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PRESENTATION

Operator

Good afternoon. My name is Mike, and I will be your conference operator today. At this time, I would like to welcome everyone to the 2017 year-end and Q4 earnings release. (Operator Instructions)

I will now turn the call over to Patrick Burke, the company's Head of Investor Relations. You may begin your conference.

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

Thank you, Mike, and good afternoon, everyone. Welcome to Callaway's Fourth Quarter 2017 Earnings Conference Call. I'm Patrick Burke, the company's Head of Investor Relations. Joining me on today's call are Chip Brewer, our President and Chief Executive Officer; Brian Lynch, our Chief Financial Officer; and Jennifer Thomas, our Chief Accounting Officer.

Today, the company issued a press release concerning its 2017 financial results. A copy of the press release and associated presentation are available on the Investor Relations section of the company's website at ir.callawaygolf.com. Most of the financial numbers recorded and discussed on today's call are based on U.S. generally accepted accounting principles.

In few instances, where we report non-GAAP measures, we have reconciled the non-GAAP measures to the corresponding GAAP measures at the back of the presentation in accordance with Regulation G.

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

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

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

Thanks, Patrick. Good afternoon, everybody, and thank you for joining us for today's call. Starting on Page 4 of the presentation. 2017 was an excellent year for our company. Revenues were up 17% for the quarter and 20% full year, driven by particularly strong growth in the wood category, along with the addition of the OGIO and TravisMathew businesses. For the full year, we exceeded $1 billion in revenues for the first time since 2008. On a market share basis, we were the #1 driver and the #1 club brand in the U.S., U.K., Europe and Japan. We regained the #1 club brand position for the U.S. in 2015. And since then, we have both widened our lead and extended this position on a global basis.

In the iron category, we've been the U.S. market's #1 brand every month for 35 consecutive months. In drivers, this year has been a breakthrough year for us, earning us the #1 position in driver dollar share on a global basis, thanks to the introduction of our Jailbreak Technology. We are also benefiting from a healthy ball business.

Moving on to Slide 5. Over the last 2 years, we've made significant investments in our core business as well as in outside growth opportunities. In the outside growth category, our recent acquisitions of OGIO and TravisMathew are both meeting or beating our expectations and should provide incremental growth and profitability over the coming years. In the core business, investments have included capital projects in our ball plant as well as additions to sales, marketing, tour and R&D. We believe these investments have already strengthened our core business, both in market position and financial performance. And that they'll continue to do so in the future. We also invested another $20 million in soft balls last quarter.

With highlights on Slide 6, our financial performance continues to trend positively, as evidenced in our gross margin, operating margin, EPS and EBITDA performance. Our full year income from operations is up 78% year-over-year and our trailing 12-month adjusted EBITDA is up 72%.

I'd like to take this chance to thank the Callaway Golf team for delivering these results. Our team should be really proud of what we've accomplished. I'm also sure we understand we have a lot more to do and we are motivated to make our company even better.

Turning to Slide 7. Market conditions vary on a global basis, but I believe the overarching theme is one of improving industry fundamentals. The European market was remarkably strong all of 2017. The Japan market started the year slowly but had a strong second half, thus finishing up slightly for the full year. And in the U.S, there are clear signs of more stable conditions, thanks to a reduction in field inventory and a healthier retail channel.

Average selling prices have been increasing, product life cycles have lengthened and there is less overall unplanned promotional activity.

There are also fewer participants on the OEM side. I am pleased with these trends and I believe the market corrections we've worked through over the last few years will benefit the industry in the long run.

Turning to page 8. Let's now take a deeper look into our operational performance by region. While doing this, it's worth noting that we launched less product in Q4 of 2017 than Q4 of '16, and thus quarterly comparisons should bear this in mind.

In the U.S., our revenues were up 40% during the quarter and 27% full year. This quarterly performance was driven by nearly 10% growth in our core business and the addition of the OGIO and TravisMathew businesses, both of which are primarily U.S. operations thus far. Looking at our equipment business, our full year hardware market share was 25.1%, up 250 basis points year-over-year, and we hold the #1 dollar market share position in total clubs, driver, fairway wood, hybrid and irons as well as the #1 unit position in putters.

Our 2017 ball market share was 14.3%, up 50 basis points versus last year, driven by strong growth in the green grass channel and positioning us as the #2 ball brand. The U.S. market for balls and clubs combined as measured by Datatech was down slightly for the full year but was up slightly in the second half.

Turning to Page 9. Our Asia business also had a strong quarter, led by Japan. Our revenues from the Japan market were up 5% for the quarter and 17% for the full year, driven by the addition of our successful Callaway Apparel JV and strong market share performance in our core equipment business.

Market conditions in Japan were soft for the first half of the year, but turned up nicely during the second half, allowing that market to show modest growth for the full year.

Our full year hard goods dollar share was 19.7%, up 400 basis points year-over-year and we're both the #1 total club, driver and putter brand in this market.

Moving to Page 10. In Europe, the team had a quiet quarter with revenues down 3%, but delivered an outstanding year with 14% full year revenue growth, thereby delivering a record revenue year as measured in pounds sterling, which is the currency of record for our European subsidiary based in the U.K.

The European team was aided by favorable market conditions in this region as well as strong market share growth, which was then partially offset by currency. Our full year hard goods market share was 24.3%, up 200 basis points year-over-year and we finished the year as the #1 hard goods brand driven by being #1 in drivers, fairway woods and putters and as the #2 ball brand with continued growth in our golf ball share.

Turning to Page 11. On the product front, we enter 2018 excited about an extensive new line of ball accessories and clubs. The hero of our 2018 club lineup is our new Rogue family of woods and irons. The woods build on our Jailbreak Technology, extending it into fairways and hybrids for the first time and by improving the driver, while also adding more forgiveness. In the irons, the Rogue family has 3 versions, Pro, Standard and X, which all feature our latest business generating cup face design, along with the internal tungsten weighting and a new technology called Urethane Microspheres, for the ultimate sound and feel. The X version is a particularly fun product, derived from our widely successful EPIC Star Irons in Japan. This iron uses a new-age spec package, lighter, longer and stronger, along with our latest technology to deliver amazing distance along with the forgiveness in field.

In the ball category, we're introducing an entire new line of Chrome Soft golf balls, all featuring a new and larger Graphene-infused core. Graphene is a Nobel Prize-winning material, which in our application allows us to make our balls faster than ever before while maintaining their soft feel.

Its use in this manner is proprietary and we're really excited about the feedback we're receiving, both on tour and in consumer testing.

By the way, these technology and performance changes were enabled by the investments we made in our Chicopee, Massachusetts ball plant during 2017, a conversion and technical upgrade that is now in year 2 of a 3-year plan. We also have an amazing new wedges, putters, golf bags, gear and accessories under OGIO and Callaway and a fantastic spring collection of apparel for both Callaway and TravisMathew. For the sake of time, I won't go into all of these, but you can find more information on our website via -- or via our trade partners.

It's also worth noting that we added a few more exciting players to our tour staff, including Sergio Garcia, who won his first event as a Callaway staff player earlier this year, while playing a full bag of our equipment including the Rogue driver and the new Chrome Soft golf ball. In that event, he averaged 320 yards of the tee using his new equipment, a nice way to start the year for both Sergio and for us.

Now on Slide 12, looking forward. We're excited about another year of growth based on the strength of our equipment line and the full year effect of the TravisMathew acquisition and which occurred during Q3 of last year. And which we anticipate will continue to deliver strong growth and increasing profitability. We anticipate Q1 will be particularly strong, thanks to more products being launch as well as our customers' positive reaction to our brand and momentum. We also expect market conditions to show year-over-year improvement due to the improving industry fundamentals worldwide and the year-over-year positive impact of moving past the Golfsmith bankruptcy. Most major customers had good years last year and are starting off 2018 similarly.

In conclusion, I hope you agree we have significantly grown the strength of our business over the last few years. We are clearly now a product and technology leader in the equipment space. We have momentum, improving overall fundamentals. We hope you also agree we are making attractive investments by reinvesting in our core: investments in Topgolf, selectively repurchasing shares and in strategic acquisitions, all areas where we believe we can deliver attractive growth and returns for our shareholders.

Brian, over to you.

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

Thank you, Chip. As Chip mentioned, we are very pleased with our business performance in 2017. Our consolidated net sales increased 20%, representing an increase in net sales in all operating segments and in all reporting regions. We gained market share in the United States and on a global basis. With regard to profitability, compared to 2016, our gross margins increased 160 basis points, our non-GAAP earnings per share more than doubled and our adjusted EBITDA was $100 million.

Our total shareholder return for 2017 was 27%. In addition to this performance, we also believe we made some prudent and strategic investments including the OGIO and TravisMathew acquisitions, investments in our golf ball manufacturing capabilities, an additional $21.5 million in Topgolf and the repurchase of $17 million of our common stock. We also purchased a global intellectual copyright for the Truvis Technology. We believe these investments were a good use of our free cash flow.

As we grow, period-over-period comparisons become more complicated. This complexity was exacerbated during the fourth quarter of 2017, due to the impact of the 2017 Tax Cuts and Jobs Act. In evaluating our results for the fourth quarter and full year 2017, you should keep in mind some specific factors that affect comparisons from the same period in 2016. First, the OGIO acquisition was completed in January 2017 and the TravisMathew acquisition occurred in August 2017. As a result, those businesses are not included in our 2016 results. Second, as a result of the 2 acquisitions, we incurred some nonrecurring transaction and transition-related expenses. When discussing our non-GAAP results today, we exclude the nonrecurring expenses and that is how we evaluate our performance. Third, the Japan joint venture was formed in July 2016 and therefore, is only partially included in the full year results for 2016, but is fully included for the full year 2017. Fourth, during the fourth quarter of 2016, we reversed most of our deferred tax valuation allowance and recognized the significant income tax benefit. In 2017, we once again recognized U.S. income tax expense. Fifth, during the second quarter of 2016, we recognized an $18 million pretax gain from the sale of a small portion of our investment in the Topgolf business. Sixth, during the fourth quarter of 2017, we recorded $3 million of additional tax expense, related to the 2017 Tax Cuts and Jobs Act and other nonrecurring tax adjustments that impacted the fourth quarter and the full year.

While discussing our non-GAAP results today, we exclude the Topgolf gain. The nonrecurring acquisition expenses, the impact of the reversal deferred tax valuation allowance, the net tax expense related to the 2017 Tax Cuts and Jobs Act and other nonrecurring tax adjustments. And we applied an annual effective tax rate of 41.3% to our 2016 results, which is our estimate of what the rate would've been, without the nonrecurring benefit from the reversal of the deferred tax valuation allowance.

Lastly, this is a reminder that starting in 2017, we now have 3 operating segments as opposed to 2 in 2016.

We have reclassified 2016 results to reflect the new segment classification, and have provided the reclassified and original segment results for 2016 in the tables of the earnings release we issued today.

With those factors in mind, I will now provide some specific financial results. I will first cover full year results. As seen on Slide 15, today we are reporting consolidated full year 2017 net sales of $1,049,000,000 compared to $871 million in 2016, an increase of $178 million or 20%. Foreign currency negatively impacted international net sales by $10 million for the full year. The increase in net sales, in fact, increases in all operating segments and in all reporting regions.

The significant improvement was primarily due to increases in woods driven by the EPIC line of woods, increased golf ball sales and an increase in gear, accessories and other, largely as a result of our new businesses, TravisMathew, OGIO and the Japan apparel joint venture. Gross margin was 45.8% for full year 2017 compared to 44.2% in the prior year. The 160 basis point improvement reflects an overall favorable shift in sales price and product mix, due to the success of the current year EPIC woods and overall higher average selling prices, less discounting and more promotional activity.

Operating expense was $402 million for the full year 2017, which is a $61 million increase compared to $341 million for full year 2016. This increase was due to the addition of operating expenses related to the new business ventures, higher variable expense driven by higher sales, and $9 million of nonrecurring transaction and transition expenses related to the TravisMathew and OGIO acquisitions. Operating income was $79 million for the full year 2017 compared to operating income of $44 million for full year '16, an increase of 78%.

By excluding the nonrecurring TravisMathew and OGIO expenses, non-GAAP operating income for full year 2017 was $90 million, a $46 million increase compared to 2016. Other expense was $11 million for the full year 2017 compared to other income of $14 million from the prior year. The increase in expenses was driven by an increase in hedge losses and interest expense in 2017 as well as the Topgolf game in 2016.

Fully diluted earnings per share was $0.42 or 97 million shares for the full year 2017, compared to earnings of $1.98 per share for full year 2016. Excluding the nonrecurring items already mentioned, full year fully diluted earnings per share was $0.53 in 2017, compared to $0.24 in 2016, an increase of 121%.

I will now turn to fourth quarter results. Turning to Slide 16 today, we are reporting consolidated fourth quarter 2000 (sic) [2017] net sales of $192 million compared to $164 million in the fourth quarter of 2016, an increase of 17%.

Foreign currency negatively impacted international net sales by $1 million in the fourth quarter. The significant improvement was primarily due to a 37% increase in woods products, driven by the EPIC line of woods and an 88% increase in gear, accessories and other, largely as a result of our newly acquired businesses, namely TravisMathew and OGIO. The growth was partially offset by the irons and balls business being down year-over-year due to launch timing. As you can see on Slide 16, gross margin was 41.6% in the fourth quarter of 2017 compared to 38.6% in the prior year. The 300 basis point increase reflects an overall favorable shift in sales price and product mix, due to the success of the current year EPIC woods and overall higher average selling prices. Operating expense was $100 million in the fourth quarter of 2017, which is a $20 million increase compared to $80 million in the fourth quarter of 2016. This increase was primarily due to the addition of operating expenses related to OGIO and TravisMathew. Operating loss of $20 million in the fourth quarter 2017 compared to an operating loss of $70 million in the fourth quarter of 2016. While excluding the nonrecurring transaction and transition-related TravisMathew and OGIO expenses, non-GAAP operating loss for the fourth quarter of 2017 was $19 million. Other expense was $3 million in the fourth quarter of 2017 compared to other income of $4 million in the prior year. The increase in other expense resulted primarily from foreign currency hedging losses in 2017 versus hedge gains in 2016 and higher interest expense. Fully diluted earnings per share was a loss of $0.20 or 95 million shares in the fourth quarter of 2017 compared to earnings of $1.28 per share for the fourth quarter of 2016. Excluding all the nonrecurring items mentioned at the beginning of the call, including the impact of the reversal of the deferred tax valuation allowance in the fourth quarter of 2016, fourth quarter fully diluted earnings per share was a loss of $0.15 in 2017 compared to a loss of $0.09 in 2016.

As a reminder, due to the seasonality of the company's business, we always record a loss in the fourth quarter.

Turning now to Slide 17. I will cover certain key balance sheet and cash flow items. As you can see, cash equivalence was $86 million, which was down $40 million year-over-year. This includes the impact of the OGIO acquisition completed in January 2017, the impact of the TravisMathew acquisition completed in August 2017, $17 million of stock repurchases in 2017 and incremental investments in Topgolf of $21.5 million, all of which was partially offset by $40 million improvement in cash provided by operations.

Regarding our credit facility, because our business is growing organically and through acquisitions, we have increased our primary ABL facility to $330 million, plus the option to secure a $30 million term loan on that facility. We have increased our Japan ADL credit facility from JPY 3 billion to JPY 4 billion and moved to a 3-year term, as opposed to a 1-year term for that facility. And we have entered into a small equipment loan facility that we are using to finance a portion of the investment we are making in our golf ball plant.

Regarding the asset-based loans, we had $88 million of borrowings at the end of 2017, as compared to $12 million of borrowings a year ago. Available liquidity, which represents an additional availability under our credit facilities, plus cash on hand, was $239 million at the end of the year as compared to $225 million a year ago. We are pleased with this level of liquidity given our recent deployment of capital for the OGIO acquisition and TravisMathew acquisition, share repurchases and our incremental investments in Topgolf as well as incremental investments in our core business.

We believe we are demonstrating our ability to generate free cash flow in the core business and are finding good opportunities to deploy that capital on the core business and in tangential areas. Our consolidated net accounts receivable were $95 million, a decrease of 26% compared to 2015 driven by the relative timing of our sales in the fourth quarter and better collection rates.

Also, DSO has decreased to 63 days compared to 70 days at the end of 2016. We remain comfortable with the overall quality of our accounts receivable at this time.

Our inventory balance increased by 39% to $262 million dollars at the end of 2017. This increase was due to an increase in inventory necessary to support our 2018 launches and by the additional inventory from the TravisMathew and OGIO businesses. We remain comfortable with the quality of our inventory at this time.

Capital expenditures for 2017 were $26 million, a year-over-year increase of $10 million, due mainly to investments in our golf ball plant to increase our manufacturing capability. Depreciation and amortization expense was $18 million for 2007 (sic) 2017 compared to $17 million in 2016. Finally, for full year 2017, the company repurchased 1.5 million shares of stock for approximately $17 million in cash. This includes both open market purchases and shares withheld to satisfy tax-withholding obligations, upon the vesting of equity awards.

Before turning to guidance, I would like to provide an update on a couple of other matters. First, at December 31, 2016, the growth in our U.S. federal NOLs, net operating losses, was approximately $187 million. During 2017, we used a significant amount of our net operating loss carryforwards to offset the income generated in our business operations as well as to offset the one-time repatriation tax under the tax reform act. As a result, at December 31, 2017, the gross amount of the NOLs decreased to $63 million. In addition to the NOLs, we also have approximately $54 million of foreign tax credits and R&D credits. Most of the foreign tax credits were generated as a result of the tax reform act.

As a result of the remaining NOLs, the foreign tax credits and the R&D credits and based upon our current operations, we do not anticipate paying U.S. federal income tax for the next few years. Overall, they should collectively shield approximately $320 million in U.S. pretax income.

Second, the implemented new revenue recognition rules under the modified retrospective approach, the primary impact this new standard has upon our business is with regard to recording compensation expense for sales programs.

While we previously recorded the cost of the sales program when the program was adopted, we will now accrue a percentage of sales, at the time of sale, for all future estimated sales programs.

As a result of the adoption of this standard, we will record in 2018, a cumulative adjustment to retained earnings for future sales programs, related to products sold prior to 2018. We currently estimate that accruing a percentage of sales will shift the timing of the cost [associated] expense to be accrued earlier in the year compared to prior years. But full year 2018 compensation expense is estimated to be approximately flat in 2017.

Third, through December 31, 2017, we reported our Topgolf investment on a cost basis. Effective January 1, 2018, new accounting laws will require us to write this investment up or down to its estimated fair value, if there are observable changes in the fair value of this investment, with any such changes in fair value being recognized in other income.

Financial guidance we are providing today assumes that there are no such observable changes in fair value for the balance of 2018.

I'll now comment on our 2018 guidance. As you can see on Slide 18, we are providing 2018 GAAP guidance and are comparing that to our 2017 non-GAAP financials.

The 2017 non-GAAP financials exclude $11 million of nonrecurring deal-related expenses, resulting from the OGIO and TravisMathew acquisitions, and $3 million of nonrecurring tax expense, mentioned above.

Regarding the full year 2018 GAAP projections, you can see on Slide 18, 2018 net sales are estimated to be in the range of $1,115,000,000 to $1,135,000,000 an increase of 6% to 8% over 2017. The increase is expected to be driven by 2% to 3% of growth in that core business, which includes OGIO, with the balance coming from a full year of TravisMathew as well as continued double-digit growth in that business, we currently estimate the changes of foreign currency will slightly help our projected 2018 net sales compared to 2017.

We estimate the full year 2018 gross margin will be 46.5%, which is 50 basis points higher than 2017. The increase is expected to be driven by continued pricing opportunities as well as the positive mix benefit from the TravisMathew's business. We estimate full year 2018 GAAP operating expenses to be $426 million, an increase of $33 million compared to 2017, driven primarily by the addition of a full year of the TravisMathew business, variable expense related to the higher sales and slight investments in the core business including R&D, tour, sales and marketing.

GAAP earnings per share are estimated to be $0.64 to $0.70 compared to $0.53 we earned in 2017 non-GAAP results. The 2018 figures are based on an assumed 97 million shares outstanding. We are also assuming a 26% tax rate for 2018.

We estimate our capital expenditures in 2018 to be approximately $30 million, slightly above our 2017 actuals of $26 million, due to continued investment in the ball plant and by the new TravisMathew business. Depreciation and amortization expense is estimated to be approximately $21 million in 2018.

We estimate EBITDA to be approximately $112 million to $118 million, a 12% to 18% increase over 2017 adjusted EBITDA, driven by the core business and a full year of TravisMathew.

Regarding Q1 2018 GAAP projections, as seen on Slide 18, 2018 net sales are estimated to be in the range of $365 million to $375 million, an increase of 18% to 21% over 2017. The increase is expected to be driven by launch timing in the core business as well as the addition of the TravisMathew business. Along with launching the Rogue woods the company is also launching a full line of Rogue iron, a new line of (inaudible) wedges and a new Chrome Soft line of golf balls. We currently estimate the changes in foreign currency rates will slightly help our Q1 2018 net sales. First quarter GAAP earnings per share are estimated to be $0.48 to $0.52, compared to $0.30 we earned in 2017 non-GAAP results.

The 2018 estimates are based on 97 million shares outstanding, and we are also assuming a 26% tax rate for 2018. That concludes our prepared remarks today. We'll now open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question is from John Kernan from Cowen.

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

Congrats on the new technology, and congrats on landing Sergio. I just wanted to go into the guidance as it relates to beyond Q1. Obviously, the Q1 top line guidance is very robust, assuming that Woods is accounting for a large portion of that top line growth. I'm just wondering how we should think about category growth beyond Q1 and what you're assuming because those look like a fairly sizable deceleration post the Rogue launch.

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

Sure, John. This is Chip. What you're seeing in the Q1 is a shift in launch timing on a year-over-year basis. So last year during Q1, we didn't really have a significant iron or wedge launch. So you're seeing a big year-over-year uptick as a -- relative to that comparison. And then in -- also in the golf ball side, you're seeing a slight benefit there because we had a little bit more of a robust launch there and some price that we're taking in the golf ball line there as well. So you see real quick growth there and moderate but continued performance through the balance of the year.

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

And I think, John, if you look at sort of our cadence, Q1 and Q2 are usually big quarters. Sometimes Q1's bigger. Sometimes Q2 is bigger, depending on what the launch schedule is. This year, Q1 will be bigger. We typically lose money in the fourth quarter, and I think we'll follow a similar cadence this year to that with the exception that this year the Q1 will be a big quarter.

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

Okay. And just as it relates to irons, obviously, the Rogue technology is exciting. It looks like it's the best technology in the market that's been put in irons in a long time. So just wondering how we should think about top line growth for irons as a category for the full year this year given that irons were down in aggregate last year.

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

Yes. John, I'm not sure I'm going to give you as much help here as you might like, but we are expecting that category to be up nicely this coming year. We're getting good reaction. As you said, we've had strong market position, our best technology ever at this type of iron, so we anticipate a strong year in the iron category.

Operator

The next question is from Michael Swartz with SunTrust.

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

I guess, just starting off with following up, Chip, on your comments around the golf balls and the price increase you've put through on the new Chrome Soft. I guess, just give us a sense of the comfort you have in doing that, particularly when your single largest competitor in that space is actually holding their pricing for new product this year.

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

Well, Michael, we obviously had a lot of momentum in this category over the last few years, and we've invested pretty aggressively into our capabilities. So what we've got coming, we think, is that good basically. Obviously, we evaluate the performance, the new technology, the Graphene-infused core, the testing that we've done, discussions we've had with trade partners, the feedback we have from tour. It's been our most successful tour launch, I dare say ever, certainly in my time by order of magnitude. And the consumer feedback and testing that was done is phenomenal. So what we've seen with our brand is that when we deliver product, the -- we use the term DSPD, so demonstrably superior and pleasingly different. If that product is strong and this one is, and it's clearly a technology differentiation that it's really not about price, if they were looking for a cheap golf ball, there's lots of cheap golf balls out there. We're going to compete on the product performance and differentiation, and we're really proud of what we're bringing to the marketplace this year.

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

Great, that's helpful. And then just second question on something that you had in your press release. I think you said the combination of OGIO and TravisMathew was over $100 million additive to 2017. But as I recall, when you made those acquisitions, I think OGIO, you said $45 million; TravisMathew, $15 million accretive. So am I doing the math right in saying that at the time of those deals it was $60 million? Am I missing anything there?

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

Well, I think what we're saying with the $100 million increase, that would include an additional half year from the Japan apparel JV. So yes, add that incremental piece onto the OGIO and TravisMathew. But when we came out, we said that OGIO was about $45 million, and we wound up doing a little better than that. And for Travis, we said it was in the $55 million to $60 million range, and they were right within that.

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

For the full year, Michael, but $15 million to $20 million included in our business.

Operator

Your next question is from Dan Wewer with Raymond James.

Daniel Ray Wewer - *Raymond James & Associates, Inc., Research Division - U.S. Hard Line Goods Analyst*

Chip, I wanted to follow up on your core golf guidance of 2% to 3% for 2018. I was thinking that the growth would be a little higher. So the Chrome Soft price increase is, what, about 13%, and that's over half of your golf ball business. So assuming your unit sales in balls remain flat, which I'm sure you're hoping better than that. In and of itself, that's, what, 1% to your total ball category growth. And you have price increases in other categories as well. So what am I missing? Is it just that -- the really difficult compare within EPIC?

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

Well, I think that they're -- we're at a very high hurdle rate right now when you look at our overall equipment share, Dan, and we are anticipating to grow our share on top of what is industry-leading positions. Certain categories, obviously, are going to outpace others in certain categories such as the golf ball. We do have price that we're going to hopefully benefit from. But 2% to 3% growth in that we thought was reasonable, and we're obviously excited about that opportunity for this year.

Daniel Ray Wewer - *Raymond James & Associates, Inc., Research Division - U.S. Hard Line Goods Analyst*

TravisMathew is going to become a very significant part of the company's future growth. Can you tell us how you're thinking about changes in gross margin rate and operating margin rate just for the TravisMathew business? Will we see significant investment that could lead to lower operating margin rate coming up? Or is it just the opposite and you're expecting leverage?

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

TravisMathew is accretive to gross margin and to operating margin, and it is a high-growth and attractive business.

Daniel Ray Wewer - *Raymond James & Associates, Inc., Research Division - U.S. Hard Line Goods Analyst*

Yes. I knew it was accretive. I just didn't know that within the company itself if operating margin rate improves from here or...

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

Yes. That's what I meant by accretive. So it will improve the blended rate. Am I missing something, Dan?

Daniel Ray Wewer - *Raymond James & Associates, Inc., Research Division - U.S. Hard Line Goods Analyst*

Well, maybe that just on an absolute level that it carries better margins than your golf business. I think just in terms of the incremental [things] going forward, and I don't know if you were thinking the gap is even larger going forward for TravisMathew.

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

Well, it's -- yes, I mean, I think they are accretive to our business. So as they get bigger, they will have a bigger influence in ours, and we can incrementally increase our margins. Their direct-to-consumer business is also a very profitable piece, so as we expand that growth, that'll help that -- your business as well.

Operator

Your next question is from Dave King from Roth Capital.

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

I guess, first on Rogue, I mean, until this year at least, I guess, your irons business was seemingly bigger than your woods business. I guess, how should we think about the opportunity for Rogue versus EPIC? Is it bigger or smaller? Why? And then, I guess, what can you tell us in terms of early bookings for both Rogue but then also MD4 and then I guess the new Chrome Soft Graphene balls?

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

Sure. Dave, we're not going to break out the expectations specifically by category. Clearly, we expect to be up in wedges and irons. We mentioned that. Rogue the family versus EPIC the family, we probably anticipate being up. We are anticipating a strong share year again. And is there any other question there that I can try to answer? Is it (inaudible)?

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

No, that -- I mean, that helps family versus family. But I guess, I mean, what else can you say about bookings or early response from your accounts?

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

Oh, bookings. Good question. Our bookings are quite good as reflected in our guidance for Q1. So as our shares increase and the momentum and retailer confidence, et cetera, but also in line with the broad product line because last year we didn't have as much product launching in Q1. Our bookings have responded accordingly, are very positive year-over-year.

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

Okay. And that includes on the Graphene balls then as well with the pricing increase?

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

It does indeed.

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

Okay. Perfect. Switching gears to OGIO. Sounds like that came in a little bit better for the year than you guys were anticipating. I guess, how has the response been from green grass accounts in particular? Any early reads on sell-through at those kind of accounts? And then when do you expect to start launching that business more meaningfully internationally?

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

We're just starting the international process this year, so that was one of our goals. Last year was to tee up that business on an international basis for 2018. So we accomplished that, and we'll start delivering some international growth. And the opportunity to grow that business in its golf channels is being realized. There was a positive reaction. We've combined that with our U.S. sales force and broaden that distribution. The reaction and sell-through has been positive. And we're working on plans for 2019 to accelerate the lifestyle component of that. So that business is doing very well, meeting or beating our expectations and plan for when we purchased it, and we're excited about where we've got some runway to go.

Operator

The next question is from Brett Andress with KeyBanc.

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

If I could go back to the guide, I guess, and what it implies for sales and operating profits for the rest of the year, can you help me understand, I guess, what you're expecting as we get into the second quarter and beyond from really an industry growth standpoint and I think what you expect your share to do?

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

We're expecting our share to be a up slightly for the full year. We're expecting market conditions of flat to slightly up for the full year. And we, at this point, are not providing any other guidance by quarter other than what we gave you for Q1.

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

Got it. And I know the market share numbers that you quote are from Golf Datatech, but...

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

Yes.

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

Can you maybe share some of the insights on the trends that you're seeing in some of the untracked channels like mass, big box and some of the others?

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

In general, the trends in the -- well, in mass, the same products don't really exist. So you do sell golf balls in some mass markets, but almost none of our other equipment is sold in those channels. We've had good momentum in all channels in golf ball, and in the club side, the only channels that are really salient are green grass, then specialty retail and Dick's Sporting Goods.

Operator

The next question is from Randy Konik with Jefferies.

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

I guess, my first question is, had a great year, putter business. How would you learn about -- the putter business probably lagged a little bit. What are you thinking about changing from a product lineup and/or marketing distribution perspective that we should be thinking about direction in the putter category?

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

Yes. The putter businesses is the one from a U.S. market share basis that we were disappointed with last year. And you saw us respond and launch red and black line later in the year, and our market share started responding accordingly. We had a strong market share performance as we have historically, on an international basis. Also cleaned up some inventory. Our putter business was down ever so slightly. But we think we're in a good position now and with a strong product offering. We've got a launch that we're in the middle of the right now, more product coming midyear and so optimistic for that putter market this year, after what was, in the U.S., a soft market share performance for us last year.

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

Very helpful. And then if I think about the success of the Jailbreak Technology kind of transferring it from the drivers to the irons, if we think about learnings from the design of the technology, the implementation, the manufacturing processes, there's things you learned that can make the whole process either more efficient from a time-to-market perspective on future technology launches or you've gotten better costing ability. Just trying to think about anything that changed from the way that the processes worked to get these products to market that could be helpful on improving life cycle times or improving cost structures on future kind of product launches not just -- not in '18 but just as we look at -- think about '19, '20, et cetera.

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

Very reasonable question. Just as a point of clarification, we're extending Jailbreak. It's our second gen of Jailbreaks. It's considerably improved, and we've added quite a bit of forgiveness to the driver product. And it's the first time we put Jailbreak in fairway woods and hybrids. At this point, we don't have Jailbreak in irons. But there's been quite a bit of learnings going along the way on this. When you first do a technology such as this, and it was truly a transformational break-through technology, there is a lot of energy and effort to get it done. We've learned a lot. We're on the second generation now of launching. We're already working on further improvements for that in combinations with other technologies. We spent a considerable time trying to protect that technology from a patent and IP perspective. We have more efficient ways now to go about the manufacturing process of that, which will come into play a little bit with the current line but it -- perhaps more significantly in the future. So we think we've got a good runway ahead and a technology, which clearly has been transformational for the driver category. And we've got high hopes now in fairways and hybrids.

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

And how about just learnings from the success? Obviously, breakthrough great North American business and talked about, I think, Europe felt good. How about just approaching these other markets either the same or different based on some things you were doing in the U.S.? Everybody's kind of watching these videos on the website and stuff that I think is really innovative and helping the brand. Are you getting a lot of that traction or views of the media assets that you're employing in these international markets? Are you thinking about marketing the products differently or the same in international markets? Just trying to think about where we go, either the same or differently internationally from a market [perspective]?

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

Yes. One thing we do see, Randy, is that where -- we do tailor our approach by market. So we have the scale and resources to have the subsidiaries on international basis. And they may take the same marketing approach as we do in the U.S, but they may also bring their own twist on that. And I have a high confidence in the team. The one -- we are also sharing best practices, and in the marketing side, I do think we have a core competency there, both in digital and traditional media. And they leverage that, and you can clearly see the international markets follow some of the lead that the U.S. has provided. But you also see a similarity in that we're in a leadership position on the club business on a global basis.

Operator

Your next question is from Steven Zaccone with JPMorgan.

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

I was hoping you can elaborate on the health of the golf industry heading into 2018. So you cited an outlook of flat to slightly improving overall market conditions. I think this is an improvement versus your prior commentary for flattish. So what do you think is driving this improved trend? And do you think that it's something that's sustainable for the next few years?

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

Steven, I think that we've been through some interesting and tough times in the golf industry over the last few years. The Golfsmith bankruptcy was a considerable event for the industry, and we worked through excess capacity on the OEM side, the retail side. We have flushed out some players that were either not committed or not capitalized directly. You have more rational behavior and improving economic conditions. So I'm pleased with the direction of the industry, and yes, I think it is sustainable.

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

Great. And then just following up on the golf ball side. Can you talk about the competitive environment entering this year versus last year? I think last year, you were dealing with some excess Nike product that was still in the channel. How do you feel about channel inventories specific to the ball side? And then just mindful of any competitor launches this year.

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

Channel inventories, from what I'm being told, are in good position. The last several years, field inventories have been worked down aggressively both in clubs and in balls. So I don't have any concerns from that perspective at this point. In terms of the competitors in the marketplace, it is a --

from a marketing perspective, it's going to be a competitive year. We can see that already. We've certainly caught the attention of our competitors that are flattering [a bit] by talking about us in their advertisements, and so it's going to be a more entertaining and competitive year from that perspective, which we're fine with. We're in a growth mode, and we invite the world to compare.

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

And then just last question. Can you just elaborate on the -- on what's driving the double-digit growth for TravisMathew in 2018? And specifically, do you plan on opening new retail stores for the brand? And then what are you expecting from a wholesale growth perspective?

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

Yes. It's -- other than the double-digit part of it, we're not going to give you any specifics there. But as we elaborated during the acquisition, this is a very fast growing brand, and that trend hasn't abated it all. The reasons for that are pretty broad. It's a cool brand, great product. The fabrics are stunning and a lot of momentum with a clear distribution growth. And we're looking forward to working with them, and it's been a very positive transition as we've integrated that business and started to walk forward, at times, hand in hand but at times, separately. We're not consolidating the businesses completely. We're not going to consolidate the sales forces, and we're not going to co-brand. But then on the other hand within the golf channels and many others, there is some nice collaboration going on, back office there's some nice collaboration going on. There's clear synergy. They do have a very small retail business, 4 doors. They will go to -- we anticipate 8 doors this year. That will still make it a very small piece of their business, but they're profitable, and they help grow the brand. And so it is a nice element of their overall growth strategy.

Operator

The next question is from Andrew Burns with D.A. Davidson.

Andrew Shuler Burns - *D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst*

I'm especially excited about the Taco Bell Truvis ball in Phoenix. Looking forward to getting that. Most of my questions were answered. Just one quick one. Just on the Rogue, clearly, retailers responded positively to the launch at the PGA show. Just wondering how the retail community is thinking about positioning it versus the EPIC, particularly in drivers and hybrids, given the similar price points and how you plan to effectively communicate the differences between the 2 lines.

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

Sure, Andrew. The -- we covered the positioning of Rogue and a price point strategy and reviewed that with all of our trade partners and we met a vast majority of them prior to executing that. So I can comfortably tell you they're onboard with what we're doing and where we're going. The EPIC and the Rouge driver are priced the same at retail under our MAP pricing guidelines. They have slightly different technologies in that the EPIC has adjustable weighting. The Rouge is obviously the latest and greatest. It has a larger footprint. It has a new and improved Jailbreak Technology. So there are some distinctions between what the consumers may choose, but we're probably most bullish right now on Rogue, the latest and greatest technology and product.

Operator

The next question is from Rommel Dionisio with Aegis.

Rommel Tolentino Dionisio - *Aegis Capital Corporation, Research Division - MD*

Chip, you talked about Japan having a nice second half of the year. Can you just give us a little more color on that? Was it weather related, product related, market share related? Just a little explanation as to what drove that acceleration back half of the year.

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

Rommel, sure, to the best of my abilities. So I think some of this is pent-up demand and economy, but I can't tell you that for sure. But that is my gut on it. It is also some product launches. We had a very strong launch of Epic Star Irons there, which were record setting in terms of the reaction and sell-through of that product in that market. And it very much helped that market overall. And then also a competitor, XXIO, had a launch during that period. So both of those probably helped the overall market, but I think the overall fundamentals of that market also mirror some of the rest of the country. It's interesting -- the rest of the world, excuse me. The U.S., if you look at Datatech, was down through the first half and up in the second half. It was a much more exaggerated effect in Japan, but you saw down first half and then up strongly in the second half.

Operator

The next question is from Casey Alexander with Compass Point.

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

And most of my questions have been answered, too, and I don't want to belabor this too long. But I'll throw one real quick one out there. How tricky is the transitioning of old Chrome Soft to new Chrome Soft given the similar dynamics of the product and how a consumable has kind of a different amount of inventory in the channel than club equipment? And also, how tricky is that transition in light of the change of the price point?

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

It's sometimes tricky, Casey, but we've been working on that for all of Q4 as well. So you saw us run some quick promotions to work down field inventories, and we managed that with our largest customers to make sure that field inventories weren't too heavy, that we were in an appropriate position going in. And then there's enough product differentiation here, we think, that they'll be attractive to different consumers when we launch it. So we think this one will be easier than most. In many cases, that is a very tricky situation.

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

Yes. Is there some sort of inflection point during the course of the year where you would expect to start to run down EPIC as well?

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

Yes, there is, Casey, but I can't get into the detail of that for you for competitive reasons at this point.

Operator

The next question is from George Kelly with Imperial Capital.

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

Just 2 quick questions. First, could you -- it sounds like you've done a lot of consumer tests with the new golf ball product. Could you share any details from those tests? And then second question. Did you -- I may have missed it in the prepared remarks. But did you provide EBITDA guidance for 2018?

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

George, I'll take the first one. I'll give the second to Brian. We did do quite a bit of testing on the new Chrome Soft with consumers both from a concept and performance. Unfortunately, I don't have that data in front of me, so I'm not in a position to share that, I apologize. Brian, do you have the...

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

Sure. George, for the EBITDA for full year 2018, we're estimating $112 million to $118 million, which is a 12% to 18% increase over 2017 adjusted EBITDA of $100 million.

Operator

And that was our last question. At this time, I will turn the call back over to Chip Brewer, CEO, for final remarks.

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

Well, thank you, everybody, for calling in. We greatly appreciate your support. We're sorry we ran over, but we wanted to stay on and answer the questions for those that were queued up. We look forward to talking to you at the end of Q1. Thanks.

Operator

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