THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

ELY - Q2 2014 Callaway Golf Co Earnings Call

EVENT DATE/TIME: JULY 24, 2014 / 9:00PM GMT

OVERVIEW:

Co. reported 1H14 consolidated net sales of $584m, net income of $59m, and EPS of $0.66. 2Q14 consolidated net sales were $232m, operating income was $11m, and EPS was $0.04. Expects full-year 2014 net sales of $880-900m, and fully-diluted EPS of $0.12-0.16.

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

CORPORATE PARTICIPANTS

Brad Holiday *Callaway Golf Company - CFO*

Chip Brewer *Callaway Golf Company - President, CEO*

CONFERENCE CALL PARTICIPANTS

Lee Giordano *CRT Capital - Analyst*

Shane Rourke *Longbow Research - Analyst*

Scott Hamann *KeyBanc Capital Markets - Analyst*

Casey Alexander *Gilford Securities - Analyst*

Rommel Dionisio *Wedbush Morgan Securities - Analyst*

Mike Assato *D.A. Davidson - Analyst*

PRESENTATION

Operator

Good afternoon. My name is Kyle and I'll be your conference operator today. At this time, I'd like to welcome everyone to the Callaway Golf 2014 Q2 earnings conference call. (Operator instructions.) Thank you.

I'd now like to turn the call over to Mr. Brad Holiday, CFO. You may begin your conference.

Brad Holiday - *Callaway Golf Company - CFO*

Thank you, Kyle. I would like to welcome everyone to Callaway Golf Company's second quarter 2014 earnings conference call.

Joining me today is Chip Brewer, our President and CEO. During today's conference call, Chip will provide some opening remarks. I will provide an overview of the Company's financial results for the quarter, and we will then open the call for questions.

I would like to point out that any comments made about future performance, events, prospects, or circumstances, including statements related to estimated 2014 net sales, sales growth, gross margins, operating expenses, pre-tax income, tax provision, earnings per share, future market conditions, the success of the Company's future products or the Company's recovery in brand momentum, as well as the collectability of accounts receivable and the Company's estimated 2014 capital expenditures and depreciation and amortization expenses, are forward-looking statements subject to safe harbor protection under federal security 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 and its business.

For details concerning these and other risks and uncertainties, you should consult our earnings release issued today as well as Part 1, Item 1A of our most recent Form 10-K for the year ended December 31st, 2013 filed with the SEC, together with the Company's other reports subsequently filed with the SEC from time to time.

In addition, during the call, in order to assist interested parties with period-over-period comparisons on a consistent and comparable basis, we will provide certain non-GAAP information. This information, as applicable, excludes charges relating to the Company's prior cost reduction initiatives and the impact of businesses that were sold or transitioned to a third party model.

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

We provide certain of the Company's results on a constant currency basis, which essentially applies the prior period exchange rates to the current period results. For comparative purposes, the non-GAAP income and earnings information assumes a 38.5% tax rate.

We also provide information on the Company's earnings excluding interest, taxes, depreciation and amortization expenses, and impairment charges. This non-GAAP information may include non-GAAP financial measures within the meaning of Regulation G.

The information provided on the call today and the earnings release we issued today included reconciliation of such non-GAAP financial measures to the most directly comparable financial measures prepared in accordance with GAAP. The earnings release is 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 Chip.

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

Thanks, Brad. Good afternoon, everybody, and thank you for joining us for today's call.

Taken in isolation, Q2 was an interesting quarter for Callaway Golf and our industry. Market conditions were challenging. And as a result, both Callaway's revenues and the total market declined.

However, in the context of the operating environment we had and considering our year-to-date performance as the most representative view, I am very pleased with our Company's performance. I believe we continued our trend of building brand momentum, gaining market share, and that we are exiting the quarter in a strong position.

Based on this, we are holding our guidance for the full year and still expect to return to profitability this year, despite the much publicized market headwinds. I believe this is clear evidence that our turnaround plan is working.

And I'd like to start by thanking the Callaway Golf team for their hard work and commitment to turning this business around. This 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 with the market conditions and industry outlook, since that is one of the big stories for this year. As I mentioned, market conditions have been challenging worldwide.

In North America, the season got off to a tough start due to early weather issues along with excess inventory, which combined to create a highly promotional environment. As a result, we estimate the US hardgoods market is down mid to high single digits year-to-date.

Our estimates for the UK and Japan markets has those markets down similarly. Japan in particular had a tough Q2 with double digit market decreases there. Most retailers are expecting these tough market conditions to continue until new products hit the field later this year and early next.

Having said all this, I think it's worth mentioning that there are some positive signs. First of all, although over retail inventory -- and I'm talking about the total market right now, not Callaway specific -- is still a little high, it has improved during the quarter, and I believe it is at a manageable level for the balance of the year.

In addition, there is now a prevailing sentiment across retail channels that improved inventory and promotional discipline is needed going forward. It is very possible that we will have to keep our heads down for the next six months, but that improved conditions will exist after the industry gets through this period.

Turning now to the positives, which also just so happen to align with the areas we can best control, for the first half our revenues were up 9% overall, or 10% on a constant currency basis.

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

We showed growth in almost all markets and categories, with increases in both unit volume and average selling price as well as gross margins. On a constant currency basis, the US was up 5% year-to-date, Japan is up 24% year-to-date, and Europe is up 7%.

We also had excellent growth in Korea, Canada, and Australia, really everywhere golf is played.

In concert with this revenue growth, we grew our market shares impressively in almost all key categories and markets. In Japan, our year-to-date dollar hardgoods market share through June was 14.8%, up 90 basis points year-over-year.

In the UK, our year-to-date hardgoods share through May was 18.6%, up 555 basis points year-over-year. And in the US, our year-to-date hardgoods share through June is 19.1%, up 420 basis points.

These worldwide market share gains were based on overall brand momentum and the strength of our products, including particular success with Big Bertha drivers, Apex irons, X2 Hot Fairway woods and hybrids, and Supersoft golf balls.

With these market share gains, along with some active management on our part, we also made excellent strides in addressing field inventory levels in key markets such as the US and Europe. Thanks to these steps, we are exiting the quarter in an enviable position in this important area.

To add some hopefully valuable color to our performance, let me share some additional accolades for our products and worldwide performance. In the US, our overall hardgoods share is at its highest level since 2007. X2 hybrids and fairway woods were both number one selling in their categories during the second quarter, and our overall woods, driver, and fairway woods shares are at the highest level since 2004.

In Japan, Callaway is currently the number one selling American brand and is vying for the number two spot overall. Our market shares there are at their highest since we began measuring.

In the UK, Callaway has its highest overall share since 2008 and its highest driver share since 2003. X2 Hot is the number one selling fairway wood in that market year-to-date.

In Europe, Callaway was the number one selling brand for April and May, which is our most recent data.

I think it's fair to say that Callaway is back and we have brand momentum. Our job now is to build on this, and I believe this team will be up for that challenge.

Turning now to the financial statement, operating expenses for the first half are up year-over-year as per our plans and guidance. However, as evidenced by our market share gains, these investments are proving productive and they are being managed to deliver operating leverage as our spending as a percent of sales is moving in the right direction.

All of this resulted in improved financial performance with year-to-date earnings per share up 12% through Q2. Brad will outline more of our financial performance in his comments.

Looking forward, trade and consumer reaction to our products has been strong. And has been our practice in recent years, we have a robust product pipeline which will be launched the second half of this year and the beginning of next.

We will also be continuing to aggressively market our brand and reinvest back in our business, thereby delivering energy to the marketplace. You'll see further evidence of this during the second half of this year.

Encouragingly, I believe we are in the process of reestablishing ourselves as the performance and technology leader in many categories.

We are anticipating market conditions to remain challenging through the balance of this year. However, we expect that our brand momentum and our continually improving operational abilities will allow us to achieve our full year guidance of revenue growth and profitability.

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

In closing, the first half of 2014 was a tumultuous period for our industry, but another strong period for Callaway Golf. Our results reinforce our belief that our turnaround plan is working and that we are laying the proper foundation for a sustained recovery.

We believe that, over the long term, weather and market conditions will normalize, and that our business plan, combined with the strength of our brand and the quality of our people, will lead to steadily improved financial performance and long term shareholder value.

I look forward to continuing to keep you updated on our progress, and I appreciate your interest and support.

Brad, over to you.

Brad Holiday - *Callaway Golf Company - CFO*

Thank you, Chip.

Consolidated net sales for the first half of the year were $584 million, an increase of 9% compared to $537 million last year. Sales were adversely impacted by $5 million due to the changes in foreign currency rates compared to last year.

On a constant currency continuing business basis, year-over-year sales growth would have been 11%.

Gross margins for the first half improved 170 basis points to 44% compared to 42% last year. A majority of this improvement in gross margin percentage was due to favorable sales mix, price increases, as well as the positive impact from several supply chain initiatives implemented last year.

Included in the 2013 results were restructuring charges of $6 million.

Operating expenses were $183 million, an increase of 5% compared to last year, due to increases in marketing support for new products, incremental tour investment, and an increase in stock compensation expense associated with a year-over-year increase in the stock price.

Included in the 2013 results were $2 million of cost reduction charges.

Operating income improved 40% to $72 million for the first half compared to $52 million last year.

We had other expense of $10 million compared to $4 million of other income last year. This $14 million swing from income to expense was due to the impact of changes in currency rates on all outstanding hedging contracts, which are mark-to-market at the end of each reporting period.

First half net income increased 13% to $59 million, and earnings per share increased 12% to $0.66 on 93 million shares compared to $0.59 last year on 92 million shares.

For the second quarter, net sales were down relative to last year but generally in line with the guidance we provided last quarter, and was due to a slow start to the season, high industry wide retail inventory levels, and a resulting increase in competitive activity during the quarter.

Consolidated net sales for the second quarter were $232 million, a decrease of 7% compared to $250 million last year. Sales were positively impacted by $2 million due to changes in foreign currency rates compared to last year.

Gross margins for the second quarter improved 90 basis points to 39% compared to 38% last year. This improvement was due to a favorable sales mix and the positive impact from the several supply chain initiatives implemented last year.

Included in 2013 results were restructuring charges of $4 million.

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Operating expenses were $80 million, a decrease of 5% compared to 2013, due primarily to a decrease in stock compensation expense associated with a decline in the stock price from the first quarter as well as lower corporate expenses.

Included in 2013 results were $1 million of cost reduction charges.

Operating income was $11 million for the quarter, a slight decrease compared to last year.

We had other expense of $6 million compared to no income or expense last year. This $6 million swing to expense was due to the impact of changes in currency rates on all outstanding hedging contracts.

Second quarter earnings per share was $0.04 on 79 million shares compared to $0.12 last year on 86 million shares.

Through the first six months, we had sales growth compared to last year in all product categories as follows. Wood sales were $182 million, an increase of 8% compared to last year due to the successful launch of our new Big Bertha and X2 Hot products.

Iron sales were $126 million, an increase of 14% due to the success of our new premium Apex irons and Mack Daddy 2 wedges. Putter sales were $59 million, an increase of 9% due to the introduction of the new Odyssey Tank putters and an overall increase in average selling price.

Golf ball sales were $91 million, an increase of 7% due to the launch of our new premium Speed Regime line of golf balls and the success of our new low compression Supersoft line of golf balls.

Overall profitability for this category has increased more than fivefold as a result of this revenue growth, along with manufacturing and supply chain initiatives implemented last year.

Accessories and other sales were $126 million, an increase of 5% compared to last year due to an increase in the sale of packaged sets, headwear, and gloves, partially offset by a decline in apparel sales due to the transition of the Company's European apparel business to a licensing model at the beginning of the current year.

Turning to our balance sheet, we ended this past quarter with cash of $29 million, flat compared to $30 million last year. Borrowings on our ABL credit facility were $60 million compared to $39 million last year due to increased working capital to support anticipated sales growth.

Average available liquidity was $72 million. And as a side note, we recently amended this credit facility, which resulted in a three year term extension to 2019, increased available capacity to better support peak working capital needs, and a reduction in overall interest rate.

Also, our trailing 12 month EBITDA was $26 million, a significant improvement of $65 million compared to last year.

Our consolidated net receivables were $197 million, a decrease of 14% compared to last year due to lower second quarter sales, with DSOs improving by six days to 78 days compared to 84 days last year. We remain comfortable with the overall quality of our accounts receivable.

Net inventories were $209 million, an increase of 12% compared to $187 million last year and a significant improvement compared to the beginning of the quarter, where inventory was 22% higher than the prior year.

Inventory levels compared to last year have been adversely impacted by market conditions and the fact that inventory purchase commitments are made well in advance of forecasted sales to assure availability.

We are very pleased that the improvements made in our supply chain and processes allowed us to quickly respond to changing market conditions and reduce inventory levels more in line with original expectations. We remain comfortable with the quality of our inventory at this time.

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Capital expenditures for the first half were $6 million. And we estimate full year to be approximately $15 million, which is consistent with our previous guidance.

And depreciation and amortization expense for the first half was $11 million. It is estimated to be approximately $25 million for the year, also consistent with our previous guidance.

Now, with regards to guidance, given the increase in sales, market share, and earnings through the first half of the year, along with anticipated new product launches during the second half, we are maintaining our full year guidance provided at the beginning of the year despite what we anticipate to be challenging market conditions for the balance of the year.

Net sales are estimated to range from $880 million to $900 million. On a constant currency continuing business basis, this represents an increase of 6% to 9% compared to last year in addition to the 14% growth we achieved in 2013.

Due to the estimated timing of new product launches during the second half of the year, we estimate third and fourth quarter sales should be evenly split this year compared to a 60/40 split last year.

Gross margins are still estimated to improve to approximately 41.7% plus or minus 30 basis points compared to 37.3% last year due to the full year positive impact of the many supply chain initiatives put in place last year, increased pricing, as well as an improved sales mix of premium products, partially offset by higher costs associated with new technologies in our 2014 products.

Operating expenses are still estimated to $345 million for the full year compared to $326 million in 2013. This increase is due to a planned increase in investments in tour and marketing, higher variable sales related expenses associated with a projected increase in sales, as well as modest increases in cost of living and inflation.

Pre-tax income for the year is estimated to range from $15 million to $19 million with a corresponding tax provision of approximately $6.5 million. This compares to a pre-tax loss in 2013 of $13.3 million with a corresponding tax provision of $5.6 million.

Fully diluted earnings per share is estimated to range from $0.12 to $0.16 based on 78 million shares outstanding compared to a loss per share of $0.31 on 72.8 million shares in 2013.

We will now open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator instructions.) Lee Giordano, CRT Capital.

Lee Giordano - *CRT Capital - Analyst*

Thank you. Good afternoon, everybody.

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

Hi, Lee.

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Lee Giordano - *CRT Capital - Analyst*

Chip, I was wondering if you could talk a little more about the industry and the environment today. Do you think this is somewhat of a hangover of two years of bad weather in the early spring, or is this really a secular shift that may have longer legs in terms of the declines we're seeing overall?

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

Lee, good question, because clearly the industry's condition is getting a lot of PR recently. And there's no question that our industry has its share of challenges, as many industries do.

It's my opinion that a lot of the PR is highlighting issues that are not new. The participation and some of those trends have been concerns for the industry for some time. The industry has been relatively stable with regards to number of golfers after the economic crisis of 2008/2009.

And I think it's a little bit dangerous or misleading to read too much into weather and cyclicality, which are factors in our industry but short term factors. And so, I think it would be a mistake to count the industry out at this point.

If you look at some of the data just since 2010, it's a small sample set. But, assuming that this year ends up down, we've had two years -- one year of down, one year up, and two years that were relatively flat according to Datatech on sell-through share. As recently as 2012, the industry was up 7% to 8%.

So, at this point, although we're going through a difficult period, working through some inventory concerns, we had some weather issues at the start, I don't see any new news that is changing our perceptions of the industry long term. And I'm also very pleased that the team at Callaway has shown the ability to compete effectively in these types of environments, which I think bodes very well for us.

Lee Giordano - *CRT Capital - Analyst*

Thanks. That's really helpful. And then, just another follow up. When we look at how you're improving your field inventory levels, does that mean that you might be missing out on some extra sales for the sake of maintaining your margin?

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

You can trade margin and sales, and we try to balance the two for the long term health of the business. So, we really like the position we're in, particularly in the US and Europe, coming out of Q2 because our field inventory levels are aligned with where we want them to be, which gives us continued upside and potential for the second half of the year.

Excess inventory in our business can really penalize you, and it's one of the items that we pay close attention to. So, I guess it's just playing long term ball instead of short term ball. I don't think it costs us sales.

I think it'll deliver both sales and margin for us in the long term, but it may -- whenever you're playing long term ball, you might give up some short term potential benefit. But, that doesn't really cross our mind. We think that's the right way to run the business.

Lee Giordano - *CRT Capital - Analyst*

Great. Thank you.

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

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

Sure.

Operator

James Hardiman, Longbow Research.

Shane Rourke - *Longbow Research - Analyst*

Hi. This is Shane Rourke sitting in for James this afternoon. Thanks for taking my call. I just had a question about the promotional environment, if you could talk a little bit more about how it went with Big Bertha in particular. I know initially the plan was to hopefully hold pricing there. And I was just curious sort of how you've seen that go and what we can expect through the back half, in particularly to Bertha.

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

Okay. Shane, I won't give you any forward-looking views of specific products for competitive reasons. And I'm sure you understand that.

Big Bertha is a very important brand for us at Callaway, and we've been really pleased with the introduction to that -- or reintroduction of Big Bertha this year. It brought a ton of energy to the marketplace and was one of the hero products for us and the industry this year.

We intentionally held that product out of any promotional activity through the first half of this year, and we're going to continue to protect that brand going forward. But, specifics of any type of activity, for obvious reasons we can't get into those.

Shane Rourke - *Longbow Research - Analyst*

Okay. Yes, that's fair. And one other quick one on -- I know again sort of looking forward, but you alluded to briefly some back half launches. Could you at least speak to whether or not -- are we looking at comparable launches to, say, OptiForce? Are we at that level? Can you shed any light there?

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

Sure. We do have back half launches in our business plan, as we have since I've joined the company. We're excited about them.

The financial impact of those in our current plans are roughly equivalent to what we launched last year.

Shane Rourke - *Longbow Research - Analyst*

Okay, great.

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

Thank you, Shane.

Shane Rourke - *Longbow Research - Analyst*

Thank you.

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Operator

Scott Hamann, KeyBanc Capital Markets.

Scott Hamann - *KeyBanc Capital Markets - Analyst*

Hey, thanks. Good afternoon. Chip, just a little bit more on retail inventory. Obviously with the sell-throughs as strong as they were for you versus the rest of the industry, can you kind of give us a sense of where you sit maybe on a year-over-year basis?

And then, just in terms of the promotional environment, relative to your expectations at the outset of the year and the end of the first quarter, did the promotions kind of stay within the tolerance that you had originally planned?

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

Sure. Let me take the second one first. The second quarter was more promotional and more challenging than we anticipated, considerably more than we anticipated going into the year and even more -- slightly more promotional and more challenging than we anticipated during our last quarterly call, which was in April.

That's one of the reasons, again, I was particularly pleased with the team's performance. To get through that and maintain brand momentum, market share, and exit it in good position is very encouraging for us.

Our field inventories right now are roughly equivalent on a weeks of supply basis that they were last year, Scott. And we were in good shape last year while the total industry is up but only up slightly, according to Datatech.

Datatech has club inventory up in the 4% range or something like that year-over-year, although the market's down, so they have to close that gap at some stage. But, Callaway has been able to sustain ourselves in a good position.

Scott Hamann - *KeyBanc Capital Markets - Analyst*

Okay. And then, just in terms of kind of looking forward here, I mean, obviously you guys are having a pretty bang up year. But, if the market continues to remain a little bit soft overall, what can you do to improve the profitability of the company moving forward?

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

Scott, some of that depends on what timing you're asking about. But, we think we're doing the right things to improve the profitability of the company going forward, and I think the results would support that statement.

We are continuing to be appropriately aggressive by reinvesting in the brand and in the business in areas such as marketing, in tour, in R&D, but those investments are being managed in a way to create operating leverage. And they're bearing fruit, and they're doing so in a down market which is potentially more challenging.

So, we take good heart in that. We think that we're up to the challenge of continuing these trends, and we think that the success we're having in gaining market share and building brand will bear fruit as market conditions normalize.

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

Scott Hamann - *KeyBanc Capital Markets - Analyst*

Okay. Thanks, Chip.

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

Thank you, Scott.

Operator

Casey Alexander, Gilford Securities.

Casey Alexander - *Gilford Securities - Analyst*

Hi. Good afternoon. After the media onslaught the last few days between Bryant Gumbel's Real Sports and the Wall Street Journal and the news about Dick's, which has everybody focused on the US, how about outside the US? How do you feel that the markets are developing outside the US? And what kind of color can you give us about the international markets, setting the US aside?

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

Okay, very good. Yes, there has been a lot of attention to the golf business recently, hasn't there?

Outside the US has, in the major developed markets, really been fairly similar to the US this year, Casey. As mentioned, my estimates for the market in Europe and Japan have almost paralleled the US.

And that, in some regards, is surprising to me on how similar those have been. Maybe that's because the US companies sort of dominate the industry. I'm not altogether sure.

In terms of smaller markets, some of the developing markets, we still see some upside in those markets and are establishing ourselves as players in those markets. But, the primary markets -- Europe, that's experiencing conditions that are fairly similar to the US.

Japan, after a reasonable start, had a very poor second quarter. And we think part of that was due to a consumption tax increase in April, but that may not explain all of it.

The big picture, though, is we don't really see anything that would change our fundamental view of the industry relative to what it has been over the last year or so.

Casey Alexander - *Gilford Securities - Analyst*

Okay. Secondly, putters up 20% in the second quarter. What do you think woke up putters for the Company in the second quarter? Which -- putters had been lagging a little bit the last couple quarters leading into that.

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

Well, I think we had a product launch this year in the second quarter. It wasn't a major launch, but it was a product called Tank Cruiser, which is an adjustable counterbalanced putter. And it's a great product, and on trend. It retails for $250, and the sell-through was very good.

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

The big trend in the putter category has been these counterbalanced putters. Our product in there is called Tank. We were a leader in that category. And as you know, we have excellent brand strength.

So, the putter category overall is one of the categories that's been up year-to-date. And we participate in it in a premium way with some excellent products, so that helped those numbers.

Casey Alexander - *Gilford Securities - Analyst*

The counterbalanced putter, is that designed to fit kind of a replacement cycle for the longer putters?

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

Yes, it is. And it's doing just that very effectively.

Casey Alexander - *Gilford Securities - Analyst*

Okay. It's usually around this time of year where -- we don't hear things until the end of the year, but the company already starts to have some conversations about tour contracts for the next year. What's your outlook for -- I mean, is the company going to continue to expand their tour spend and their tour presence, because your tour performance thus far this year has been pretty good and I think very helpful to the brand.

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

Thanks, Casey. Yes, I'm really proud of what the team has been able to do in terms of growing our presence.

I do agree with you. It's being noticed and it's helping, driving some of the success. And we do plan to continue to reinvest in that area. We are in the middle of various conversations on that front right now. And we believe that those investments will be productive for shareholders over the long term.

Casey Alexander - *Gilford Securities - Analyst*

To ask the question sort of in a different way, in years past when Callaway was not performing as well as a brand, they did a lot of coming to tour pros with hat in hand. Has that trend changed? Do you have some guys coming seeking you out at this point in time?

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

Yes, we do. Our momentum in general has changed. So, you as a player know from being around competitive golf and just average golf, people are talking more positively about Callaway now and our product performance.

We signed two All Americans recently. We've got more success attracting players at all different levels. We're one of the few brands that has positive momentum in this industry. There's more players on tour playing our product that are not being paid to play it.

So, success attracts success. And no one's coming to me yet and saying I don't have to pay them, but the negotiations are definitely easier. And you can see a lot more Callaway all over golf courses, but on the world tours that is true as well.

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Casey Alexander - *Gilford Securities - Analyst*

All right. Well, thank you. I will say a $64 million year to year improvement in EBITDA is pretty remarkable, and your team is to be congratulated for that. Thank you for taking my questions.

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

Thanks.

Operator

(Operator instructions.) Rommel Dionisio, Wedbush.

Rommel Dionisio - *Wedbush Morgan Securities - Analyst*

Yes, thank you. Are you guys seeing any difference between the sell-through trends as well as the retail inventories between the on-course channel versus the off-course channel here in the US? And if so, what would the implications be for you guys?

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

Rommel, that's a great question. Yes, there are definitely differences between those. They have evolved to compete in different ways over the last several years as the on-course channel has really moved towards custom fitting and highlighting brands, etc., and is not promotional, whereas the off-course has higher inventory levels and a much more promotional environment.

One of the things that I'm proud of this team is we're growing in both channels. And it's a very important aspect for our brand to be growing in the on-course channel as well.

And that requires custom fitting. It requires premium products. Our Apex irons have been homeruns for us in that channel. And that's an $1,100 set of irons in a channel that Callaway had struggled with as of late. Supersoft is doing very well in that channel. So, you really have to manage those channels very differently.

And just to give you a for instance, you look at some of the inventory trends between the channel, and green grass, their golf ball inventory is down year-over-year, whereas retail golf ball inventory is up year-over-year. So, they're very, very different animals.

Rommel Dionisio - *Wedbush Morgan Securities - Analyst*

That's very helpful. Thanks very much, Chip.

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

Thank you.

Operator

Mike [Assato], D.A. Davidson.

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Mike Assato - *D.A. Davidson - Analyst*

Hi. Good afternoon, guys. This is Mike on for Andrew. Chip, I have a follow on question about international. Looking at the constant currency growth in the first half, the growth in Europe and Asia, it outpaced the US. And I know you spoke about the environment being largely the same, but are there any companies specific drivers that you could highlight that caused this variance?

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

Mike, I think the US market is a highly competitive market. And it was my perception when I came to Callaway that Callaway had fallen further from its historic highs in the US than it had overseas. And all of that -- and I'm really proud of what the US has done to reverse that trend.

But, I also have to call out it's indicative of the fact that we have some excellent teams in these international markets. Our teams in Japan, Korea, and Europe are to be commended in what they're able to do in these market conditions. And they've just done an excellent job.

Mike Assato - *D.A. Davidson - Analyst*

Chip, I appreciate the answer.

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

Sure.

Operator

There are no further questions at this time. I turn the call back over to Mr. Chip Brewer, CEO.

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

Thank you very much.

Well, I just want to end the call by thanking everybody for dialing in. We appreciate your interest and support. We look forward to updating you after Q3. Thank you very much.

Operator

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

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2014, Thomson Reuters. All Rights Reserved.

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS