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# EDITED TRANSCRIPT

## ELY - Q4 2013 Callaway Golf Earnings Conference Call

EVENT DATE/TIME: JANUARY 29, 2014 / 10:00PM GMT

**OVERVIEW:**

Co. reported 2013 consolidated net sales of $843m, GAAP operating loss of $11m, pro forma operating income of $5m, GAAP loss per share of $0.31, and pro forma loss per share of $0.02. 4Q13 consolidated net sales were $127m, GAAP operating loss was $45m, pro forma operating loss was $40m, GAAP loss per share was $0.65, and pro forma loss per share was $0.34. Expects 2014 GAAP net sales to be $880-900m and GAAP fully-diluted EPS to be $0.12-0.16.





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## CORPORATE PARTICIPANTS

**Brad Holiday** *Callaway Golf Co - CFO*

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

## CONFERENCE CALL PARTICIPANTS

**Dan Wewer** *Raymond James & Associates - Analyst*

**Scott Hamann** *KeyBanc Capital Markets - Analyst*

**James Hardiman** *Longbow Research - Analyst*

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**Rommel Dionisio** *Wedbush Securities - Analyst*

**Lee Giordano** *Imperial Capital - Analyst*

## PRESENTATION

**Operator**

My name is Cherise. I will be your conference operator today. At this time, I would like to welcome everyone to the Q4 2013 earnings conference call.

(Operator Instructions)

Thank you. I would now turn the conference over to Brad Holiday, CFO. Go ahead, Brad.

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**Brad Holiday** - *Callaway Golf Co - CFO*

Thank you, Cherise. Welcome, everyone to Callaway Golf Company's fourth quarter 2013 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. 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 relating to estimated full-year 2014 net sales, sales growth, gross margins, operating expenses, other income, pretax income, tax provision or rates, earnings per share, future market conditions, the success of the Company's future products or the Company's turn-around plan, future improvements in operations, market share, brand momentum, financial performance and shareholder value, 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 the Federal Securities laws.

Such statements reflect our best judgement 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 31, 2012, filed with the SEC, together with the Company's other reports subsequently filed with 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, which we also refer to as pro forma information. This information, as applicable, excludes the gain on the sale of the Top-Flite and Ben Hogan brands, charges relating to the 2012 cost reduction initiative and the impact of the businesses that in 2012 were sold or transitioned to a third-party model.

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 pro forma income and earnings information assumes a 38.5% tax rate. We also provide information on the Company's earnings, excluding interests, taxes, depreciation and amortization expenses and impairment charges.

This pro forma 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 include a 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.

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

Thanks, Brad. Good afternoon, everyone. Thank you for joining us for today's call. As you look at 2013 in total, I'm pleased with our results. This is especially true in context of the headwinds we face from both foreign exchange and weather, as well as our starting point which was challenged by the poor brand momentum we experienced over the proceeding few years. Most importantly, I believe the results re-enforce that our turn-around plan is on track. We believe we are building momentum.

As with our last call, I would like to start by thanking the Callaway Golf team for their hard work and commitment to turning this business around. The team has done a remarkable job changing this business for the better. I want them to know how much we all appreciate their efforts.

For the full year, our revenues were up $9 million or approximately 1%; however, when you factor out the effect of discontinued businesses and currency movements, what we will refer to as constant currency continuing business basis, we grew 14% or approximately $106 million year-over-year. We grew in almost all markets, but especially so in Japan where the team delivered an impressive 26% growth rate on a constant currency continuing business basis, as well as the US, where the team grew their business 14% on that same basis.

Although, we don't break these numbers out specifically, Korea also had an excellent year overall. Europe had a more than respectable 8% in constant currency continuing business growth rate for the full year, driven by a very strong performance in the second half of the year. In constant with this revenue growth, we grew our market shares in almost all key categories and markets. In the US, our 2013 hard-good dollar market share was 15.1%, up 120 basis points year-over-year.

In Japan, it finished at 13.9%, up 300 basis points year-over-year and making us the number one American brand in that market. In the UK, our 2013 share was 14.6%, up 160 basis points year-over year. This worldwide growth, combined with our improved operating efficiency led to improved financial performance, with our year-over-year full-year income from operations improving $105 million on a GAAP basis and $74 million on a pro forma basis. On a pro forma basis, we made a small net profit.

After several years of losses, this was an important milestone for us. These improvements occurred despite challenging market conditions in many of our key markets, especially the Americas and Europe, where weather negatively impacted the market through the first half of the year and the fact that we ended the year with poor brand momentum. Looking forward, I am pleased to say that we do have positive brand momentum going in to 2014.

I also believe, we have a stronger organization, product line and now a proven operating plan. This proven operating plan I'm referring to has been outlined many times during our previous calls. It is part of what we refer to internally as our movement towards the new Callaway. It includes revamped approaches to the marketing, sales, operations and tour and a commitment to leveraging our strength in research and development.

Turning to some of our 2014 initiatives. Consistent with our stated strategy of increasing our tour presence, at the beginning of 2014, we announced several new exciting tour additions, including Harris English, Matteo Manassero, Henrik Stenson, Pat Perez, Matt Every, Lydia Ko and several others, which I'm not going to be able to list here for you today. We are optimistic that these additions will further drive energy and consumer interest in our brand. To this end, we have been fortunate to have some nice early exposure both domestically and internationally.

Looking on the product front, we enter 2014 with hope and optimism based on an extensive new lineup of balls, accessories and clubs. These include on the ball front, a new premium ball line named Speed Regime where the balls are custom-designed for different swing speeds via changes to compression, construction and to the best of our knowledge, for the first time ever in golf, aerodynamics. Also, a new ultra-low compression ball called Supersoft that feels great, goes a long way and is totally fun to play. This ball is an exciting new addition to our line for 2014. Although it's only recently launched, it's off to a strong start.

On the club side, we've recently launched the Apex iron and the X2 Hot family of woods and irons. These are fantastic game changing products which we believe will do well in the marketplace. In a few weeks on Valentine's Day, actually, we're going to bring back the Big Bertha, utilizing two new innovative technologies worthy of this iconic brand name. In the standard Big Bertha, the more forgiving option in that lineup, we're going to introduce adjustable perimeter weighting, a sliding weight track located on the perimeter of the head which offers continuous adjustability while sustaining forgiveness and an overall flow of performance for a wide range of golfers.

We believe this will be a great driver for nearly everyone, tour players through weekend warriors. In the Big Bertha Alpha, we are introducing a breakthrough new technology we call Gravity Core. This allows us to move the center of gravity location up and down as well as side to side; thus, allowing a fitter the ability to optimize spin rate or impact location without changing any other aspects of the club. We believe this will be a big hit with skilled players and technology buffs.

Both of these products are breakthrough and leverage our advantage in multi-material construction, thereby allowing weight savings and the inclusion of more fitting technology without resulting trade-offs in weight or center of gravity location. On the Big Bertha Alpha product, we use eight different materials alone in the construction of the head. We also have numerous new products in the accessories category; however, time will not permit me to run through those for you on this call. Trade reaction to our 2014 lineup has been positive. There is particular interest and optimism regarding the Big Bertha lineup.

Looking at market conditions in Q4. Market conditions during that period for the holiday season were really just fair, both in the US and generalizing now in most of the world. Unfortunately, it is too early to get a rival read on 2014 market conditions or sell-through of our recent lunches. However, we have been pleased with the sell-through of our Apex product line, which launched in December in the US, as well as Supersoft, which launched in very early January. We also believe our inventory positions for Callaway's older products, both trade and ours here internally are in reasonably good shape.

Turning now to guidance. It's worth noting that for the first time in a long time, we're returning to GAAP. But to ease the transition, we'll also be providing a reference to pro forma to assist everyone in year-over-year comparisons. I believe the transition to GAAP is another healthy move for our business. Our guidance for 2014 is for revenues in the range of $880 million to $900 million. The midpoint of this range would require actual growth of 5.6% or 7.8% on a constant currency continuing business basis. Therefore, the guidance reflects Callaway continuing its positive momentum in the market place. Along with this revenue growth, we also expect our gross margins to improve. Brad will give you more color on that area during his comments.

Turning to operating expense, we are estimating an increase of approximately $19 million year-over-year. This increase is a mix of increased investment and marketing in tour, as well as increases in variable expenses associated with our revenue growth. We expect all of this to result in GAAP earnings per share in the range of $0.12 to $0.16. At the midpoint of that range, we would deliver a $30.3 million increase in pretax income on a $47 million increase in revenues. That's pretty solid flow through. We believe achieving this guidance would be another positive step towards our turnaround.

In closing, although there is much work to be done, there is also reason for optimism. I am confident that Callaway Golf is in a much stronger position today than it has been in quite some time. The changes we have been implementing are being noted and are proving effective in driving increased consumer interest, greater operating efficiencies, and improved financial performance. However, as I had in my previous calls, I also need to emphasize that turnarounds take time. This will be a multi-year process. We are now entering only our second full season under the new operating model. There is still much to do.

Markets will remain hyper-competitive. We know that the ultimate success will be determined by the consumers, measured by sell-through. Unfortunately, it is too early to get a good read on sell-through at this point. At this point, I am pleased with our results. I remain confident that we are on track with our overall plan. We believe we are demonstrating 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. I appreciate your interest and support. Brad, over to you.

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**Brad Holiday** - *Callaway Golf Co - CFO*

Thanks, Chip. Consolidated net sales for the fourth quarter were $127 million, an increase of 17% on a constant currency continuing business basis which excludes the brands and businesses that were sold or transitioned to a third party model in 2012. Sales on a GAAP basis which were adversely impacted by $8 million due to changes in foreign currency rates and by $4 million for the sold or transitioned businesses increased 6%.

Pro forma gross margins for the fourth quarter improved significantly to 26% compared to 14% last year due to less promotional expense this year, the positive impact of the new full-priced product launched in the second half of the year and continued strong demand for our higher-margin X Hot products this year. Pro forma operating expenses for the fourth quarter declined 1% to $73 million, a slight improvement compared to $74 million in 2012 as we began to anniversary last year's cost reduction initiatives.

We had a pro forma operating loss for the fourth quarter of $40 million, an improvement of $17 million compared to a loss of $57 million last year and a pro forma loss per share of $0.34 compared to a loss per share last year of $0.48. On a GAAP basis, the operating loss was $45 million compared to a loss of $71 million in 2012 with a loss per share in 2013 of $0.65 compared to a loss per share last year of $1.01.

For the full year, consolidated net sales were $843 million, an increase of 14% on a constant currency continuing business basis. Sales on a GAAP basis which were adversely impacted by $40 million due to changes in foreign currency rates and a net impact of $57 million for the sold or transitioned businesses grew 1% compared to 2012. Full-year sales in the US were $401 million, an increase of 14% on a continuing business basis, with sales on a GAAP basis increasing 2% compared to the same period last year.

Full-year international sales were $441 million, an increase of 13% on a constant currency continuing business basis compared to sales last year. Sales on a GAAP basis were flat compared to last year and total sales represented 52% of total Company consolidated sales. On a product category basis, 2013 annual wood sales were $256 million, an increase of 28% compared to last year, due primarily to the success of our X Hot line of woods, as well as the successful second half launch of our new Optiforce products.

We gained market share in all woods categories with fairway woods gaining nearly 9 share points for the year. Iron sales were $182 million, an increase of 6% compared to last year on a more streamlined and profitable product offering and driven by the success of our X Hot irons this year along with the second half launch of our new Mack Daddy line of wedges and Apex irons. Putter sales declined 4% to $90 mi1llion due to a decline in the overall category this year. But despite this drop in sales, Odyssey has increased its year-to-date US market share by nearly 2 percentage points to 29.9%.

Golf ball sales were $132 million, a decrease of 5% compared to last year due to the sale of the Top-Flite brand. But sales of Callaway branded balls have increased 10% compared to 2012. Pro forma profitability for golf balls has increased significantly this year despite lower sales due to the actions we've taken this year to consolidate and better leverage our manufacturing footprint.

Accessory sales were $183 million, a decrease of 20% compared to last year due primarily to a reduction of approximately $37 million in sales associated with the businesses that were sold or licensed in 2012. Full-year pro forma gross margins increased 460 basis points to 39% compared to last year, due to less promotional expense, the success of X Hot products, as well as improved manufacturing efficiencies.

Full-year pro forma operating expenses totaled $321 million, a reduction of 9% compared to $353 million last year due primarily to the cost reduction initiatives that took place last year. This was also significantly lower than our original guidance of $340 million due to the positive impact of changing foreign currency rates as well as the deferral of some previously planned initiatives in response to the adverse market conditions experienced last year.

Full-year pro forma operating income was $5 million, an improvement of $74 million compared to a loss of $69 million last year. We had a pro forma loss per share of $0.02, in line with our guidance provided last quarter which was an improvement of $0.75 compared to a loss per share last year of $0.77. On a GAAP basis, the operating loss was $11 million compared to a loss of $116 million last year, with a corresponding loss per share of $0.31 compared to a loss per share in 2012 of $1.96.

Turning to our balance sheet. We ended this past quarter with cash of $37 million compared to $52 million last year. Our consolidated net receivables were $92 million, an increase of 1% compared to last year. DSOs improved by 2 days to 68 days compared to 70 days last year. We remain comfortable with the overall quality of our accounts receivables. Net inventories were $263 million compared to $212 million last year. This increase was due to being able to stage inventories of our new products earlier than last year in preparation for launch in early 2014.

This earlier staging was a result of continued improvement in our supply change and product development processes. We are comfortable with the quality of our inventory in-house as well as inventories at retail as we begin 2014. Capital expenditures for the year were $13 million which was slightly lower than our previous estimate. Depreciation and amortization expense for the year was $26 million consistent with our previous estimate.

Now I would like to review highlights of 2014 estimates. First, we will be reporting guidance and results this year on a GAAP basis rather than on a pro forma basis, since we have now completed our major restructuring initiatives during this past year. As Chip mentioned, we think this is a positive next step for the Company. Additionally, since we will be reporting on a GAAP basis, our tax expense will be based on actual taxes paid rather than a pro forma rate of 38.5% that we have used in the past. Additionally, to assist in comparing 2013 and 2014 results, we will provide supplemental details on a quarterly basis of charges that were excluded from pro forma results in 2013.

So, let's start with topline sales. Based on the best available information we have at this time, we estimate 2014 annual net sales to range from $880 million to $900 million or growth of 4.4% to 6.8% compared to last year. This estimate is based on currency rates as of the first week of January, which are in total slightly weaker than 2013 rates. Additionally, our 2014 sales will be adversely impacted by approximately $9 million as a result of our decision last year to license our apparel business in Europe. Adjusting for these two items would result in 2014 sales growth on a constant currency continuing business basis of 6.6% to the low end of the range to 9% for the high end.

We estimate that as a percent of total annual sales that first quarter sales will skew slightly higher than what we experienced last year. This shift in sales to the first quarter is the result of the higher inventories we were able to stage during the fourth quarter, that I just mentioned, which are due to improvements made to our product development and supply chain functions during this past year. Gross margins are estimated to improve to approximately 41.7% plus or minus 30 basis points, due to the full-year positive impact of the supply chain initiatives put in place last year, increased pricing, as well as an improvement in the full-priced products partially offset by higher costs associated with new technologies in our 2014 products.

For 2014, we estimate operating expenses to increase to approximately $345 million for the full year compared to $326 million in 2013. This increase includes reinstating some of the initiatives we deferred this past year, which I mentioned earlier, as well as additional investment in tour and marketing, increases in variable expenses related to higher sales, as well as modest increases in cost of living and inflation. Other income and expense includes an estimate of interest expense associated with our convertible debt and our ABL credit facility of $8.6 million.

Hedging gains and losses will also be captured in this line item of other income and expense as they occur during the year. But for guidance purposes, we are assuming zero at this time. Pretax income for the year is estimated to improve to $15 million to $19 million compared to a loss of $13 million in 2013. With regards to taxes, this year we will be using the actual tax expense incurred for 2014 and will no longer be using pro forma tax rate of 38.5%. While we do not incur any US federal tax liability at this time because of our deferred tax valuation allowance, we do still incur and pay annual state and international taxes.

Our current estimate of this tax liability for the midpoint of our guidance range is $6.5 million. For modeling purposes, I would suggest that the $6.5 million be spread roughly in line with the quarterly international sales as a percent of total annual international sales. For example, if first quarter international sales were 30% of the total annual international sales, then the tax liability for the quarter would be 30% of the $6.5 million or approximately $2 million. This estimated liability can and will change throughout the year for several reasons. So we will update our estimate on a quarterly basis. Fully diluted earnings per share is estimated to range from $0.12 to $0.16 based on 78 million shares outstanding.

CapEx is estimated to be approximately $15 million in 2014, with depreciation and amortization estimated at $25 million for the year. One final item I wanted to mention is now that we no longer have any outstanding preferred stock with specific dividend payment dates, future dividend declarations will be announced after our regularly scheduled Board meetings which will vary slightly from past scheduled dividend announcements. I just wanted to clarify this, so there's no confusion if our dividend announcement dates don't align with past dates. We will now open the call for questions.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions)

Dan Wewer, Raymond James.

**Dan Wewer** - *Raymond James & Associates - Analyst*

Regarding the 2014 revenue forecast of a 6.6% and 9% increase, I would've thought that you would've guided higher than that, given the momentum that all of your product lines are achieving and growing market share. So, Chip, I was just curious, how do you see the golf industry growing or not growing in this upcoming year?

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

Dan, market conditions at this point in the year are kind of hard to predict. There's not any great indicators out there at this point.

We do expect that overall market conditions will support low to single-digit industry growth. We do think macroeconomic trends and consumer confidence are in general moving in the right direction. We think weather, overall, should be slightly improved relative to the first half of last year. However, we know we're not very good at forecasting weather, so we're reluctant to do so.

The industry is still recovering from 2009 downturn but at the same time, it would be naive to think that the golf business would be less competitive this year. So, we think it will be a little better than a little last year where the industry, overall, contracted a little bit. But reluctant to get ahead of ourselves until we get more clear reads on the early selling season which will be, still a few months away.

**Dan Wewer** - *Raymond James & Associates - Analyst*

Let me ask the question this way. A year ago, your premium driver and premium golf balls business, particularly at the beginning of the year, didn't perform well for you. Would you not expect that the market share to actually increase at a faster rate based on the potential of Big Bertha and Speed Regime?

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

Well, we think -- we're optimistic on our lineup for this year. We do expect to grow market share. We think that's reflected in our guidance.

Our guidance is on a constant currency continuing business basis. It's 7.8% or round up, 8% growth on the midpoint. Now, I don't view in this industry that as very conservative.

But I am pleased with our momentum. As stated, the reaction to the Big Bertha product is positive. There's a lot of reason for hope and optimism at this point as well, which I'm sure you can sense. But there is so much uncertainty at this point there now, where again, that 8% we think is -- 8% on a midpoint seems not too conservative and about right.

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**Dan Wewer** - *Raymond James & Associates - Analyst*

Just one follow-up. If Callaway is to eventually return to an 8% or so operating margin rate, it will probably need to achieve a gross margin rate 44% or maybe 45%. This year, you're forecasting slightly below 42%.

Given that your inventories are clean, you're able to potentially increase average unit retail prices this year, why could the gross margin rate maybe not be at a 43%, 44% rate in 2014? But what holds -- what prevents you from reaching that level of gross margin?

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

At this point, when we provide guidance, we don't provide guidance priced for perfection. So what we're looking at is a turnaround that is -- really, points on the curve. Coming from where we've been -- we grew this business in a down market $100 million on a constant currency continuing business basis.

We moved the margin up significantly. We expect to be able to do that again next year. We're in -- the operations team has done a wonderful job in changing and transforming our supply chain. But that is still also a work in progress.

We will not see all of our final fruits of that labor this year. It's going to be a process of continuous improvement. We think that a well run golf equipment Company would deliver margins in the 42% to 44% range and historically have seen those types of numbers.

So, what you're seeing in the guidance, we think is a movement along the path. But I do want to stress that we don't think it's reasonable that in the second year of our operating model under this new approach that it would instantly get to that point. That's ahead of the process and plan that we think is practical.

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**Dan Wewer** - *Raymond James & Associates - Analyst*

Right,, great. Thanks and good luck.

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

Thank you.

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**Operator**

Scott Hamann, KeyBanc Capital Markets.

**Scott Hamann** - *KeyBanc Capital Markets - Analyst*

Just following up on the topline question. It seemed like across all parts of the product line there's their premium priced products versus last year. So if we're kind of thinking about volume versus price within your revenue guidance, I mean, how are you thinking about that? Then maybe regionally, in the different geographies, I know Japan's been a tough comp, but how are you thinking about the international versus the domestic?

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

Scott -- Brad, you jump in here if you have any more specifics, because I might lack a little bit on that front. But it is a mix of price and volume that we're expecting for this year. We see opportunities for mix improvement, as Big Bertha should do better than Razr Fit Xtreme in the marketplace -- in our premium priced driver.

There are other areas where we've increased prices reflecting the added technology we put into products. We do think we're going to gain market share. So there is contributions coming from multiple areas.

Regionally, the US has been doing a great job. They've got momentum. We expect to have a strong year in the US.

Europe started slowly last year, mostly due to market conditions. They finished the year very strong. We're bullish for that market.

Europe is a lot of individual markets, as you know. Some of them are still in tough positions. Others are doing better, but business in general over there is bullish. We think we'll help drive our overall growth rate this year as will the US.

The Japan business just did a wonderful job last year. As I stated before, I think, the world of that team and what they have been able to do. I do think they have a harder comp this year. That was one of the few markets that grew last year overall. So that one may not lead the growth rate this year.

I don't think there's going to be any difference than previous years in terms of the competitiveness of the marketplace out there. This golf business is a highly competitive business. That, obviously, doesn't catch us by surprise, we're planning for that. But I think we want to just state that it'd be naive to think of it at any other way going forward.

**Scott Hamann** - *KeyBanc Capital Markets - Analyst*

Okay. Then just a follow-up on OpEx.

I appreciate that you brought down last year and so the move this year may be a little bit higher than you would normally expect in terms of the incremental expense. But when we think about incremental OpEx for 2014 and the guidance, is it really a one-time investment in some of these tour and sales initiatives? Something that we would expect to provide leverage in 2015? Or should we continue to expect this level of incremental investment annually going forward?

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

Well, first -- you're correct. I'm confident we communicated this into the previous calls. That although we took a lot of cost out of this business, we also believe we have to reinvest in certain areas to get where we need to go. You're seeing that in some of the tour investments and strategic reinvestments that we did. There was -- we had a very successful off-season in attracting what we think is a significantly stronger tour staff to complement what was a reasonably good one going in and now is trending towards a great one.

Our operating expenses -- when you look at right now, are little high relative -- as a percentage of our revenue on a projection. So, we're aware of that. We will have to leverage that at some point going forward.

Sometimes the investments in this business will be lumpy. Sometimes they'll come and almost always they'll come in advance of the revenues. So, the leverage point you mentioned is certainly there.

We're not going to provide future guidance here, so we're not going to be able to give you what we think will happen in next year or beyond. But you're absolutely correct, we have to leverage those investments. We recognize that we're investing this year at a little higher rate relative to the overall revenues that we -- then we can afford to do long-term.

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**Scott Hamann** - *KeyBanc Capital Markets - Analyst*

Okay. Thanks, Chip.

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

Thanks, Scott.

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**Operator**

James Hardiman, Longbow Research.

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**James Hardiman** - *Longbow Research - Analyst*

I just want to make sure I get all the -- what we're doing here with GAAP versus non-GAAP. Just so I understand here, are there, in fact, no restructuring charges that are going to be incurred during 2014? Or are we just basically ignoring those charges? I guess for a related question there, are there any other incremental cost savings that we're going to see from here going forward, other than sort of the typical year-to-year maximization type efforts?

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**Brad Holiday** - *Callaway Golf Co - CFO*

James, this is Brad. I think you're right. We aren't planning for any major one-time expenses or restructuring. If anything comes up, we will absorb it in our operating results. But the intent is, it's GAAP and won't have any call outs in terms of pro forma.

With regards to just additional major restructurings? I think Chip has said this in the past, I think we've made pretty significant ones. We don't see any big major ones right now.

But part of the culture here now as part of this new Callaway is to be very cost conscious and continue to look at ways that we can try to trim expenses as we continue to grow business. As he mentioned, for us to get through that well-run 7% to 8% operating margin is going to require that we managing expenses while we're growing topline end margins. But, to answer your first question, no, we don't anticipate any major charges next year to hit the P&L.

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**James Hardiman** - *Longbow Research - Analyst*

Got it. Then, unrelated question here, obviously, there's a big focus in terms of reinvesting on tour. Can you give us a little bit more color, maybe talk big picture about the strategy there? It certainly looks like maybe you're going after some of the a little long ball guys, maybe trying to get a little bit younger. Can you just put that strategy in the context of your broader product strategy?

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

Sure. It really fits with everything we're doing. If you look at our brand, James, we are iconic. We are authentic. We have a heritage.

We have such strength in key areas that are very valuable for us. Those areas have been around average players, game improvement, et cetera.

Where we may have lacked in the past is a competitive edge to us, youth and energy. All of the changes that we have made from a brand perspective over the last few years have been about sustaining the position that we've enjoyed with our core. But also complimenting that by engaging youth, energy, high-performance and a more competitive spirit and attitude.

You see that pervade in our marketing. You see that pervaded in our products. You see that in our tour staff.

We've had -- when I showed up, I was blessed with great assets, including some wonderful relationships, Phil Mickelson and others. To be able to complement those with youth, energy, some of these longhairs, but appealing characters that show energy and excitement, more frequent exposure on TV. That, we believe, is very important for our business.

It feels good to us entering the year when you turn on the TV and see the Callaway hats and the young bombers out there in addition to Phil. That adds energy excitement to the trade and we think will add consumer interest. Correlation is not causality, but if you look at successful Companies in the past, that correlation's pretty darn good.

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**James Hardiman** - *Longbow Research - Analyst*

Very helpful. Good luck guys.

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

Thank you.

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**Operator**

(Operator Instructions)

Casey Alexander, Gilford Securities.

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**Casey Alexander** - *Gilford Securities - Analyst*

Just got a couple of things. One, I was kind of curious, when you talk about the OpEx for next year -- in the fourth quarter of this year, actually, R&D crept a little bit. So I understand you're investing hard in R&D to get new products.

Are we going to see more of the micro launches that we saw in the middle of the year last year? It seems as though it was a pretty successful strategy for creating some seasonal offset to the sales ramp.

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

Yes, Casey. In general, without revealing any specifics, we thought it was successful. We like to bring some energy throughout the year.

Our major launches are [right now] and with Big Bertha coming in February. But some energy bursts throughout the year seems to work well and be received well in the marketplace. That's one of the ways we can leverage the strong resources of Callaway Golf. So absolutely.

**Casey Alexander** - *Gilford Securities - Analyst*

Secondly, there has been a rule driven transition to the putter business. How have you guys managed inventory through this? How do you see that particular vertical developing in 2014 when we get kind of closer to some of the dropdead rates -- dates?

I know that, for instance, that the long putter won't necessarily be outlawed for the vast majority of amateurs. But they're not going to buy new ones because they're not going to be offered. How do you see the ramp going there?

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

Well it was -- Casey, unfortunately, once that ruling was announced, the sales of the anchored putter is mid and long, all but stopped. So that did leave us with inventory at that time. We have since had to either write off or clean up all of that inventory. So we've already taken that hit.

On the positive side, it has led to some pretty cool new introductions, there's these counterbalance putters and tank. You might have noticed a little emblem we had of that at the PGA Show booth. Those are going fantastic.

So definitely one of the high growth markets for us is the counterbalance putters and tank. Those revenues in the categories -- the percentage of the category are pacing what anchored putters did, which is interesting. Then there are some putters, and I'm not sure I'm all the way there yet. But I know some of the media thinks that will be a substantial percentage of the market, like, over 50%.

Now, it is not there now. But it is a very healthy percentage. The tank product line or counterbalance putters are an exciting aspect in the business.

But the anchored is -- that's done. You can -- there's still some out at retail, but that's just the retailers working through the remnants.

**Casey Alexander** - *Gilford Securities - Analyst*

Yes. Finally, at the show this year, there seemed to be, for the first time, a real willingness to consider any and all things to try to improve participation in the game. Obviously, while I know Callaway is for improved participation in the game. What do you see your role in that?

Because this is -- one part of it is obviously being driven by an initiative from TaylorMade. But as the CEO, what do you think Callaway's role is in it? How do you interact with some of these other efforts to improve participation in the game?

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

No. That's the great question. I'm still feeling my way through that one right now, Casey.

Clearly, there is some positive energy in the industry. It's whole, for multiple constituencies, around looking at new ways of making them more -- the game more attractive to people -- we'll call people outside the core. People outside of guys like you and I that have either not stayed with the game or haven't been attracted to the game for multiple reasons.

I applaud that. I applaud what Mark King and the TaylorMade team are doing in terms of their financial commitment and efforts to explore alternatives there. To the degree that we can collaborate on that in some way, shape or form, I'm very open to that.

But where Callaway sits in that right now -- my style has always been a little bit more behind the scenes. Everybody has their own personality. Mine isn't one who has to stand in front on that. I am in some conversations behind the scenes, which I hope are constructive in terms of supporting.

We're very supportive of efforts like Get Golf Ready, First Tee. You know how active we are in TopGolf and what a positive impact that can be in terms of exposing golf to new constituencies. I'll also be one of the first ones here to applaud what Mark and TaylorMade are doing from that front.

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**Casey Alexander** - *Gilford Securities - Analyst*

They actually positively mentioned TopGolf in their presentation as well.

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

Yes. So there's a real positive nature as the whole industry is talking about the subject. There is no one silver bullet answer in my opinion. But there are a lot of little things that can be done that will be helpful to this industry and game.

Certainly, the industry is front and center on the issue now. We're aligned on it. But we're going to have to agree on exactly where we head forward, so I'll be participating on those conversations. But maybe more behind the scenes than out front until I see the right role forming in that area.

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**Casey Alexander** - *Gilford Securities - Analyst*

All right, great. Thank you for taking my questions.

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**Brad Holiday** - *Callaway Golf Co - CFO*

Thanks, Casey.

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**Operator**

Rommel Dionisio, Wedbush Securities.

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**Rommel Dionisio** - *Wedbush Securities - Analyst*

I wonder if you could just give us a little more granularity on where retail inventories might be, entering the season here. Particularly from some of your competitors products. I know last year, one of your primary competitors was pretty ultra aggressive on promotions especially earlier in the year, probably doing no small bucket of market share you were gaining.

But I wondered if you could just characterize where -- were you able to clear inventories? Are they relatively clean going into 2014 here? Thanks.

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

Rommel, I'm not going to talk about any competitor specifically for reasons which I'm sure you understand.

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**Rommel Dionisio** - *Wedbush Securities - Analyst*

Sure.

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

The industry, in general, if you looked at field inventories, they're up slightly. But not -- I wouldn't call it alarming or meaningful at this point. The Q4 was a little bit lower than what we expected as an industry, I believe.

The overall inventories are really reflective of that small amount. That alone -- Callaway's inventories are -- we're comfortable with. They're in reasonably good position, et cetera.

So, I believe Callaway inventories are better than the industry, in general. I don't think the industry -- it's not in an alarming position at all, but it is slightly higher than they probably wanted, which I think is a reflection that the golf industry -- December was a cold month, holiday sales, in general, were just okay. They were not gangbusters.

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**Rommel Dionisio** - *Wedbush Securities - Analyst*

Okay. Thanks very much.

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**Operator**

Lee Giordano, Imperial Capital.

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**Lee Giordano** - *Imperial Capital - Analyst*

I may have missed this, but talk (technical difficulty)

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

Lee, we're having a really hard time hearing you.

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**Lee Giordano** - *Imperial Capital - Analyst*

Sorry. If you can hear me. I wondered if you could talk a little more about these steps (inaudible)

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

Lee, I'm sorry, we can't make out what you are asking.

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**Brad Holiday** - *Callaway Golf Co - CFO*

Yes. We can't make it out.

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

Sorry, Lee, we'll have to move on. We'll get you in on a one-on-one. I'm sorry, we just can't hear you.

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**Operator**

Those were all of our questions. I will now turn the call back over to Mr Brewer for closing remarks.

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

I want to thank everybody for tuning in today. I know that in different parts of the country, the weather is challenging.

2013 was a very positive year for Callaway Golf. We're very proud of the team and the improvements we've made in this business. We look forward to continuing to keep you updated on our progress as we enter 2014.

Thanks very much for calling in. Have a great rest of your day.

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**Operator**

Ladies and gentlemen, thank you for joining today's conference. Thank you for your participation. You may now disconnect.

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