

When I was at the PGA show the feel and the commentary was very positive, but it's a very small sample set you're talking about now. You're talking about a few weeks of January, not one to get too far over your skis on. The market itself has been plus or minus 2% what we have always looked at it as. We're optimistic that this year can be an improvement on last year and the signs right now are more positive than they were at the end of last year as well. But, again, premature to get too far in front of that.

Dave King - *Roth Capital Partners - Analyst*

Okay. That's great color. And then maybe on, another one on currency. Given rates where they're at now I guess sort of what are the thoughts around the current status of the hedging program and feelings about that and then maybe just beyond that are there any opportunities to maybe drive any pricing increases in some international markets et cetera to help offset some of these pressures?

Robert Julian - *Callaway Golf Company - CFO*

So, Dave, I'll answer the question relative to hedging. I'll let Chip talk about pricing opportunities by region. But as Chip mentioned earlier, we hedged, per our standard policies, at the beginning of the year and so we feel comfortable that we have covered 70% to 80% of the risk on the bottom line and I don't see us doing anything different or deviating from our previous strategy in that regard.

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

Right. And, Dave, as it relates to pricing, we are continually successfully raising our average selling price. We raised our average selling price over the last several years and we're anticipating to be able to do that again in 2017 and that's across really all markets. As the exchange rates move and then settle out we're continually re-evaluating our position in the international markets. They did a very nice job over the last several years responding to currency movements.

With changes in the world last November there have been some sharp currency movements again and we're going to continue to evaluate those. We believe that over a long period of time, a year plus, we'll be able to react to most of all of those and we're putting in steps towards that right now. So it's something that we're starting to get pretty experienced at, quite frankly, and the teams are able to raise price in general and have so over the last several years.

Robert Julian - *Callaway Golf Company - CFO*

Yes. The other thing I would add to that, Dave, is even in the new products that we're going to introduce that Chip talked about earlier the EPIC drivers and the fairway woods and even the O-Works putters, those are all introduced at higher prices than the products they replaced. So we're seeing higher average selling prices in the current product based on new technology.

Dave King - *Roth Capital Partners - Analyst*

Right. Fair enough. Thanks for the color, guys. I'll step back and good luck with 2017.

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

Thank you.

Operator

Your next question comes from Susan Anderson with FBR. Your line is open.

Susan Anderson - *FBR Capital Markets - Analyst*

Hi. Good evening. Thanks for take my questions. I was wondering if maybe you could talk about -- I think you mentioned your leveraging your green grass distribution in international for the OGIO acquisition. How quickly can you get the brand kind of distributed through the channel and maybe what opportunity is there? Is that kind of what's in your two year revenue numbers?

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

Susan, we think that the first year is going to be more of a transition year and we reflected that in the guidance. So our $45 million revenue expectation for OGIO this year is less than they have done last year and historically and so we're reflecting what we think is a realism on the transition of a business. But going forward beyond this first year certainly in 2018 and it's possible that it will occur a little faster than that, but we're not predicting that at this point. So by 2018 we have significant reach and scale both internationally and the green grass channel that we think will aid that business and we're excited about that opportunity.

Susan Anderson - *FBR Capital Markets - Analyst*

Great. And then could you give some color maybe just on your expectation for additional green grass doors for balls this year? I think you gained maybe 1100 or so last year. How should we think about this year looking relative to that?

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

Yes. The team has done a wonderful job on growing our business at green grass in the US and it's one of our most attractive channels quite frankly. We had double digit growth in that last year. Certainly very relative for golf ball, but increasingly important across all of our product categories and we do think we have further runway there. We are continuing to invest in our ability to service that channel whether that be sales reps or support or custom fitting resources. And so you're right, we have had some success in growing that door count and we're expecting further door count growth this year.

Susan Anderson - *FBR Capital Markets - Analyst*

Okay. Great. And then last one I guess I may have missed this. I hopped on a bit late but on the bankruptcy and just the impact. Did you guys quantify at all the impact of top line this quarter and then next quarter?

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

No, we didn't, Susan. The only thing relative to the bankruptcy particularly of Golfsmith and Golf Town which was late in the year and they were significant customers is that we mentioned that it will have a shift in our revenue timing somewhat between quarters. So Q1 in our core equipment business will be a little softer. Q2 and later will catch up, we think, on most of that revenue and it's partly because the lower door count out there. It's also less inventory being carried in all of those doors.

Susan Anderson - *FBR Capital Markets - Analyst*

Got it.

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

So mostly just a shift. The impact of the bankruptcies, we were very pleased with our ability to weather that and operate effectively through it towards the tail end of last year. It could still be a factor for us, but we're increasingly optimistic that it's not going to be a significant factor in 2017. So working through that I think productively at this point.

Susan Anderson - *FBR Capital Markets - Analyst*

Got it. So first quarter is just lower because less doors because of bankruptcies and then --.

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

Less doors. Yes. First quarter being an inventory shipment quarter and less doors to take inventory and the doors that are remain are appropriately take less overall inventory.

Susan Anderson - *FBR Capital Markets - Analyst*

Great. Okay. Thanks, guys. Good luck next quarter.

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

Thanks, Susan.

Operator

Your next question comes from George Kelly with Imperial Capital. Your line is open.

George Kelly - *Imperial Capital - Analyst*

Hi, guys. A couple questions for you. First, on TSI, you mentioned that you're opening some new stores there in Japan in 2017. Wondering how many stores are currently open, how many do you plan on doing, what's kind of the -- what's the big opportunity there as you look out for the next couple years?

Robert Julian - *Callaway Golf Company - CFO*

So, George, this is Robert. I think that there's a number of different times of doors that that business operates. Some of them are sort of stores within stores in the department stores in Japan. Some of them are roadside stores that you would find going down the street like a Rodeo Boulevard type store and some of them are outlet mall type stores. Very high end outlet mall stores.

I think there are, between all of those types, there's roughly 30 or so in terms of the sites that are currently open. There's a plan to increase by maybe it's half a dozen or something like that. For the next year, but we're going to -- we're optimistic about the opportunity there and we're going to start with a few additional doors in 2017 and see where it takes us.

George Kelly - *Imperial Capital - Analyst*

And has that business in general performed kind of in line with your expectations that you set a couple quarters ago or any differences with how you thought it would perform?

Robert Julian - *Callaway Golf Company - CFO*

Yes. George, the business is actually performed very well. I would say if anything maybe it's exceeded our expectations a little bit.

George Kelly - *Imperial Capital - Analyst*

Okay. And then, secondly, a couple questions on the ball business. The elevated CapEx spend this year, is that a kind of one time project or will there be continued spend going into 2018?

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

George, this is Chip. It's more -- I think you would be more appropriate to think of it as one-time opportunities as opposed to something we'll need to continually reinvest back in that business. We're very excited about the ball business and the fact that we're identifying ways to further improve it, but this isn't something that is going to be an every year phenomenon as we see it now.

George Kelly - *Imperial Capital - Analyst*

Okay. And the last question for me. Where did the ball market share end the year?

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

13.8% market share in the US, which was up and all trends there remain very good from my perspective.

George Kelly - *Imperial Capital - Analyst*

All right. Thank you.

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

Thank you.

Operator

Your next question comes from Casey Alexander with Compass Point Research. Your line is open.

Casey Alexander - *Compass Point Research & Trading LLC - Analyst*

Hi. Good afternoon. I think on George's last question I think he meant what was the ball share in December.

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

Casey, I don't have the December share in front of me although Patrick is flurrying through so if do you have another question, I might have that by the end.

Casey Alexander - *Compass Point Research & Trading LLC - Analyst*

Yes. While he flurries through that if I look at GAAP versus pro forma it looks like you expect about $2 million worth of expenses in Q1 for OGIO. Does the balance come in Q2 or how do you see that blending out over the course of the year?

Robert Julian - *Callaway Golf Company - CFO*

Yes, Casey. This is Robert . It is early -- those expenses are front end loaded early in the year mostly Q1 and Q2.

Casey Alexander - *Compass Point Research & Trading LLC - Analyst*

Right. So call it $2 million and $5 million or $2.5 million and $4.5 million, something like that?

Robert Julian - *Callaway Golf Company - CFO*

That's probably a decent estimate.

Casey Alexander - *Compass Point Research & Trading LLC - Analyst*

Okay. That's really all I have. Did Patrick catch the number?

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

Yes. December was 13.4% Casey.

Casey Alexander - *Compass Point Research & Trading LLC - Analyst*

Okay. Great. Thank you so much.

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

Thank you.

Operator

There are no further questions at this time. I will turn the call back over to Chip Brewer for closing remarks.

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

Well, thank you everybody for calling in. We appreciate the opportunity to discuss the business with you and we look forward to updating you further on Q1 earnings call. Thanks very much.

Operator

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