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ELY - Q4 2014 Callaway Golf Co Earnings Call

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OVERVIEW:

ELY reported 2014 consolidated net sales of $887m, net income of $16m and EPS of $0.20. 4Q14 consolidated net sales were $135m, operating loss was $39m, and loss per share was $0.54. Expects 2015 GAAP net sales to be approx. $855-880m and GAAP EPS to be loss of $0.09 to earnings of $0.01.

CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

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Scott Hamann *KeyBanc Capital Market - Analyst*

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Andrew Burns *D.A. Davidson - Analyst*

Casey Alexander *Guilford Securities - Analyst*

PRESENTATION

Operator

Good afternoon my name is Ian, and I would like to welcome everyone to the Q4 2014 Callaway Golf Earnings Conference Call. (Operator Instructions). Thank you. Brad Holiday, CFO you may now begin.

Brad Holiday *- Callaway Golf Co. - CFO*

Good afternoon and thanks for joining our fourth quarter 2014 earnings conference call. Joining me today is Chip Brewer, our President and CEO. During today's call Chip will provide some opening remarks. I will provide an overview of the Company's financial results for 2014 full year and fourth quarter, and we will then open the call for questions.

I would like to point out that any comments made about future performance, events, prospects, and circumstances including statements related to estimated 2015 net sales, sales growth, gross margins, operating expenses, pre-tax income, tax provision, earnings or loss per share, and profitability, future and foreign currency exchange rate changes or the Company's ability to mitigate their effect, future industry or market conditions or market share gains the success of the Company's future products or the Company's recovery and brand momentum or creation of long-term shareholder value, the collect built of accounts receivable and quality of inventory, as well as the Company's estimated 2015 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 judgment today based on current market trends and conditions. Actual results could differ materially from those projected in the forward-looking statements as a result of certain risks and uncertainties applicable to the Company and its business. For details concerning these and other risks and uncertainties you should consult our earnings release issued today as well as Part 1, Item 1A of the our most recent Form 10-K for the year-ended December 31st, 2013 filed with the SEC together with the Company's other reports subsequently filed with the SEC from time to time.

In addition, during the call in order to assist interested parties with period-to-period comparisons on a consistent and comparable basis we will provide certain non-GAAP information. This information as applicable excludes the impact of the businesses that were sold or transitioned to a third-party licensing model. We provide certain of the Company's results and projections on a constant currency basis which essentially applies the prior period exchange rates to the current or future period financial information as those such prior period rates were in effect during the current or future period.

We also provide information on the Company's earnings excluding interest, taxes, and depreciation and amortization expenses. This non-GAAP information may include non-GAAP financial measures within the meaning of Regulation G. The information provided on the call today and the earnings release we issued today include a reconciliation of such non-GAAP financial information to the most directly comparable financial information 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 me to turn the call over to Chip.

Chip Brewer - *Callaway Golf Co. - President, CEO*

Thanks, Brad. Good afternoon, everybody, and thank you for joining us for today's call. 2014 was an excellent year for Callaway Golf despite the well publicized head winds from both foreign exchange and market conditions. Highlights include improvements in market share, brand rating, and our first full-year net profit since 2008. Each of these are important milestones in our turnaround process.

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 and I want them to know how much we all appreciate their efforts. For the full year our revenues were up 5% on a GAAP basis and 8% on a constant currency continuing business basis. We grew in almost all markets with especially strong performance in the US, Europe, Japan, Australia and Korea.

In concert with this revenue growth we grew our market shares across the globe. In the US our 2014 hard goods dollar market share was 18.5%, up 340 basis points year-over-year. In Japan for the full year we finished at 14.4%, up 50 basis points year-over-year and making us the number one American brand in that market. In the UK our most recent share data has us at 18.3%, up 370 basis points year-over-year and in Europe we were 20.3%, up 340 basis points and placing us as the number one selling brand for the last eight consecutive months.

This global market share growth was driven by significant gains in woods, irons and wedges. In addition to growing our business and improving our financial performance we continue to make the required investments and changes necessary to succeed for the long-term. On the investment front we continue to increase our tour presence. On the US PGA Tour we now have 32 full staff players versus 15 when I joined the Company in 2012.

In the world of R&D, we have strategically added resources for enhancing both advanced research and the efficiency of our product development process. On the operations front we made further improvements in our supply chain during the year. Some excellent examples here are custom fitting where the supply chain has supported a 32% increase in our custom club business and in our golf ball business where the operations team delivered a $19 million improvement in profitability on a $6 million increase in revenues.

In marketing we are further enhancing our core competency in digital marketing content creation. If you visited our booth at the PGA show, or tracked the show online you couldn't help but notice the constant stream of activity and energy partly driven by internally developed content that is being distributed to consumers through multiple digital platforms. We believe we are leading in modern marketing methods in the golf industry.

We also continue to work hard on our culture of cost improvement to help fund these investments. During the year we made many tough decisions on structure which further streamlined our cost space. A prime example here is our decision to transition our subsidiaries in Thailand and Malaysia to distributors, a more profitable and long-term sustainable model for servicing these markets.

Turning to the product front, we enter 2015 excited about an extensive new lineup of all accessories and clubs. On the club side this includes Big Bertha which is firmly planted as our flagship brand. These products feature cutting-edge technology often leveraging our advantage in multi material construction. It also includes the soon-to-be launched XR family of clubs. A bold new approach to a classic line that launches in late February.

One of the key new innovations that we're delivering for 2015 is the 360-degree cut face in irons. This technology drives the performance in our Big Bertha as well as our XR line of irons. It delivers incredible ball speed and is potential game-changer in this category just like it has begun for us in the fairy wood category where we now have the number one selling model both in the US and in Japan.

In support of the strength of our club lineup Callaway received 18 gold medals in the most recent Golf Digest top list. More than any other manufacturer by a wide margin. Now looking at the golf ball business, we have what we believe is a unique opportunity that is rife with potential.

A new premium ball line, Chrome Soft, featuring our soft, fast core that is both low compression and high performance, unmatched feel with tour control and outstanding distance.

Over the last two years our ball business has moved from a drag on earnings to a nice contributor. However, we have not significantly grown this business either in actual dollar volume or market share. If we are successful in developing a sustainable growth position here, it would be a very positive development for our business. Our team is energized about this opportunity and we view it as a key initiative.

Trade reaction to our 2015 line has been very positive. We have been pleased with the sell-through of the Big Bertha and the big Bertha Beta irons which were both launched in Q4 in the US and Japan respectively. Looking forward we're optimistic regarding the XR line and the Chrome Soft golf balls. The Chrome Soft golf balls launched mid-January and early sell-through data has been encouraging, but obviously this is very early data.

Turning to market conditions, Q4 golf market conditions in the holiday season were just there in Asia, but showed in improvement both the US and UK. Unfortunately it's too early to get a reliable read on 2015 market conditions. We believe our inventory positions both internally and at retailer are in reasonably good shape. We believe the industry is making good progress at reducing and maintaining appropriate inventory levels, and the industry last week's PGA show was one of gradual improvement and cautious optimism.

Moving to guidance, we expect continued brand and market share growth but much of the benefit is unfortunately forecast to be offset by the dramatic changes in currency rates that occurred in the last few months. Our guidance for 2015 is for revenues of $855 million to $880 million, and earnings per share in the range of $0.09 loss to $0.01 profit. We are still expecting 5% to 6% constant currency growth in core channels and overall improvements on a currency-neutral basis. Relative to our mid-December call there have been a few moving parts but the only material change is once again currency.

Brad will go over all of this in more detail in his remarks. We have actively begun looking for ways to help address the impact of recent FX movements but it is unlikely that we will find anything that can materially impact our near-term results. Looking further forward, however, in addition to continued improvement in operational performance we should be able to at least partially mitigate the long-term impact through changes in local pricing and continued cost management.

In closing, while 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 that is been in quite some time. The changes we have implemented are being noticed and are proving effective in driving increased consumer interest, greater operating efficiencies, and improved financial performance. I'm pleased with the results and 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 performance and long-term shareholder value. I look forward to continuing to keep you updated on our progress and appreciate your interest and support. Brad, over to you.

Brad Holiday - *Callaway Golf Co. - CFO*

Thanks, Chip. Our results for 2014 were as follows. Consolidated annual net sales were $887 million, an increase of 5% compared to $843 million last year. Sales were adversely impacted by $11 million dollars due to changes in foreign currency rates compared to last year. On an constant currency continuing business basis which excludes Europe's 2013 apparel sales, year-over-year sales growth would have been 8%. Regionally sales increased 5% in the US to $422 million, while our international sales were $465 million, also an increase of 5% on a GAAP basis and 10% on a constant currency continuing business basis.

Details by region are included in the attachment to today's press release. Gross margins improved 310 basis points to 40.4% compared to 37.3% last year. A majority of the improvement was due to favorable pricing and sales mix as well as improved operating efficiencies partially offset by the adverse impact of foreign currency rates. Included in 2013 gross margins were restructuring charges of $11 million.

Operating expenses were $327 million, flat compared to last year despite incremental investment in touring marketing which were partially offset by tight cost management and the positive impact of FX rates. Included in 2013 were restructuring chances of $5 million. As a result of these factors we generated operating income of $31 million, an improvement of $42 million compared to a loss of $11 million in 2013.

We had other expense of $9 million compared to $3 million of expense last year. This increase in expense was due primarily to the impact of changes in currency rates on outstanding foreign currency hedging contracts which resulted in less contract gains in 2014. The Company generated net income of $16 million, a significant improvement from a loss of $19 million last year with earnings per share improving to $0.20 on 78 million shares compared to a loss of $0.31 in 2013 on 73 million shares.

For the fourth quarter consolidated net sales were $135 million an increase of 6% compared to $127 million last year due to continued brand momentum and a strategic shift in product launch timing, resulting in the launch of our new Big Bertha 815 family of woods as well as the Big Bertha Beta products in Japan and other Asia markets. Sales were adversely impacted by $7 million due to changes in foreign currency rates compared to last year.

On a constant currency continuing business basis year-over-year sales growth would have been 13%. Regionally, sales at the US were $50 million, flat compared to last year while international sales were $85 million, a 10% increase on a GAAP basis, compared to last year, and 22% on a constant currency continuing business basis. The international growth was due primarily to strong quarterly performance in two major markets, our two major markets of Japan where the Big Bertha Beta product was launched as well as in Europe.

Gross margins improved 440 basis points to 27% compared to 23% last year. This improvement was due to favorable sales mix in pricing, operating efficiencies and less promotional activity compared to last year. Included in 2013 were restructuring charges of $4 million. Operating expenses were $76 million, an increase of 2% compared to 2013 due primarily to an increase in marketing expense associated with the new product launch during the quarter.

Included in 2013 were $2 million of cost reduction charges. We incurred an operating loss of $39 million for the quarter, an improvement of 14% compared to a loss of $45 million last year, and we had a loss per share of $0.54 for the quarter on 78 million shares, which is an improvement compared to a loss per share of $0.65 last year on 76 million shares. On a product category basis for the full year we had sales growth compared to 2013 on a majority of our product categories as follows.

Wood sales were $269 million, an increase of 8% compared to last year due to the success of our products this year and gains in market share in all of our major markets around the world. Iron sales were $200 million, an increase of 12% due to the success of Apex irons as well as the new Big Bertha irons which were launched late in the third quarter. Putter sales were $81 million, a decrease of 8% due to no major product launches this year. Golf ball sales were $137 million, an increase of 4% due to this year's launch of our premium Speed Regime line of golf balls and the success of our low compression Super Soft line of golf balls.

Overall profitability for this category has increased significantly as a results of this revenue growth along with improved operating efficiencies. Accessories and other sales were $199 million, an increase of 2% compared to last year due to an increase in the sale of package sets and head wear partially offset by a decline in apparel sales due to the transition of the Company's European apparel business to a licensing model. Turning to our balance sheet, we ended 2014 with cash of $38 million, flat compared to $37 million last year. We had $15 million outstanding -- of outstanding borrowings on our APL credit facility compared to $26 million last year. Available liquidity at year-end was $93 million.

Additionally, in January we completed a similar credit facility in Japan which provides approximately $15 million in liquidity at a very low interest rate. Our consolidated net receivables were $110 million, an increase of 19% compared to last year due to the increase in sales associated with the new product launches during the quarter with DSOs increasing to 75 days compared to 68 days last year. We remain comfortable with the overall quality of our accounts receivables. Our inventory balance was $207 million, a decrease of 21% compared to last year due to the change in product launch timing as well as continued improvements in forecasting and inventory management.

As a result inventory as a percent of trailing 12-month sales improved to 23% compared to 31% in 2013. We remain comfortable with the quality of our inventory at this time. Also, our trailing 12-month EBITDA increased 150% to $52 million compared to $21 million for the same period last year. Capital examples for the year were $11 million slightly better than our previous estimate of $14 million due primarily to a shift in timing.

Depreciation and amortization expense was $21 million year-to-date in line with our previous estimate of $22 million for the year. Now, turning to our 2015 guidance, because of the significant changes in foreign currency over the past several months and in order to give a better representation of the Company's improving operating performance I will provide the outlook for 2015 on both a constant currency basis as well as on a GAAP basis. Net sales are estimated to increase 1% to 4% to approximately $895 million to $920 million on a constant-currency basis. This growth is consistent with the guidance we provided last December and is based on an estimated 5% to 6% growth in our core channel business partially offset by a change in product launch strategy and a reduction in closeout sales compared to 2014.

On a GAAP basis due to the recent weakening of foreign currencies against the US dollar, sales are estimated to decline 1% to 4% to approximately $855 million to $880 million. Included in the press release today was an additional schedule summarizing the financial impact of changes in FX rates since our mid-December call. The overall hedge position against our major currencies along with the hedged rates and the impact future changes in currency rates would have on our operating margins taking into consideration our hedged position. Consistent with this past year we are approximately 70% hedged against our major currencies.

Additionally, for the first quarter we estimate the sales will be down mid-teen percent compared to last year due to weaker FX rates, the shift in product launch timing resulting in fewer new products being introduced during the first quarter compared to last year, and lower sales in Japan and as we anniversary last year's higher sales ahead of their consumption tax increase which became effective last April.

Gross margins are estimated to improve approximately 210 basis points to 42.5% on a constant currency basis compared to 40.4% in 2014. This improvement is due to continued efficiencies in our manufacturing and supply chain, favorable sales mix, and some pricing on new products. On a GAAP basis gross margins are estimated to be approximately 40%.

Operating expenses are estimated to be approximately $345 million for the full year on a constant currency basis compared to $327 million in 2014. This increase is due primarily to additional investment in marketing and tour spending as well as other normal annual cost increases. On a GAAP basis operating expenses are estimated to be approximately $335 million.

Pre-tax income is estimated to range from $29 million to $38 million on a constant currency basis with a corresponding tax provision of approximately $7 million. This compares to a pre-tax income of $22 million in 2014 with a corresponding tax provision of $5.6 million. On a GAAP basis pre-tax income is estimated to range from negative $1 million to a positive $8 million.

Fully diluted earnings per share on a constant currency basis is estimated to range from $0.28 to $0.38 based on 79 million shares outstanding, and compared to $0.20 in 2014 on 78 million shares. On a GAAP basis earnings per share are estimated to range from a loss of $0.9 to earnings of $0.01 also on a base of 79 million shares. We estimate capital expenditures to be approximately $50 million for the year and depreciation and amortization will be approximately $20 million. We will now open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). And your first question comes from the line of Dan Wewer at Raymond James. Your line is now open.

Dan Weweer - *Raymond James - Analyst*

Thank you. So, Chip (inaudible - background noise) the high-end at the forecast cost of currency it looks like a 5% operating margin rate in 2015. In the past you said a well run golf company should be able to run at an 8% margin. What has to change to move from this 5% forecast next year? What would -- what could [officially] give us the 300 basis points (inaudible - background noise).

Chip Brewer - *Callaway Golf Co. - President, CEO*

Yes, Dan. Good question. You know, what we've said in the past is that a well run golf company would be able to deliver somewhere in the neighborhoods of 7% to 8% operating margin and, you know, we still believe that was true. We do think that these currency rates provide a headwind against that, but when looking just at the currency-neutral basis, you can see that we have made nice progress, and continue to move towards that trend and what we will need to continue to do is basically the things that we have been doing in operational improvements and revenue growth. On a currency-neutral basis, you know, I believe that this was -- was and is trending very positive.

Dan Weweer - *Raymond James - Analyst*

No. I agree with that, but is the next 200 or 300 basis points an improvement [at] coming from an improved gross margin rate.

Chip Brewer - *Callaway Golf Co. - President, CEO*

Yes. It's gross margin and revenue growth both. You know, we are (inaudible - background noise) finished on our job of further improving the business on both metrics.

Dan Weweer - *Raymond James - Analyst*

And then just one other question. In looking at the 2014 segment data it appears that golf balls achieved a profit margin of 11% compared to about 7% for clubs.

Chip Brewer - *Callaway Golf Co. - President, CEO*

Correct.

Dan Weweer - *Raymond James - Analyst*

I can't recall that happening before. Now, the question is, if Chrome Soft is successful how will that impact margin rates for balls? I presume it will be even higher than 11% because you have better flow through at the Massachusetts facility.

Chip Brewer - *Callaway Golf Co. - President, CEO*

You know, growth in golf balls would be very helpful for Callaway Golf and that's an area where we're excited. The team has done a wonderful job in turning the golf ball business from a -- a money losing position to a profitable business, but as I mentioned during the -- my comments, we really hadn't grown it significantly. When I joined Callaway, it was $130 something million business. It's a $130 million something business now, but it's contributing significantly. Chrome Soft does have a technology difference with the SoftFast core that we're excited about and anything that we do to drive volume in that category could be a very significant contributor to the Company.

Dan Weweer - *Raymond James - Analyst*

Does the revenue forecast of cost of currency of $895 million to $920 million, does that assume flat results in golf balls or are you thinking that golf balls might grow 5% or 10% in revenues this year?

Chip Brewer - *Callaway Golf Co. - President, CEO*

I'm not going to break out the number for you, but we do assume growth in the golf ball category. We went into the year expecting growth in the golf ball category and that is factored into our guidance. You know, as mentioned Chrome Soft has gotten off to a good start but this is January so we're not going to over read or under read, hopefully, any of the signals that we're getting right now, but there is a significant opportunity here.

Dan Weweer - *Raymond James - Analyst*

Okay. Great. Thank you.

Chip Brewer - *Callaway Golf Co. - President, CEO*

Thank you.

Operator

And your next question comes from Scott Hamann at KeyBanc Capital Market. Your line is now open.

Scott Hamann - *KeyBanc Capital Market - Analyst*

Thank you. Just following up on the golf ball question. What's it going to take to grow that business? I mean seemingly you have some good products out there now. Is there a strategy to increase distribution I guess maybe this ties into accessories too and how successful have you been, you know, in those efforts and when should we start to see that happen?

Chip Brewer - *Callaway Golf Co. - President, CEO*

You know, what its going to take to grow that business is a point of difference vis-a-vis the competition, Scott, and we saw that a little bit last year with Supersoft. It was a very successful product for Callaway and it was, you know, as Ely would have said "pleasingly different, and demonstrably superior." What we internally believe and hope to be indeed fact is that Chrome Soft will have that same point of difference. A wild factor the consumer will recognize as superior to the other products. It's got a 65 compression, SoftFast core, it feels better than any other golf ball and we think we'll outperform it. If the consumer sees that, you know, I'm very comfortable that Harry will be able to market it and you still will be able to help communicate that as well. So, you know, that is really the essence of it. Our distribution in golf ball has improved over the last few years. We do have a concerted effort to continue on at that path, but what is fundamental here is going to be do we have the product point of difference that we hope we do.

Scott Hamann - *KeyBanc Capital Market - Analyst*

Okay. And just in terms of the retail landscape right now, can you give us a sense of how they are thinking about the season -- I mean taking inventory, ability to chase this and then if there's any differentiation between kind of the on-course and off-course distribution points.

Chip Brewer - *Callaway Golf Co. - President, CEO*

Yes and my comments will be in general, not specific to any one product, but the mood coming out of the PGA show was one of cautious optimism. There was an overall feeling that the industry was improving, that this is likely to be a good year and a overall positive vibe. There also was a general feeling and understanding that the industry was going to be a little bit more responsible, a little bit more focused on profitability and, you know, certainly inventory was discussed and you would expect there not to be excess on that. The industry has done a good job of working through some inventory issues that existed going into the last year. So overall vibe was positive and a lot of this of course will be determined as the markets open up, but very satisfying from my perspective, the general sentiment coming out of the show and in general going into the year.

Scott Hamann - *KeyBanc Capital Market - Analyst*

Okay. And then just finally on TopGolf it looks like you made another investment during the quarter. I guess can you confirm that and then did that increase your ownership position there? Thanks.

Chip Brewer - *Callaway Golf Co. - President, CEO*

Sure. Yes. We did. We made another investment I believe roughly $8 million brings our investment total there to 50.4. It increased our ownership percentage ever so slightly and we continue to be excited about that prospect for the business. That business continues to do very well and, you know, as you know we think that's going it be a positive for the shareholders of Adams Golf as that business continues to scale-up and be successful. Callaway Golf. Sorry.

Operator

And the next question comes from the line of Lee Giordano at CRT Capital. Your line is now open.

Lee Giordano - *CRT Capital - Analyst*

(Inaudible - background noise) I had a question on your pricing strategy for 2015. You have done a really good job of innovation. (Inaudible - background noise) Have you been able to increase your prices at all on these new clubs versus a year-ago? And I guess over a you will what would you expect the response for consumers to be on higher priced clubs this year? Are they responding well to the innovation and are they willing to pay a higher price? Thanks.

Chip Brewer - *Callaway Golf Co. - President, CEO*

Yes. Lee, in general we have moved prices up over the last several years and, you know, we have done that in concert with building exciting products that justify those price points and moves so you see that last year in Apex irons, you see it in the driver category, driver, you know, XR Driver that we will be launching here end of February, that's going to be at a math price of $349. Last year we were at I believe it was $329 and so, you know we don't see any push-back on the price movements. The consumer is adopting to higher price points when the product justifies that and that fits Callaway Golf beautifully. So we're pleased with what we see there and on a strategic basis we will continue to take advantage of those opportunities as they come up.

Lee Giordano - *CRT Capital - Analyst*

Great. Thank you.

Operator

(Operator Instructions). And your next question comes from next question comes from the line of Andrew Burns at D.A. Davidson. Your line is now open.

Andrew Burns - *D.A. Davidson - Analyst*

Thanks. Good afternoon and congratulations on some great share gains in 2014. Chip, I just wanted to get your view on the market improvement in the US and the UK that you mentioned in your prepared remarks and just in terms of your sense, do you this is more a reflection of the improving inventory positions at retail or do you see an underlying trends in the industry where the innovation is coming to market is resonating with consumers more? Thank you.

Chip Brewer - *Callaway Golf Co. - President, CEO*

You know, it's really difficult to proportion why I'm seeing or feeling, and there's a lot of consensus that things are improving. The inventory positions have started to settle out in the field so that's occurring. There were a lot of good launches during the second half of the year from Callaway and competitors, and consumers excitement about that. But even rounds played data started to settle out pretty well and I think people are looking at it a little bit more rationally. You know rounds played in the US were down last year. They were down 1.8%. But rounds played per playable hour were actually up 1%, and 1% down or 1% up is certainly within the rounding (inaudible - background noise) estimates. So the industry got off to a tough start last year due to the excess inventory, you know, and due to some weather problems early in the year. You know, that got probably over communicated and highlighted and you're starting to see it just kind of spring back to I think what's a more rational basis. So how to proportion all the different things that's difficult, but there is a sense of improvement, cautious optimism and at Callaway we're excited about our prospects. We have continued to improve this business over the last few years and we think we've got an outstanding lineup for next year.

Andrew Burns - *D.A. Davidson - Analyst*

Great. Thanks. And then in terms of the FX head wind and the dollar strength we're in a period where that's sustained for a few years. You mentioned changes in local pricing but are there any other structural shifts that you see opportunity that could potentially mitigate the impact of that headwind?

Chip Brewer - *Callaway Golf Co. - President, CEO*

You know, there are probably some small ones that we will look at. We made some decisions over the last few years which now seem relatively prescient. We put in our own assembly operation in Japan. We have assembly operations in Europe and in most of the major markets. You know, that will clearly allow us to shift some level of production capacity, but the biggest impact here given that most of our cost [includes] the price in dollars, and we believe the entire industry has the same issue in that we source from foundries that are primarily overseas, we primarily source in dollars, you know, a lot of the issue is going to have to be done through local pricing which that's going to take some time, but we will strategically look at that and we're optimistic that over time we will be able to restore much of that margin loss in those markets.

Andrew Burns - *D.A. Davidson - Analyst*

Thanks. Good luck and (inaudible)

Chip Brewer - *Callaway Golf Co. - President, CEO*

Thank you.

Operator

And your next question comes from the line of Casey Alexander at Guilford Securities. Your line is now open.

Casey Alexander - *Guilford Securities - Analyst*

Hi. Good afternoon. I've got a few questions for you. But first from a -- can you go over the ABL line again? How much was out on it at the end of the year versus how much was out on it the year before?

Brad Holiday - *Callaway Golf Co. - CFO*

Sure Casey. One second here. We had $15 million outstanding at the end of this year compared to $26 million the year before.

Casey Alexander - *Guilford Securities - Analyst*

That was $15 million, not $50 million, correct?

Brad Holiday - *Callaway Golf Co. - CFO*

Yes. One five.

Casey Alexander - *Guilford Securities - Analyst*

Okay. Great. Thank you. The -- there was a recent report out that highlighted Korea as the number three world golf market and -- and it seems as though looking at your rest of Asia sales that this is an under-penetrated market for Callaway Golf. Is there anything that you can do to penetrate this market better? I mean Korea is now listed as a larger market than the UK in terms of the world golf market.

Chip Brewer - *Callaway Golf Co. - President, CEO*

Casey, this is Chip. That doesn't match my understanding so I have always heard and still believe that the UK is larger than Korea and all of our data suggests that we have a leading position in the Korean market. That data is third-party data that matches my understanding from being there, that matches my understanding from when I was with another company competing against Callaway there, and that business has grown nicely over the last few years. So Korea is a -- a well-run operation for us and we -- we are successful in that market and I would not agree with it being the number three market in the world.

Casey Alexander - *Guilford Securities - Analyst*

Okay. Secondly, when I look at your inventories reported on a year-to-year basis they are down $56 million. Now, I know you did a launch in the fourth quarter and so if it was sort of an apples-to-apples comparison I would expect your ARs to be up a similar amount to account for the fourth quarter launch but the ARs are only up $17 million. Is this a further heightened sense of inventory control or are inventories, field inventories being marked down by the currency change or some combination?

Chip Brewer - *Callaway Golf Co. - President, CEO*

I'm going to -- one comment, Casey and then I'm going to throw it to Brad, but I think it's going to end up being a combination of things. Partly we changed -- we launched in Q4 last year for Big Bertha which would have been a Q1 launch this year. And then in addition our last year we launched X2 Hot in January and we're launching XR end of February. So each of those timing movements has an impact on our reported inventory as of December 31st that's simply time. Brad?

Brad Holiday - *Callaway Golf Co. - CFO*

And currency had a little bit of an impact also, Casey, so we did have some launches as Chip mentioned last year, but we also had a little bit of currency headwind on it so it's really just related to the sales we got during the fourth quarter this year and I do think it was impacted a bit by currency, also.

Casey Alexander - *Guilford Securities - Analyst*

Okay. Thank you for that. The putter market still seems to be not necessarily -- while your market position is good it doesn't seem to be keeping pace with the growth in your other areas of the business. Now, I know it's hard when you're number one to keep pushing it but what are you hearing from the distribution channel about you know eventually a long and [belly] replacement cycle trading into the more traditional type putters?

Chip Brewer - *Callaway Golf Co. - President, CEO*

The putter business has been obviously one of the only categories where we were down in revenues, so year-over-year I believe that was the only category we were down. The market in general was up a little bit in the US and, you know, flattish across the globe. The reason we were down, Casey, was just because of product launch timing. We moved to extend some product life cycles. We did not have a major launch in the putter category last year. We have got this Odyssey Works brand that you saw at the show that we're excited about coming out this year so if we have got our ducks in a row here we should have a much better year in the putter business this year. The replacement cycle for the long or anchored putters is happening around these counter balance putters, our version of that is Tank and there's continued excitement about it. There's a little bit of energy around that Arm Lock technology and we have an offering in that, but as yet that one is, you know, very, very small, almost exploratory. The counter balance putter seems to be the consensus.

Casey Alexander - *Guilford Securities - Analyst*

Right. Okay and I noticed that Titleist is taking some what at least appears on the surface to be some pretty aggressive pricing in Pro V1. What is the pricing of the Chrome Soft and how does that compare to the pricing of the Chrome Soft to the Speed Regime that came out last year?

Brad Holiday - *Callaway Golf Co. - CFO*

The Chrome Soft is at $37.99 [math.] The Speed Regime was I believe $37.99 so Chrome Soft is positioned a little differently there.

Casey Alexander - *Guilford Securities - Analyst*

Okay. All right. Great. Thanks for taking my.

Brad Holiday - *Callaway Golf Co. - CFO*

Casey (inaudible - multiple speakers)

Speed regime was $47.99. So there's $10 difference between Speed Regime and Chrome Soft.

Casey Alexander - *Guilford Securities - Analyst*

Okay. Great. Thank you.

Chip Brewer - *Callaway Golf Co. - President, CEO*

Thank you.

Operator

And now I would like to turn the call back over to Chip Brewer, CEO.

Chip Brewer - *Callaway Golf Co. - President, CEO*

I want to just thank everybody for calling in and your support over the last year. We look forward to talking to you again at the end of Q1. Thank you very much.

Operator

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