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# Investor Presentation

August 2017

# Important Notices

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Forward-looking Statements: During the presentation, any comments made about future performance, events, prospects or circumstances, including estimated 2017 net sales, gross margins, operating expenses, and earnings per share (including estimated tax rate and share count), future growth and performance, the creation of shareholder value, future industry or market conditions, capital deployment, future financings, the estimated OGIO and TravisMathew revenue, contributions, and transaction and transition costs, and the estimated timing, benefits and financial impact of these transactions, are forward-looking statements, subject to Safe Harbor protection under the federal securities laws. Such statements reflect our best judgment as of the time made based on then 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 on August 3, 2017, as well as Part I, Item 1A of our most recent Form 10-K for the year ended December 31, 2016, filed with the SEC, together with the Company's other reports subsequently filed with the SEC from time to time.

Regulation G. In addition, in order to assist you with period-over-period comparisons on a consistent and comparable basis, today's presentation includes certain non-GAAP information. Additional non-GAAP information is provided that excludes the tax consequences from the reversal of the valuation allowance, the Topgolf gain, and the estimated OGIO non-recurring transaction and transition expenses. The Company also provides certain information excluding interest, taxes, depreciation and amortization expenses. For comparative purposes, certain non-GAAP earnings information assumes a 38.5% tax rate. This non-GAAP information may include non-GAAP financial measures within the meaning of Regulation G. These non-GAAP measures should not be considered as a substitute for any measure derived in accordance with GAAP. The Company has provided a reconciliation of such non-GAAP financial measures to the most directly comparable financial measures prepared in accordance with GAAP. The reconciliations are included in the presentation or in the schedules to the Company's August 3, 2017 earnings release, which is available on the Investor Relations section of the Company's website located at <http://ir.callawaygolf.com/>.

# Callaway Overview



- Global leader in advanced golf technology
- Manufacture and sell golf clubs and golf balls, and sell golf and lifestyle apparel and accessories under the Callaway Golf®, Odyssey®, OGIO® and Travis Mathew® brands worldwide

**Market cap:** \$1.3B<sup>(1)</sup>

**Employees:** ~2,000

**Net Sales:** \$871M<sup>(2)</sup>

**Gross Margin:** 44.2%<sup>(2)</sup>

**Leadership:** Chip Brewer, CEO

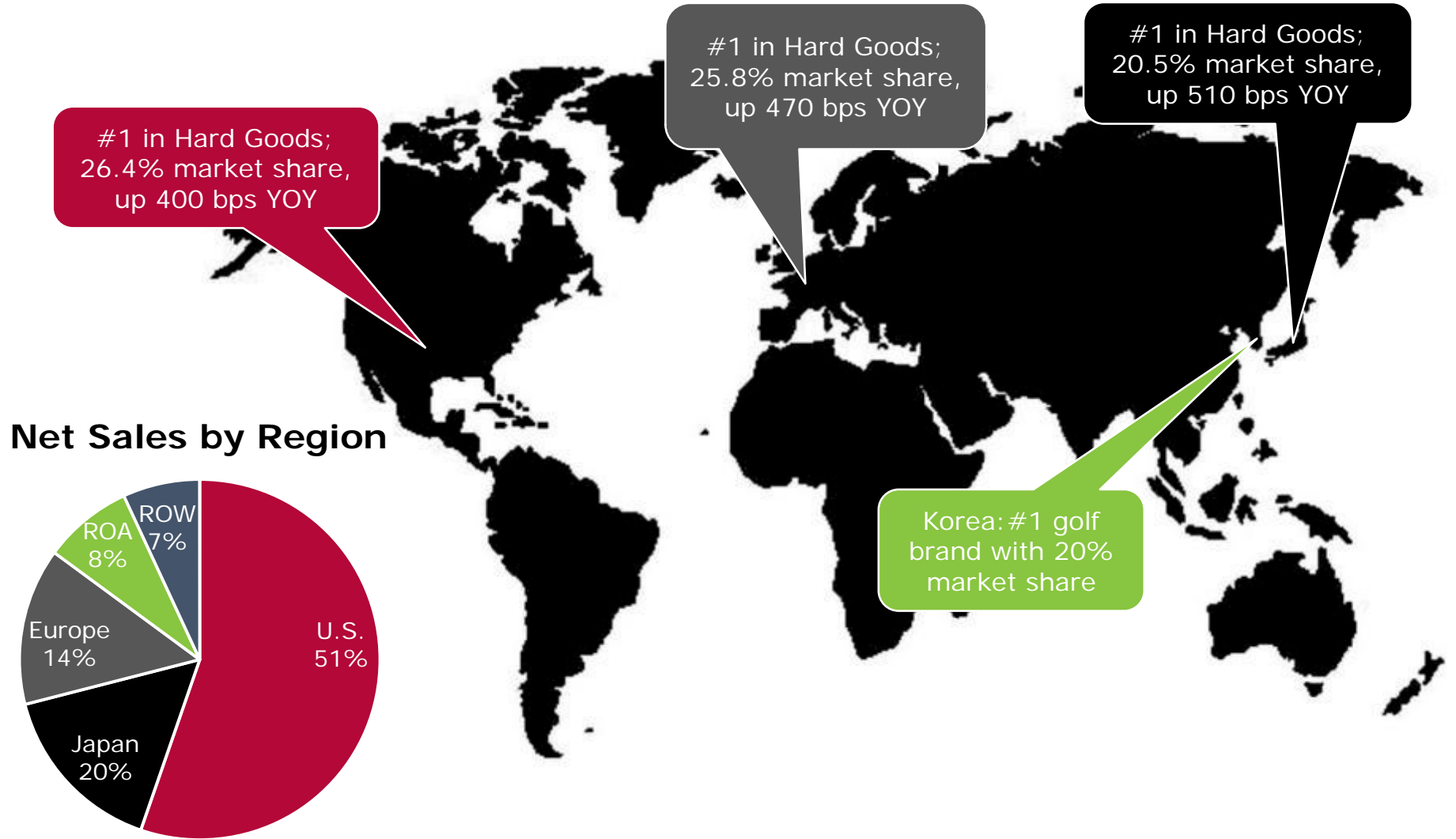
- Successfully executed turnaround to reinvigorate brand
- Now pivoting to a growth strategy in a consolidating industry
- Continue investments in both core and tangential areas
- Strong executive team with deep industry experience
- Strong balance sheet with minimal debt

## Standout Products and Brand

1) Market capitalization as of August 28, 2017

2) Full year 2016 performance

# June YTD Net Sales and Market Shares By Region



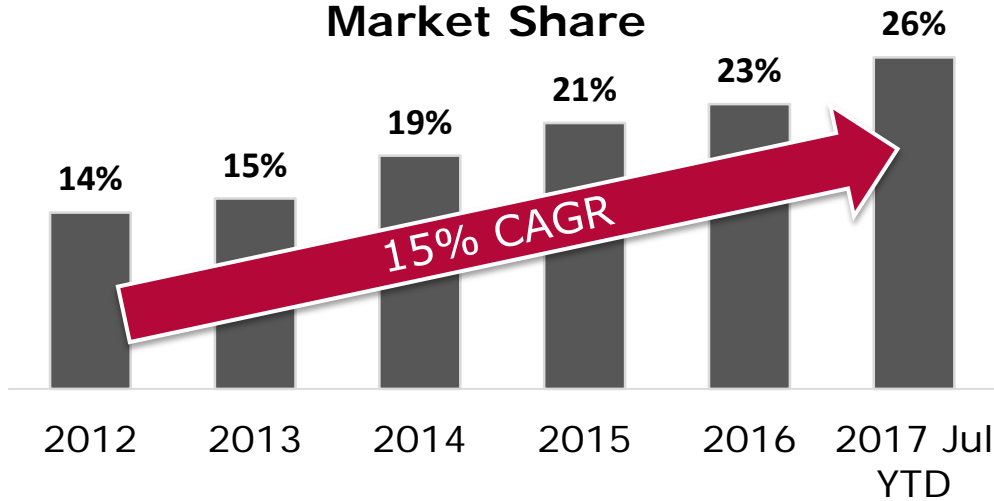
## Market Share Growth Across all Major Regions

Market share data sources: For U.S. and Europe, provided by Golf Datatech; for Asia, provided by largest regional retailers

# Over 85% Market Share Growth Since 2012



## U.S. Retail Hard Goods Market Share



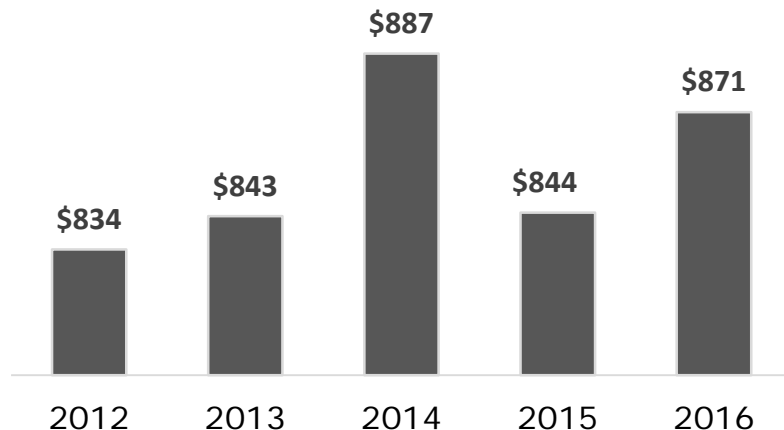
## July 2017 YTD Callaway U.S. Retail Dollar Market Share Rankings



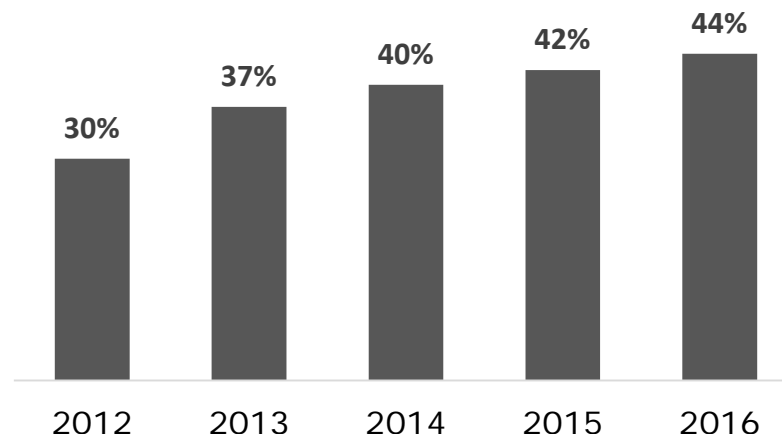
**Brand Momentum Continues to Drive Share Gains**

# Historical Performance

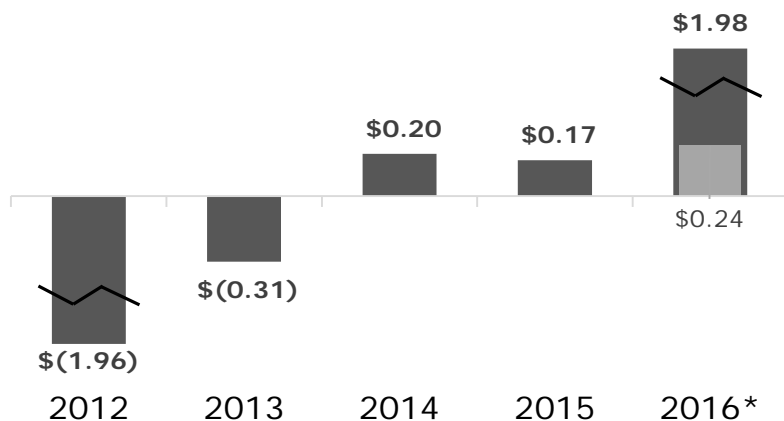
## Net Sales (M)



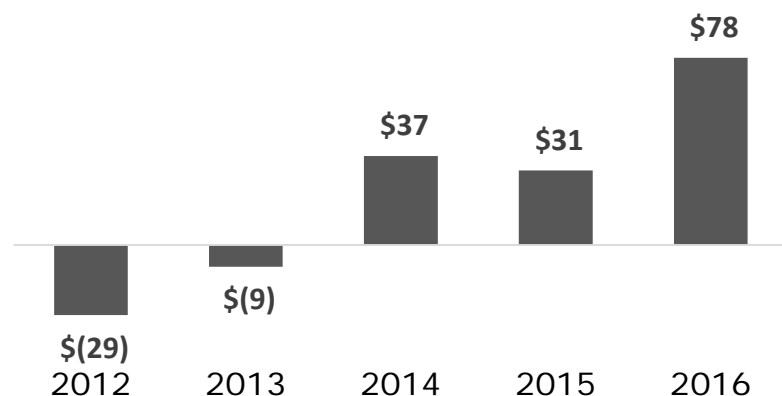
## Gross Margin



## EPS



## Net Cash from Operations (M)

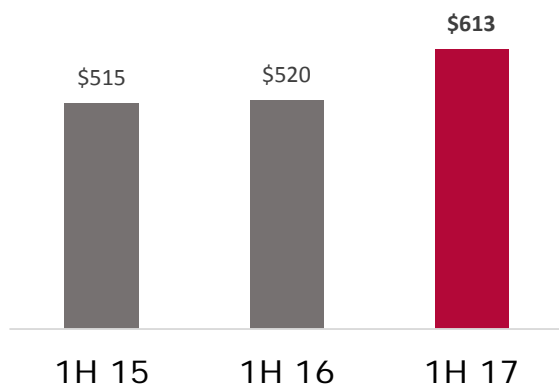


## Further Strengthening our Financial Position

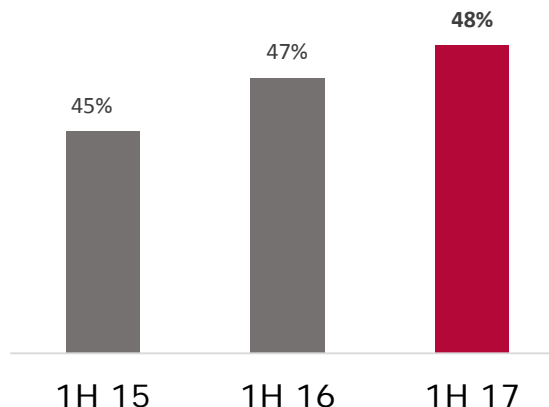
\*To facilitate year-over-year comparisons, 2016 EPS is stated in two ways: 1) \$1.98 is GAAP and 2) \$0.24 excludes the \$10 million (\$0.11 per share) **after-tax** Topgolf gain, the \$157 million (\$1.63 per share) **benefit** from the reversal of the valuation allowance. Excluding the reversal, the Company's full year 2016 effective tax rate was 41.1%.

# First Half Performance Comparison

## Net Sales (M)



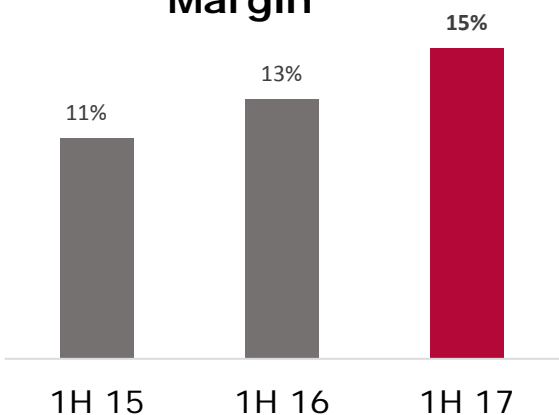
## Gross Margin



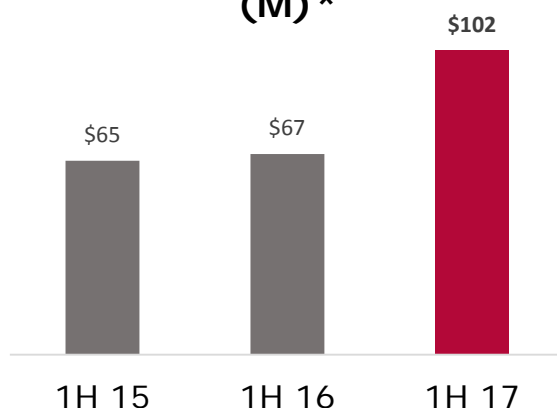
## Key Points

- Successfully generated considerable free cash flow over last 12 months
- Trailing 12 months adjusted EBITDA up 93%
- Prudently and successfully deploying increased cash flow for the long-term benefit of shareholders:
  - Japan Apparel JV
  - OGIO
  - Strategic reinvestment in core
  - Share repurchase
  - TravisMathew

## Operating Income Margin



## Adjusted EBITDA (M) \*



**1H 2017 Continued Strong Multi-Year Performance Trends**

\* Adjusted EBITDA excludes non-recurring OGIO expenses in 2017 and the Topgolf gain in 2016.

# Key Industry Trends



**Improving industry fundamentals** is the overarching theme

- European market has had a strong year
- United States showing signs of more stable conditions
- Fewer OEMs
- Reduction in field inventory



**Healthier retail channel** is exemplified in a number of positive trends

- Average selling prices have been increasing
- Product life cycles have lengthened
- Less overall unplanned promotional activity



**Benefit to industry in the long-run** despite, and in some cases due to, market corrections

**Cautious Optimism Characterizes Recent Industry Trends**

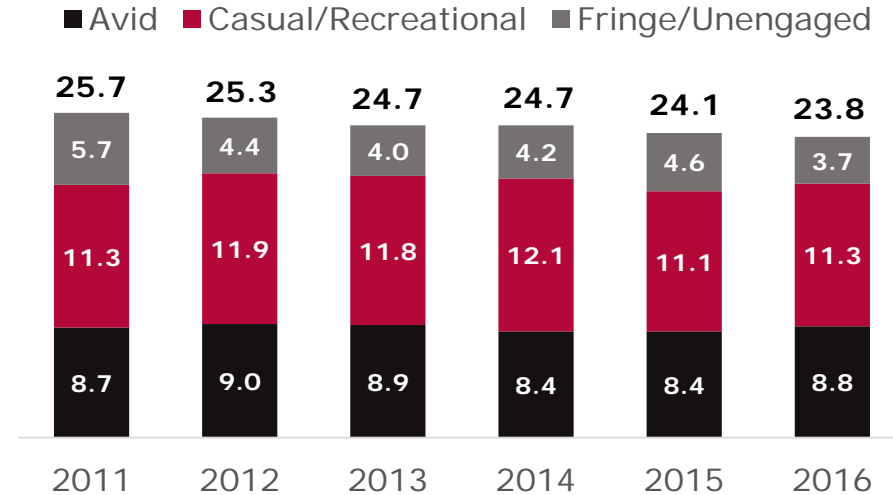


# U.S. Golf Market

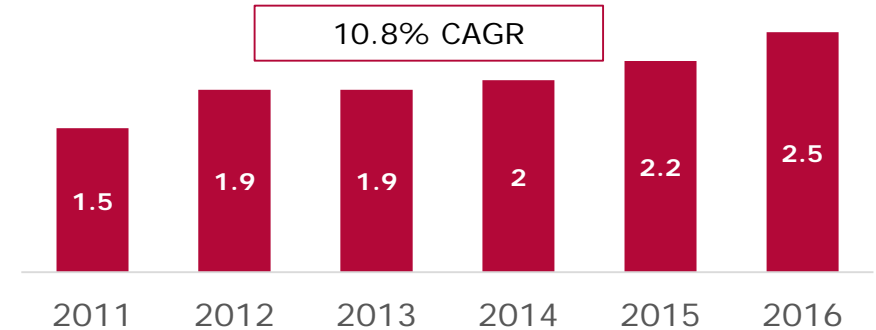


- Approximately 24M golfers in U.S.
  - Avids and Casual/Recreational make up committed golfer base
  - 84% of golfers are committed
  - **Committed golfers grew 3.1% in 2016**
- Mixed rounds-played data
  - 2015: +1.8%
  - 2016: +0.6%
  - 2017 June YTD: -3.8%
- People new to the sport trying it in record numbers
  - 2.5M new golfers in 2016
  - Up 67% since 2011
- Focused on market share gains as industry rationalizes

## U.S. Golfers (M)<sup>(1)</sup>



## Beginning Golfers (M)<sup>(2)</sup>



**Sizeable Market with 24M Golfers in the U.S.**

1) People age 6+ who played at least one round of golf; Avids indicate golf is a favorite activity; Casuals indicate golf is one of several ways they like to spend their time. The Fringe group often chooses other ways to spend their recreational time.

2) Source: National Golf Foundation, 2016 report

## Transformation is Complete: Pivoted to Growth Strategy

### 1) Drive growth

- Organic: Continue to invest in technology, the golf ball business and on Tour; Capitalize on digital media strategy
- Inorganic: Seek M&A and JV opportunities that are in golf or tangential to golf

### 2) Continue to improve operational efficiency

- Stringent cost management
- Drive continued productivity improvement

### 3) Generate free cash and effectively deploy

- First priority is to invest in high ROI projects (core business or tangential areas)
- Return capital to shareholders via buybacks and dividends



# Extensive New Product Line-up in 2017



## Leading-edge innovation

- New EPIC driver with jailbreak technology
- New Odyssey O-works line with micro-hinge technology
- New Chrome Soft X golf ball with Dual SoftFast Core technology
- New EPIC irons with Face Cup and Exo-Cage technology
- New wedges, fairway woods, hybrids and accessories (Callaway and OGIO-branded)



**Product Excellence is a Cornerstone of our Strategy**

# Golf Ball Growth Opportunity



## 2015

- Chrome Soft ball introduced
- Callaway achieved constant currency sales growth of 10% over prior year

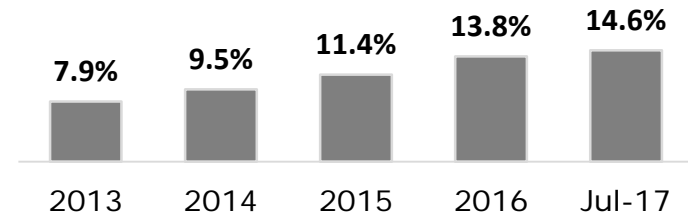
## 2016

- Dual SoftFast Core technology introduced
- U.S. dollar market share for full year of 13.8%

## 2017

- Launched Chrome Soft X with Dual SoftFast Core technology
- 14.6% market share in the month of July

U.S. Retail Dollar Ball  
Market Share



**Momentum and Differentiated Technology Have Led to Growth**

# Strategic Investments in Tangential Areas



## OGIO Acquisition

- Deal closed in January 2017
- Lifestyle brand known for its adrenaline-raising bags and gear
- Strong strategic fit with Callaway, including potential cost and revenue synergies; platform for future growth
- Will be accretive to earnings, excluding transition and transaction expenses



## Japan Joint Venture

- Commenced July 1, 2016
- 52% ownership stake in JV with TSI Groove & Sports Co, Ltd.
  - Long-time licensee in Asia
  - Strong apparel design and retail capabilities
- Includes Callaway-branded apparel, headwear and footwear

**Extending our Range with Opportunities in Tangential Areas**

# Acquisition of TravisMathew



**Dynamic apparel business** based in nearby Huntington Beach, California

**Strong fit with ELY** in terms of business, brand and culture

- Company focused on high quality product
- Brand has a distinct southern California vibe

**Brand synergy** with our existing business and strong financial contribution

- Attractive revenue growth – double digit growth
- Enhancing our gross margin, operating margins, EBITDA and free cash flow
- Synergies via brand, operations, sourcing, golf channels and international presence
  - No plans to consolidate operations



**Definitive Agreement Signed on August 3; Closed on August 18**

# Strategic Investments in Core Business



## Core Golf Equipment Business

- High-return capital projects for US ball manufacturing plant
- Investments to further momentum in green grass and custom fitting
- Toulon Design as entrée into super-premium putter segment
- R&D, management talent



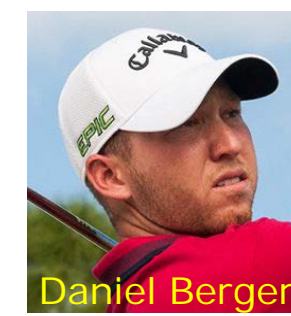
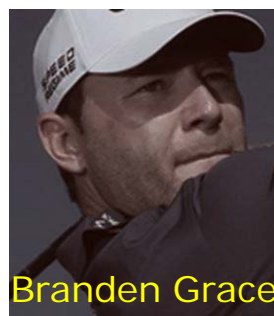
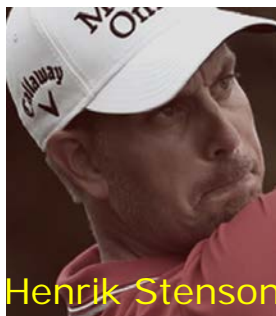
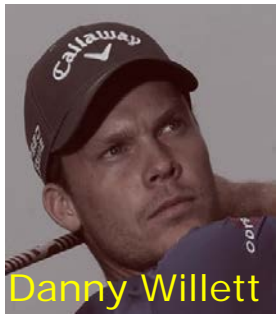
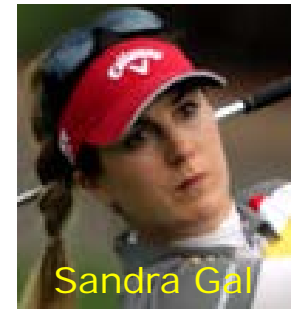
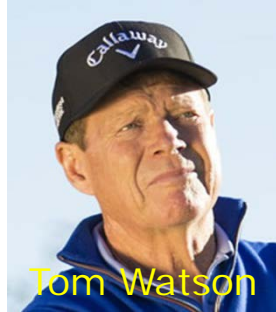
## Tour and Player Development

- Added promising young players to our staff
  - Daniel Berger
  - Patrick Rodgers
  - Ollie Schniederjans
  - Wesley Bryan
- Continue to invest in Tour representation to drive shareholder value

**With Others Pulling Back or Exiting, We Are Finding Investment Opportunities**



# Pro Tour: Authenticates the Brand



**Pros Represent the Top of the Pyramid of Influence in Golf**



# Marketing: Multi-Channel Brand Campaigns



## Marketing mix includes:

- Print
- Television
- Video
- Social/Digital

**Optimizing Marketing Mix to Reach Today's Consumer**

# Industry-leading Digital Media Strategy



- In-house studio producing professional, original content
  - Ability to produce more content faster and at a lower cost than outsourcing
- Deliver across multiple social media platforms
  - Reach wide yet targeted audience on their time, their channels
  - Make what is largely viewed as an aspirational brand more accessible
- Measurable and targeted beyond traditional marketing capabilities



Engaging Consumers

# Operational Efficiency Taking Hold

## S&OP System Maturing

- ✓ Fill rates up
- ✓ Inventory turns continue to improve and total inventory down

## Improving Quality System

- HD camera inspection
- Leveraging production technology
- Vendor quality systems



- ✓ Enhanced brand perception
- ✓ Higher quality

## Custom Assembly Execution

- ✓ Fill rates up on custom orders
- ✓ Total custom sales have more than doubled since 2012

## Facilities Rationalization

- Global logistics reconfiguration
- Rationalized golf ball manufacturing
- Reduced buildings from 7 to 2 in Carlsbad

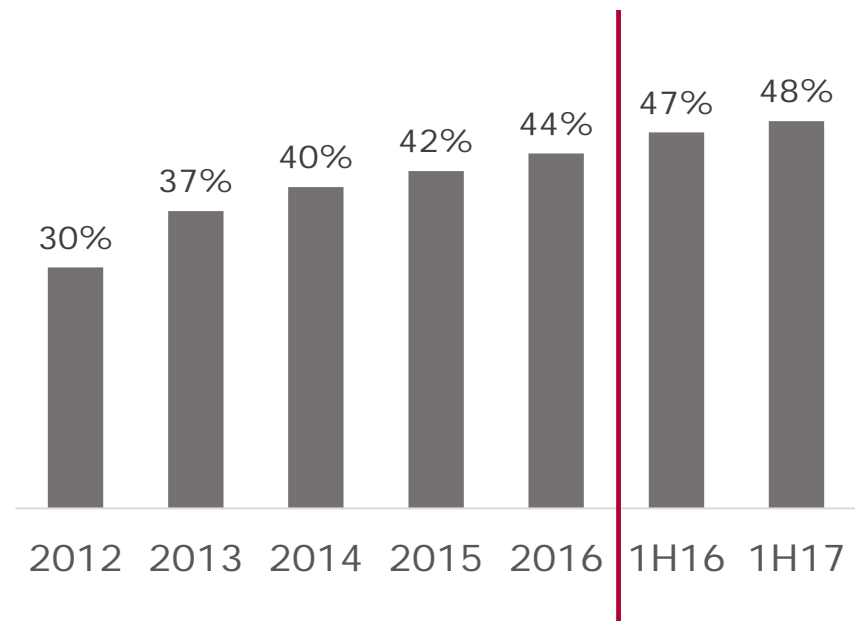


- ✓ Facilities cost down significantly since 2012
- ✓ Local COGS % of sales down

# Margin Expansion Driven By Operational Focus

- Improving Gross Margin through price optimization and cost productivity
- Restructured golf ball business; now profitable and expanding
- Managing inventory better
  - Longer life cycles
  - Implemented postponement model
  - New Sales & Operations Planning Process

Gross Margin Expansion



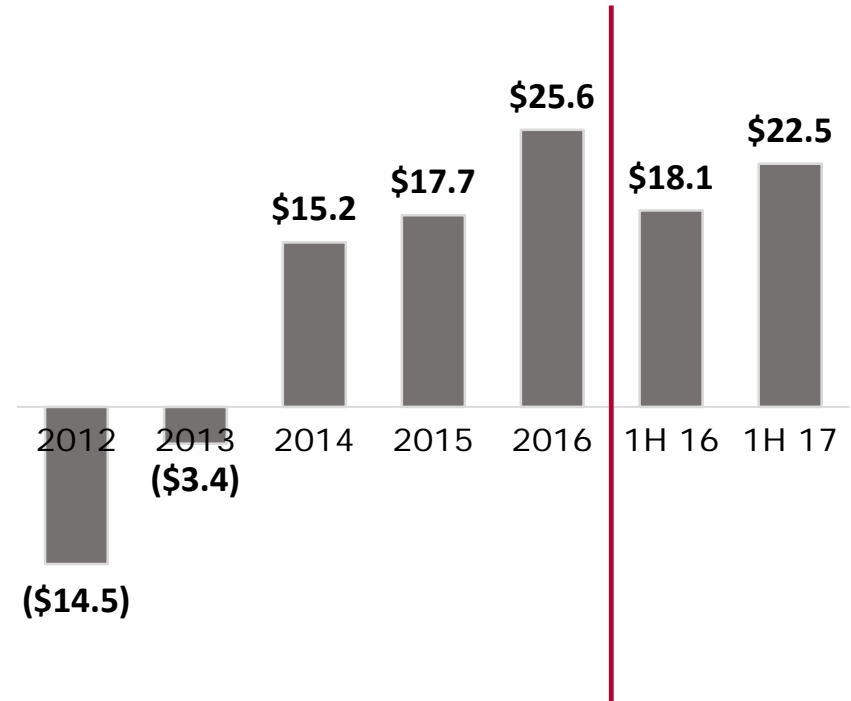
**Continuous Improvement Mindset**

# Golf Ball Segment



- Road to profitability
  - Eliminated excess capacity and reduced overhead
  - Rationalized supplier base
  - Revamped supply chain
  - Executed on plant optimization strategy
- Productivity gains resulted in 25%+ manufacturing cost reduction
- Through 1H 2017, segment continues to outperform prior years' results

## Segment Profitability<sup>(1)</sup>



(1) Excludes Corporate G&A expenses and Other Income/Expenses not utilized by management in determining segment profitability.

## Turnaround in Profitability

# Balance Sheet and Cash Flow

(in millions, except percentages)

	As of Jun. 30, 2017	As of Jun. 30, 2016		Percent Change
<b>Cash &amp; Equivalents</b>	\$62.0	\$67.6	↓	(8%)
<b>Asset-based Loans</b>	\$6.2	\$5.3	↓	(17%)
<b>Available Liquidity<sup>(1)</sup></b>	\$230.1	\$211.0	↑	+9%
<b>Net Accounts Receivable</b>	\$224.6	\$205.1	↑	+10%
<b>Inventory</b>	\$171.8	\$151.4	↑	+13%
<b>Cap Ex</b>	\$12.2	\$7.5		
<b>D&amp;A</b>	\$8.5	\$8.3		
<b>Share Repurchase</b>	\$16.4	\$5.1		

**Continuing to Build Liquidity and Redeploy Capital to Drive Shareholder Value**

1) Available liquidity includes cash on hand, total capacity less outstanding balances under the ABL facilities and letters of credit.

# Capital Deployment Priorities

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## **Reinvest in the business to drive growth**

- Building team, tools, processes and pipeline

## **Opportunistically and thoughtfully explore acquisitions and new ventures**

- Seeking opportunities in golf or industries tangential to golf
- We must add value to target (i.e. international reach, R&D, etc.)
- Accretive to earnings in the near- to medium-term

## **Return capital to shareholders through buybacks and dividends**

- \$16 million worth of shares repurchased in the first half of 2017
- Annual dividend payment of \$0.04 per common share

**Balanced Approach Focused On Total Shareholder Return**



# Topgolf Investment



## High growth entertainment concept

- Combines driving range, nightclub, and dining experience into one venue
- 31 locations globally; adding 8-10/year in U.S.
- Two new divisions created:
  - International – Liverpool and Australia
    - Mexico expansion recently announced; plan to build 10 sites with JV partner
  - Media – Acquisition of WGT and Protracer

## Exclusive golf partner of Topgolf and 14-15% owner

- Built our position over past decade
- On balance sheet at \$49M cost basis

## Tangential to core golf equipment business and strong growth potential



**Topgolf Continuing to Expand Locations**



# Positive Momentum

## Proven executive leadership

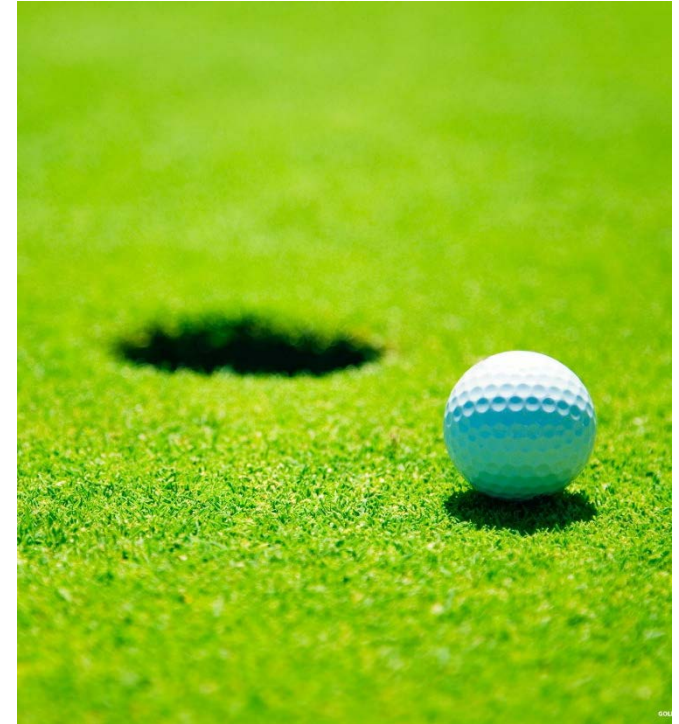
- Deep golf industry experience
- Fostering culture of innovation to further market share gains

## Continued momentum

- Pivoted to growth strategy
- Share gains in all major markets with more runway
- Strong balance sheet and profitability

## Signs of industry consolidation

- At retail and among equipment manufacturers
- Presenting opportunities for market participants willing and able to invest



**Focused on Increasing Long-term Shareholder Value**