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ELY - Q3 2017 Callaway Golf Co Earnings Call

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OVERVIEW:

Co. reported 3Q17 consolidated net sales of $244m and fully-diluted EPS of $0.03. Expects Full-year 2017 non-GAAP net sales to be $1.03-1.04b and net non-GAAP EPS to be $0.47-0.51.

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PRESENTATION

Operator

Good afternoon. My name is Jesse, and I'll be your conference operator today. At this time, I would like to welcome everyone to the Q3 2017 earnings conference call. (Operator Instructions) Thank you.

Patrick Burke, Head of Investor Relations, you may begin your conference.

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

Thank you, Jessie, and good afternoon, everyone. Welcome to Callaway's Third 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; Bryan Lynch, our Chief Financial Officer; and Jennifer Thomas, our Chief Accounting Officer.

Any comments made during the call about future performance, events, prospects or circumstances, including statements related to estimated 2017 net sales, gross margins, operating expenses, taxes, earnings per share or estimated share count, future industry or market conditions, future growth or profitability, future investment or capital deployment, the creation of long-term shareholder value, the collectability of accounts receivable and salability of inventory, the estimated 2017 capital expenditures and depreciation and amortization expenses, the estimated OGIO and TravisMathew deal related expenses as well as other statements referring to future periods, and identified by words, such as believe, will, could, would, expect or anticipate, 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 changes to or risks and uncertainties inherent in the company's businesses or factors affecting the company's 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, 2016, filed with the SEC, together with the company's other reports subsequently filed with the SEC, from time to time.

Also, during the call, in order to provide a better understanding of the company's underlying operational performance, we will provide certain of the company's results and projections: one, excluding the reversal of the valuation allowance or applying an assumed tax rate of 38.5% to 2016 interim period results; two, excluding the gain on the second quarter 2016 sale of a small portion of the company's Topgolf investment; three, excluding the estimated OGIO and TravisMathew nonrecurring deal related expenses; and four, excluding interest, taxes, depreciation and amortization expenses, the Topgolf gain and the nonrecurring deal related expenses.

This information may include non-GAAP financial measures within the meaning of Regulation G. The information provided on the call today and the earnings release and related schedules 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 and related schedules are available on the Investor Relations section of the company's website at www.callawaygolf.com.

Please note that 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 join -- you can choose to join the webcast to listen to the call and view the slides. As a webcast participant, you're 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. Q3 was another strong quarter for our company and we're pleased to announce results that exceeded our expectations, based on strength in our woods business, continued growth in golf ball and the successful integration of our new business ventures Callaway Apparel Japan, OGIO and now, TravisMathew.

Our business delivered strong performance across most product lines and all major regions with revenues up 30% for the quarter and 21% year-to-date. We delivered particularly strong growth in woods, ball and the gear and accessories categories.

On a market share basis, for both the quarter and year-to-date, we believe we are the #1 driver and the #1 hard goods brand in the U.S., U.K., Europe and Japan.

In the U.S. specifically, we regained the #1 club brand position in 2015. And over the last few years, 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 32 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.

Over the last 2 years, we've made significant investments in our core business as well as in outside growth opportunities. In the core business, investments have included capital projects in our ball plant as well as addition to sales, marketing, tour and R&D. We continue to be pleased and excited about the results these investments delivered thus far and their long-term outlook. At a time where other companies are either exiting the hard goods space or being forced to cut back, we believe our strong financial position, with an ability and commitment to reinvest, will help differentiate us.

In addition, our investments in outside growth via our Callaway Apparel Japan JV, the OGIO acquisition and the TravisMathew acquisition are all meeting or beating our expectations and should provide incremental growth and profitability over the coming years.

With highlights on Slide 6, our financial performance continues to trend positively as evidenced in our gross margin and earnings performance. Our year-to-date income from operations is up 63% year-over-year and our trailing 12-month adjusted EBITDA has more than doubled.

Before I move on, I'd like to take this chance to thank the Callaway Golf team for delivering these results. The team should be proud of what we've accomplished. I'm also sure they understand we have a lot more to do.

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 has been strong this 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 the trends and 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 Q3 and year-to-date operational performance by region. In the U.S., our revenues were up 33% during the quarter and 24% year-to-date. Our hard goods market share year-to-date through September is 26%, up 330 basis points year-over-year, and we hold the #1 dollar market share position in total clubs, driver, fairway, hybrid and irons as well as the #1 unit position in putters. Our year-to-date ball market share is 14%, up 30 basis points versus last year, driven by strong growth in the green grass channel.

The U.S. market for balls and clubs combined as measured by Datatech is down slightly year-to-date, but was up in Q3, driven by growth in the green grass channel, which has had double-digit growth all year. This channel shift has most likely been strongly influenced by the bankruptcy of Golfsmith, which occurred in last year's Q3. We are anticipating improved market conditions across all channels for the balance of the year.

Turning to Page 9. Our Asia business also had a strong quarter led by Japan. Our revenues from the Japan market were up 28% for the quarter and 22% year-to-date, driven by the addition of our Callaway Apparel JV and a strong market share performance in our core equipment business, and a particularly strong start for the Epic Star Irons that were launched in Japan during the quarter.

Market conditions in Japan have been soft for most of the year, but improved considerably in September, concurrent with and probably influenced by the launch of our new irons as well as closeouts from a key competitor.

Through Q3, our year-to-date hard goods dollar share was 20.5%, up 460 basis points year-over-year and we were both the #1 hard goods and the #1 driver brand in this market.

Moving to Page 10. In Europe, the team continued their track record of strong performance, with year-over-year revenues up 23% for Q3 and 17% year-to-date. This has been driven by favorable market conditions in the region as well as strong market share growth, and only partially offset by currency.

Year-to-date market share data through August for Europe shows us at 25.5% hard goods share, up 370 basis points year-over-year as the #1 hard goods brand, driven by being #1 in drivers, woods, irons, hybrids and putters as well as the #2 ball brand with continued growth in our golf ball share.

Now on Slide 11. Looking forward, we're pleased to be able to raise guidance based on our operating performance and brand momentum year-to-date. We expect market conditions to show year-over-year improvement due to the improving industry fundamentals worldwide and the year-over-year effect of last year's Golfsmith bankruptcy in the U.S. and Canada.

Embedded in our balance of the year guidance is the consideration that during the second half of 2017 and especially in Q4, relative to last year, we have less new product being introduced along with considerable launch activity by competitors. This will negatively impact our revenue and market share during Q4, but we are comfortable with our position and launch cadence strategy for the long run. Along these lines, our 2018 product range is shaping up nicely. And I look forward to discussing it with you during our next call.

That's all for now. As you can imagine, based on our operating performance and the early results from the investments we've made over the last few years, we are as confident as ever in our strategy, and that we will be successful in creating long-term shareholder value.

Brian, over to you.

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

Thank you, Chip. As Chip mentioned, we're very pleased with our business performance so far this year. Our product sales have exceeded our expectations. We have gained market share and we have reinvested in our core business as well as in the acquisitions of OGIO and TravisMathew, both of which are performing at or above plan. Overall, we had a very strong third quarter with sales increases in all operating segments and in all reporting regions.

In evaluating our results for the third quarter and first 9 months, you should keep in mind some specific factors that affect the year-over-year comparisons. 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 those 2 acquisitions, we incurred some nonrecurring deal-related expenses. When discussing our non-GAAP results today, we exclude the nonrecurring deal-related expenses as that is how we evaluate our performance.

Third, the joint venture was formed in July 2016 and therefore, is only partially included in the first 9 months for 2016, but is fully included for the first 9 months of 2017.

Fourth, during the first 9 months of 2016, we did not recognize U.S. income tax expense because it was offset by our deferred tax valuation allowance. Almost all the valuation allowance was reversed in the fourth quarter of 2016, and we, therefore, recognized U.S. income tax expense during the first 9 months of 2017.

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. When discussing our non-GAAP results today, we exclude the Topgolf gain and the nonrecurring acquisition expenses, and we apply an estimated 38.5% tax rate to our 2016 interim period results as that is how we evaluate our performance.

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 through the earnings release we issued today.

With those factors in mind, I will now provide some specific financial results.

Turning to Slide 14. Today, we are reporting consolidated third quarter 2017 net sales of $244 million compared to $188 million in the third quarter of 2016, an increase of 30%. This reflects an increase in net sales in all operating segments and in all reporting regions.

Foreign currency negatively impacted international net sales by $3 million in the third quarter. The significant improvement was primarily due to a 67% increase in woods products driven by the EPIC line of woods, a 20% increase in golf balls and a 72% increase in gear, accessories and other, largely as a result of our newly acquired businesses, namely the TravisMathew and OGIO acquisitions, as well some incremental sales from the Japan Apparel joint venture. The growth was partially offset by the irons business being down year-over-year due to launch timing.

As you can see on Slide 14, gross margin was 43.1% in the third quarter of 2017 compared to 42% in the prior year. The 110 basis point increase compared to 2016 reflects an overall favorable shift in sales price and product mix due to the success of the current year EPIC woods, the successful launch of the EPIC irons and overall higher average selling prices.

Operating expense was $99 million in the third quarter of 2017, which is a $15 million increase compared to $84 million in the third quarter of 2016, driven by operating expenses related to the new business ventures and the TravisMathew and OGIO nonrecurring deal-related expenses, which were $3 million in the third quarter.

Other expense was $1.5 million in the third quarter of 2017 compared to other income of $1 million in the prior year. The slightly higher other expense in the third quarter of 2017 resulted from foreign currency hedging losses.

Operating income was $6 million in the third quarter of 2017 compared to an operating loss of $5 million in the third quarter of 2016. When excluding the nonrecurring TravisMathew and OGIO expenses, non-GAAP operating income for the third quarter of 2017 was $9 million, a $14 million increase compared to 2016.

Fully diluted earnings per share was $0.03 or 97 million shares in the third quarter of 2017 compared to a loss of $0.06 per share for the third quarter of 2016.

Turning now to Slide 15. I will cover certain balance sheet and cash flow items. As you can see, cash and equivalents was $82 million, which was down $43 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 and the stock repurchases earlier this year, which were partially offset by an improvement in cash provided by operations. Both deals were financed by cash on hand and our asset-backed credit facility, which was amended prior to the TravisMathew acquisition to include an incremental $60 million term loan facility.

Regarding our asset-based loans, we have $71 million of borrowings at quarter end as compared to no borrowings a year ago. Available liquidity, which represents additional availability under our credit facilities plus cash on hand, was $195 million at quarter end as compared to $212 million a year ago. We're pleased with this level of liquidity, given our recent deployment of capital for the Japan JV, the OGIO acquisition and the TravisMathew acquisition and share repurchases. We believe we are demonstrating our ability to generate free cash flow in the core business and are finding good opportunities to deploy that excess capital in the core business and in tangential areas.

Our consolidated net accounts receivable were $152 million, a decrease of 4% compared to 2016. Also, DSO decreased to 66 days compared to 72 days at the end of September. We remain comfortable with the overall quality of our accounts receivable at this time.

Also shown on Slide 15, our inventory balance increased by 19% to $187 million at the end of the third quarter of 2017, which increase was driven primarily by the additional inventory from the TravisMathew and OGIO. We remain comfortable with the quality of our inventory at this time.

Capital expenditures for the first 9 months of 2017 were $17 million, a year-over-year increase of $5 million due mainly to investments in our ball plant. Depreciation and amortization expense was $13 million in the first 9 months of 2017, which was about flat compared to the same period in 2016.

Finally, through the first 9 months of 2017, the company repurchased 1.5 million shares of stock for approximately $16 million in cash. This includes both open market purchases and shares acquired through the settlement of equity awards.

I'll now comment on our increase to 2017 guidance. As you can see on Slide 16, we are providing both GAAP and non-GAAP guidance. The non-GAAP guidance excludes approximately $12 million of nonrecurring deal-related expenses resulting from the OGIO and TravisMathew acquisitions. I will focus solely on the non-GAAP estimates in my comments.

As seen on Slide 16, 2017 net sales are estimated to be in the range of $1.03 billion to $1.04 billion, an increase of $159 million to $169 million over the prior year or 18% to 19% net sales growth. We currently estimate the change in foreign currency rates will adversely affect projected 2017 net sales by approximately $10 million as compared to our most recent prior estimate of $12 million.

We estimate that full year 2017 gross margin will be 45.8%, which is in line with previous guidance.

We estimate full year 2017 non-GAAP operating expenses to be $390 million, an increase of $9 million compared to previous guidance, driven primarily by the addition of the TravisMathew business; and variable expense related to the higher sales will also increase.

Net -- non-GAAP earnings per share are estimated to be $0.47 to $0.51, a year-over-year increase of $0.23 to $0.27 compared to 2016 pro forma results. The 2017 figures are based on 96.5 million shares outstanding.

We're also assuming a 34.5% tax rate for 2017, which is in line with the prior guidance. Pro forma 2016 results exclude the Topgolf gain, and the noncash benefit from the reversal of the deferred tax valuation allowance, and uses the actual 2016 full year tax rate of 41.3%.

We continue to estimate our capital expenditures in 2017 to be approximately $25 million to $30 million, although we are currently expecting to be closer to the high end of that range.

The capital expenditures are driven primarily by significant investment in our Chicopee, Massachusetts golf ball plant to upgrade our manufacturing capabilities. Depreciation and amortization expense is still estimated to be approximately $18 million in 2017.

That concludes our prepared remarks today. We will now open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Michael Swartz with SunTrust.

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

Could you give us just -- maybe, Chip, give us some more color on the market, how you see it playing out today maybe versus 3 months ago. What's changed, gotten better, gotten worse, relative to pricing, competitive environment, et cetera?

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

Okay. Michael, relative to price and competitive environment, not too much change. As I mentioned in my comments, I think the overall trend is one of improving market conditions and strengthening fundamentals. Europe has had a good year, all year this year, with the market conditions being up in that market. The U.S. market has been down slightly this year, but it's really a market correction going through that Golfsmith bankruptcy, in my opinion and an ongoing reduction in inventory in the field. And you can see, or I sense that the market is working through that nicely. And we expect to be through that by the end of the year with much more stable conditions going forward. The only fundamental or interesting change that we saw over the last 3 months was in Japan, specifically. That market had been down for the beginning part of the year, but late in Q3 pivoted, and had a very strong September. And so that was nice to see. And we are seeing more strength coming out of the Japan market right now.

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

Great. And then just the second question, I think you had mentioned it in the preamble, but just, I guess, talk us through the cadence of product launches for the back half of the year. I guess, what we need to be aware of as we think about modeling, anything that just, I guess, stands out to you?

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

Yes. The -- a lot of moving parts in terms of product launches here. But the net of this is that we have less new products being launched during the second half of this year relative to last year. And that will manifest itself mostly in Q4. The biggest issue among that is, last year, we launched the Steelhead Irons and the Steelhead Irons is a significant launch for us. It was lost really across quarters last year in September and October and is a meaningful product for us, where you're not launching anything that is anniversarying any of that type of volume this year. So you'll see a slight effect from a quarter perspective into Q4. You'll also see some of that in the market share data. But we're very comfortable with our position and the strategy of our launch cadence right now that just happens to have a little bit of an impact on the Q4.

Operator

Your next question comes from Dave King with Roth Capital Partners.

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

I guess, so first off, it looks like the growth in woods and, I guess, balls for that matter, actually accelerated from the second -- or for the quarter. I guess, given that it's the third quarter, is it fair to assume that that's more sell-through related versus sell-in? And is it better just to assume that that's more just due to the shift to green grass that you talked about, Chip? And then how much of that would you say is share gain related versus overall backdrop?

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

Dave, the -- all of it is -- it's our shipment data, so clearly, sell-in from that perspective. But it does -- it did exceed our expeditions in the wood category in terms of the continued strength, particularly of the EPIC product line. We knew we had a great product there and obviously, have had very, very positive results on that. But the market was a little stronger in Q3. And the demand for the EPIC product continued, particularly at green grass, but really, across all categories. And I think the same can probably be said for golf ball. So there weren't really any meaningful new product introductions that drove this. This was continued strength in core business there, primarily around the EPIC product line and then on the golf ball side across all of our premium golf balls, with green grass being the strongest channel segment.

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

Okay. Okay. That helps. And then, if I think about the growth in clubs revenue, how much would you say if that is ASPs versus units? And then, of the ASP increase, how much of that is higher MSRPs versus less discounting? And then the reason I ask is you've had a tailwind for some time in terms of your unplanned promotions, both you guys and the industry. How much should we expect of that going forward? How much room for that going forward is there?

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

Dave, I'm going to take the second part of that. I don't have the breakdown of how much of it is higher MSRPs. EPIC is commonly sold at $500 for the driver, that's higher than our previous price points. The cost of goods on the product is also higher due to the Jailbreak Technology. But certainly, we've been able to raise average selling prices. Certainly, there have been less promotional activity. I don't have a breakdown of what the relative percentage is between the 2, for you. I can tell you that the promotional activity in the marketplace has certainly abated over the last few years. It's much more rational. And I think it's structural in some ways. So I do think some of that will continue. There'll be ebbs and flows within that. But there's less excess inventory in the market at large, fewer larger players and really, a much more rational approach overall. So although I think there will be some ebbs and flows on that, I do think that it's a structural improvement in the market conditions.

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

Okay. Fair enough. And then one more quick one. Do we have, how much -- or what the organic growth was for either TravisMathew or OGIO during the quarter?

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

Yes. Brian?

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

Well, for TravisMathew, there wasn't any growth from the prior period because it was just acquired in August.

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

Understood. I mean for them, if we were to look at it -- assuming you owned it for that time.

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

Well, they were $6.2 million for the quarter in our results. And then OGIO was about $13 million for Q3.

Operator

Your next question comes from Susan Anderson with FBR Capital Markets.

Luke Chamberlain Hatton - *FBR Capital Markets & Co., Research Division - Associate*

This is Luke Hatton on for Susan. So I was just wondering if you could talk a little bit about your apparel positioning. So you have like the 3 apparel opportunities all operate in sort of different geographies. So what are you thinking for this footprint going forward?

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

Luke, you're correct. We do have, in essence, 3 apparel opportunities. And just for everybody's guidance on that, we have Callaway Apparel in the U.S. and Europe. We have Callaway Apparel in Japan. Those are separate business relationships. And Callaway Japan, we have apparel business that is a joint venture with TSI. And we have a licensed business for Callaway Apparel in Europe and the U.S. with PEI. And then over the last quarter, we acquired the TravisMathew brand, which will operate on a global basis, but is primarily a U.S. business right now. And each of those businesses operates independently. They all had good momentum and we are quickly becoming -- have developed a fairly relevant apparel business that we're very pleased with and believe each one of those is going to provide nice growth opportunity for us going forward. At this point, we're not at liberty to discuss too much more on a strategy basis for them other than what we've already disclosed relative to the TravisMathew plans.

Luke Chamberlain Hatton - *FBR Capital Markets & Co., Research Division - Associate*

Great. And then, so after those 2 acquisitions that are now sort of working into the system, how are you thinking about cash deployment going forward?

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

Luke, we're going to continue to look at it as we have. We're really excited that as the core business has turned around and started to contribute positively to cash generation that we've been able to find attractive investment opportunities both within our core and outside. As we anticipate that continuing to be the case, we'll be continuously evaluating those opportunities as well as other share buybacks and other ways of rewarding shareholders. And at this point, we are encouraged by those investment opportunities. We're also pretty aware that we've been fairly active over the last few months. And 2 major acquisitions for us over the last year, plus the Callaway Apparel JV, it is likely that we will probably take a break here shortly from -- on the acquisition side and digest this and make sure that we're comfortable that we're in the right position. But at this point, everything is going exceptionally well on that front. And when you look at over the long run, I think we're going to continue to behave like we have over the last year or so.

Operator

The next question comes from Casey Alexander with Compass Point Research.

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

Chip, I'm still very interested in where you think we are in anniversarying the shrinkage of the off-core specialty channel. Because obviously, that was an acute point for Callaway, which had a really good presence in that off-core specialty channel. And the transition away from it has been, I think, arguably much smoother than most people would have imagined. And I'm really interested in where you think that is going forward from here.

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

Good question and a good point, Casey. I think that the -- yes, the bankruptcy of the world's largest specialty retailer, it was a traumatic event that occurred last year during Q3. And historically, at least over the -- so for the last 5, 6 years or 10 years, Callaway had been very strong in that channel, both with Golfsmith and the other specialty retailers. So we were concerned about that, and it's ahead of schedule to be direct. The markets are digesting this. There's been a channel shift to green grass. What's helped us in this is we've also really strengthened our green grass channel over the last several years. And that has been our fastest-growing channel and a real significant source of strength and growth for us. We continue to do well and to cherish our position at the specialty retail. But obviously, having strength at the green grass channel as well has served us well. I think that the Golfsmith transition, it'll continue to evolve, but majority if it should be behind us by very early next year, if not, end of this year. The markets are absorbing it fairly quickly.

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

Well, that's really interesting. Let me ask you a question that sort of banks off of that. The -- a guy told me years ago that golfers never stop buying just because doors close, they just go somewhere else. And obviously, there's been a shift from off-course to green grass. Does that favor the 4 major companies? And does that really dampen -- does that offer all 4 of the major companies kind of incremental share because they're in that channel more than the secondary and tertiary guys?

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

Probably, Casey, to be direct, because it's a channel that's difficult to reach and to service. One of our investments areas has been in the sales side and that's been in more structure and support for outside reps, but also more outside reps. It's a channel that you have to be very attentive to. And it takes a fair amount of scale to properly accomplish that. So I would think it would favor the larger OEMs.

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

Also, are you guys experiencing acquisition costs that are less than you originally guided to on the acquisitions? And how much is still to come in the balance of the year?

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

Casey, it's Brian. No, I think we're pretty much right on track with what we expected. We probably just have a couple of million for the balance of the year.

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

Okay. All right. Well, Chip, I think -- opening up my spreadsheet that goes back a long way, I do believe that this is a all-time record third quarter for revenues. I don't know if anybody there looked it back, but according to my records, this is one is an all-timer. So congratulations on that.

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

Thank you, Casey. We're pleased, but not satisfied yet, as you know.

Operator

Your next question comes from George Kelly with Imperial Capital.

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

A couple of questions. To start with on TravisMathew, so wondering what the seasonality is there? What are the heaviest quarters? And then secondly, on TravisMathew, with distribution, where are you? I know when you first acquired it last -- couldn't talk to it the last quarter, you talked about sort of new distribution opportunities. Where are we in that and when should we start to see those opportunities layer into the numbers?

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

George, this is Brian. I'll answer the first part and defer to Chip on the second part. The seasonality is their biggest quarter is Q2, and a lot of their business is green grass. So as people start to play more golf, then the Q2 and Q3, but in order of magnitude, it's Q2, Q1, then Q3, and then Q4, so Q4 is their lowest. But as they grow, that could change to the extent they get more into retail and department stores, when you have more holiday opportunity. But for right now, it's Q2, 1, 3, 4.

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

And George, in terms of new distribution, that's going to be a long-term project. We continue to be very pleased. So we're only in to this acquisition a short time now. But the integration's going well. Their business continues to do beautifully. We mentioned it's a high-growth business for us and in the marketplace, they're continuing to show that. We do think there'll be opportunities to help them from a distribution side in the golf channels and internationally. And we do think that the brand can extend beyond just golf and has already started to do that. The -- most of that is going to be fairly long-term projects. Those are going to be things that you're really not going to see on a financial basis in a meaningful way until 2019. But fortunately, the business is delivering growth and has delivered growth and those trends are continuing. But the synergy part of it is going to be further out, but we're very pleased with it and continue to believe that there will be areas where we're going to be able to support and help further their growth over the long run.

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

That's great. That's helpful. And then just the last question from me on the golf ball manufacturing plant. That has received some incremental investment this year. When is that expected to be complete? And what are you most excited about when that's up and running? What does it get you, anything you can share on the call?

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

Sure, George. And there'll be more color on this next year. But this is a multiyear project started a year ago. It'll extend over 3 years as we see it right now at a minimum. It does multiple things for us. It improves the quality of the product and it also adds new capabilities from a technology perspective that we will be incorporating into some of our new products that we'll announce for next year and it also adds incremental capacity. And I'm really very excited about our ball business; the trajectory of that and the product that we have in the marketplace now and that we're working on for the future. So you hear us mention that ball plant and the investment and the growth of that business, and that has been a fundamental change for us and something that we're very excited about. We're, unfortunately, not going to be able to delve into all of it quite yet for competitive reasons and relative to when the products get launched into the marketplace. But that's something that we'll have more color on for you early next year and beyond.

Operator

Your next question comes from Rommel Dionisio from Aegis.

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

Chip, I wonder if you could just provide a little more color on rest of Asia. You've had some pretty strong results here these last few quarters. Obviously, I imagine you're getting market share there as you are everywhere else in the world. But I understood that there are some regulatory changes in the Chinese market that might have been impacting things. So could you just talk about some of the market conditions you're seeing in some of those markets in Asia outside of Japan, please?

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

Sure can, Rommel. The rest of Asia is -- includes several different markets, but primary in that would be Korea and China, with Korea being significantly the larger of those 2. We have a strong position in Korea and they have continued to perform very well. That team does a lovely job and those trends continue. And China has struggled over the last several years, but that has improved considerably over this last year. So we do see a change, an improvement -- changing trend and an improvement in the China market over the last year. In Korea, they've done a wonderful job, but the trend matches much of the rest of our business and has not been a step change relative to market conditions or the performance there.

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

Okay. And was there any kind of regulatory change in China or is just the market sort of getting better off a somewhat lower base?

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

Rommel, there's a lot of regulatory movement in China, nothing's jumping to mind right now in terms of marked change there over the last 6 months. But it's a choppy market from that perspective, as you know. And certainly, probably over the last year, as it ebbs and flows to golf being in and out of favor with the government over there, it has had less of a headwind. I wouldn't call it a tailwind yet. But we do believe that the market conditions have improved as well as our position within the market over the last year.

Operator

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

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

Well, thank you, everybody, for making the time to call in. We very much appreciate your interest and support. And look forward to talking to you early next year. Thanks, again.

Operator

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