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ELY - Q1 2016 Callaway Golf Co Earnings Call

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OVERVIEW:

Co. reported 1Q16 consolidated net sales of $274m, net income of $38m and EPS of $0.40. Expects GAAP net sales for 2016 to be $855-880m and 2Q16 to be $238-245m. Fully diluted EPS for 2016 is expected to be $0.40-0.50 and for 2Q16 is expected to be $0.33-0.37.

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PRESENTATION

Operator

Good afternoon. My name is Kyle, and I will be your conference Operator today. At this time I would like to welcome everyone to the Q1 2016 Callaway Golf earnings conference call. (Operator Instructions). Thank you. I would now like to turn the call over to Mr. Patrick Burke, Head of Investor Relations. Sir, you may begin your conference.

Patrick Burke - *Callaway Golf Company - Head of IR*

Thank you, Kyle. Good afternoon, everyone. Welcome to Callaway's first quarter 2016 earnings conference call. I am Patrick Burke, the Company's Head of Investor Relations. Joining me on today's call are Chip Brewer, our President and Chief Executive Officer, and Robert Julian, our Chief Financial Officer. I would like to point out that any comments made during the call about future performance, events, prospects or circumstances, including statements related to estimated 2016 net sales, sales growth, gross margins, operating expenses, pre-tax income, taxes and earnings per share, industry or market conditions, (inaudible) momentum.

The success of the Company's future products, long term profitability or performance, the creation of long term shareholder value, the collectability of accounts receivable and sale-ability of inventory, estimated 2016 capital expenditure and depreciation and amortization expenses, the negotiation and completion of the planned joint venture with TSI in Japan, and other future corporate development opportunities, including the timing or projected financial effect of such initiatives, and estimated value of the Company's Top Golf holdings or future Top Golf prospects, as well as other statements referring to future periods and identified by words such as believe, will, could, would, expects, or anticipate are forward looking statements subject to Safe Harbor protection under Federal Securities laws.

Such statements reflect our best judgement today based on market trends and conditions. Actual results could differ materially from those projected in forward-looking statements as a result of changes to, or risks and uncertainties inherent in the Company's business or Top Golf business. For details concerning these, and other risks and opportunities, you should consult our earnings release issued today as well as part one, item 1-A of our most recent 10-k for the year ended December 31, 2015 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 projects on a constant currency basis which essentially excludes all foreign currency gains and losses recorded during the applicable period and applies to prior period exchange rate to the adjusted current or future period financial information as though such prior period rates were in effect during the current or future period.

We will also provide information on the Company's earnings excluding interest, taxes and depreciation and amortization 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, 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.calawaygolf.com. I would now like to turn the call over to Chip.

Chip Brewer - *Callaway Golf Company - President, CEO*

Thanks, Patrick. Good afternoon everybody and thank you for joining us for today's call. Q1 2016 was another strong quarter for our Company. Our revenues met expectations despite challenging market conditions and our earnings exceeded expectations based on continued improvement in gross margins and overall operating efficiencies. Our Club business continues to be strong maintaining our leadership position in the US and our golf ball business continues to build momentum.

Industry dynamics continue to stabilize with highlights that include low overall inventories, less promotional activity and increased average selling prices. Currency rates are large drag on our GAAP result overs the last few years have also started to settle out and certain key markets such as Japan show signs of moving in our favor. Lastly, our minority investment and Top Golf is now beginning to publicly reveal some of its potential with an up round investment by Providence which would value our remaining position at approximately $212 million.

This, after a $18 million pre-tax gain and $23 million cash event associated with the sale of a small portion of our investment. The result of all of this is we are increasing our guidance for 2016 and are increasingly optimistic regarding our ability to create long-term shareholder value.

I would like to start by thanking the Callaway Golf team for their hard work and commitment to strengthening our business. 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. Let's start by taking a deeper look into the operational performance for the quarter.

In the US, our revenues were down approximately 5% primarily due to shift in product launch timing and also impacted by slower market conditions due to Q1 weather in Florida and California. Over the last few years, the North American team has led our improvement in overall profitability and grown revenues faster than the market overall.

I'm proud of the results and under the circumstances, I am similarly pleased with the Q1 performance. Our hard goods market share for the quarter finished at 21.6% up 100 bases points year-over-year. This was led by the strength of our XR-16 driver, Apex irons and our golf balls. We sustained our leadership position in clubs and strengthened our brand momentum and position in golf ball. Our green grass business was a particular highlight for the quarter delivering double-digit year-over-year growth.

We also strengthened our distribution position at Green Grass with year-over-year growth in golf ball distribution of 800 doors. Turning to Asia, market conditions in Asia were improved year-over-year led by 7% growth in the Japan market. Our revenues were roughly flat on a currency neutral basis and Japan hard goods market share at approximately 14.9% was down 200 bases points year-over-year but up from Q4 and roughly on par with that market share in 2014 Q1.

Looking forward, I believe we have a stable well-rounded significant business in the region which can successfully deliver future growth based on the TSI JV which is planned for later this year. We are also optimistic regarding the potential long-term profitability impact of this year's currency trends. However as you probably remember, we are largely hedged against FX movements in this calendar year.

Moving to Europe, revenues there were down on a local currency basis approximately 6% reflecting the shift in launch timing as well as challenging weather patterns in the UK which were partially offset by year-over-year strength in the balance of Europe. For the quarter, our UK hard goods share finished at 19.3%, up 270 bases points year-over-year. We are seeing strong results from both golf ball and drivers in that market as well.

I believe our European team has built a formidable business and is well positioned. In the UK, I expect Danny Willett's Masters win to resonate particularly well and I like our overall momentum. In northern Europe, I'm optimistic regarding our prospects based on changes in sales leadership made over the last few years. And lastly, our business in central Europe particularly in Germany has delivered exceptional market share growth over the last few years establishing Callaway as the leading hard goods brand in that market.

Moving to the operational side of our business, our cost management and overall operating efficiencies continue to drive upside in our business. Our gross margin improved 350 bases points year-over-year to an impressive 48.3%. And our continued strength here is allowing us to increase our expectations for the full year. This steady improvement is a result of strong operational performance in the manufacturing and supply chain, product and marketing excellence which has driven sell-through and improved market dynamics with less overall activity.

During the quarter the operations team successfully brought up to speed our European super hub distribution center located outside London in (inaudible) England, which represents a shift from a third party distribution center to our own facility aimed at lowering our costs and improving our service levels across the European market going forward. We also delivered on double-digit growth in custom club buy-in in North America.

Turning to the product front, our 2016 product range is performing at or above expectations in nearly every category. We're particularly pleased with the performance of our XR-16 drivers, Apex irons, Mack Daddy 3 wedges and chrome soft golf balls. All of which are delivering strong market share gains and delighting consumers. Looking just at golf ball for a moment, our March US dollar share of 13% was our highest on record and reinforces our belief in our potential for growth in this category. Turning to strategy. Continuously proving our core business has been the Keystone of our recent strategy here at Callaway Golf.

By now I would say it's fair to say this strategy has a proven track record. For example, our trailing 12-month EBITDA as of March 31, 2016, increased by 49%. This improved profitability along with an exceptionally strong financial position is now allowing us to move into the second stage of our strategy. One, which while continuing to focus on improvements in our core, will include strategically exploring business developing opportunities both within our core business and in tangential areas. Our planned joint venture with TSI in Japan is one excellent example of this.

We believe there will be more opportunities like this one, not necessarily in the same space or markets but similar and that we are uniquely well-positioned to take advantage of them. We intend to be thoughtful and strategic this endeavor. However, in due course we believe this will add meaningfully to our growth and shareholder value. Lastly on the strategic front, it was an eventful quarter for Top Golf where we maintain a minority position of just under 15%. That business continues to perform very well with organic growth via site expansion along with a strategic acquisition of the WGT mobile gaming business.

During Q1, top golf announced that providence equity had invested in the business. As part of this transaction, we agreed to sell a small portion of our equity position for which we realized in Q2 an approximate $18 million pre tax gain and $23 million cash infusion. The transaction also established a valuation for a remaining equity position of approximately $212 million. More importantly, Providence Equity was invited to invest in the business and agreed to do so because both parties believe there is meaningful upside and that Providence will help accelerate growth and create incremental value.

Beyond these main points, with a minority ownership position and private business, we are not going to be able to provide much additional detail or color on this business. More specifically, we don't anticipate being able to provide updated valuations without another benchmark or key event. Top Golf's business is expected to keep growing but the only reason we're able to provide an estimate now is because of the recent transactions. Looking forward, we are pleased to be able to increase our GAAP guidance for the balance of the year.

This increase in guidance reflects the fore-mentioned gain from the Top Golf transaction along with our sustained brand momentum, continued operational improvement including higher expectations for gross margins, confidence in industry conditions, and some help from currency relative to our initial guidance. In closing, I'm confident that Callaway Golf is in a much stronger position today than it has been in quite some time. I'm proud of what we've accomplished over the last few years and optimistic for the future.

Robert, over to you.

Robert Julian - *Callaway Golf Company - CFO*

Thank you, Chip. Today we are reporting consolidated Q1 2016 net sales of $274 million. Compared to $284 million in Q1 2015. A decline of 3.6%. Foreign currency variances negatively impacted revenues by $2 million in Q1. So on a constant currency basis, year-over-year net sales declined 2.6%. This decline was caused by product launch timing including the extension of life cycles in some product categories. Overall, Q1 revenue was in line with our expectations and previous guidance.

Looking at Q1 revenue on a regional basis, net sales in the US declined 5.1% to $160 million compared to Q1 2015, driven by the change in product launch time previously mentioned. Net sales in Europe declined 9.2% to $38 million. On a constant currency basis, Europe declined 5.9% compared to Q1 2015. Net sales in Japan increased 5.6% to $39 million. On a constant currency basis, Japan net sales increased by 1.1% compared to Q1 2015.

For the rest of Asia, net sales in Q1 2016 declined by 4% to $16 million. However on a constant currency basis, not sales for the rest of Asia increased 2.9% compared to prior year driven by a change in distributors in that portion of the market. Net sales for other foreign countries increased by 4.4% in Q1 2016 to $21 million. On a constant currency basis, other foreign countries net sales increased by 13% compared to prior year driven primarily by increases in Canada.

Gross margin was 48.3% in Q1 2016, compared to 44.8% in the prior year, an improvement of 350 bases points. This increase was driven by local price increases internationally, continued shift, mixed shift to inline business versus close-outs, less promotional activity and continued operational improvements. This favorability was partially offset by increased costs related to new product technology and negative foreign currency variances which decreased margins by 60 bases points.

Operating expenses were $87 million in Q1 2016, a 3.6% decline compared to 2015. This decrease was primarily due to lower variable selling expenses and timing of marketing expenses as we have consciously made a decision to shift marketing dollars from Q1 into Q2 and Q3. Even with the lower revenue, operating expenses as a percentage of revenue were unchanged at 31.8% in Q1 2016, compared to prior year. These results generated operating income of $45 million in Q1 2016 compared to operating income of $37 million in Q1 2015. A year-over-year improvement of 22.7%.

We had other expense of $5.5 million in 2016 Q1 compared to $500,000 of other income in Q1 2015. This change was due to the net impact of changes in currency rates on our outstanding foreign currency hedging contracts. These expenses were partially offset by a $1 million decrease in net interest expense related to the conversion of our convertible debt in 2015. The Company generated net income of $38 million in Q1 2016 compared to net income of $36 million in Q1 2015.

Earnings per share improved to $0.40 on 95 million shares in Q1 2016 compared to $0.39 on 94 million shares in 2015. On a constant currently basis, Q1 2016 earnings per share are $0.48, an increase of 23.1% compared to Q1 2015. Returning to net sales I would like to provide some more details by product category, all on an as reported basis. Wood sales were $86 million in Q1-2016, a 3.8% decline versus Q1-2015. Our driver business was up 8% due to the initial success of XR-16. That increase was offset by a decline in the hybrid category caused by year-over-year launch timing.

Iron and wedge sales were $59 million in Q1, a decline of 3.8% versus prior year. The success of our Apex iron's and Mack Daddy 3 wedges was offset by the lengthening of product life cycles which impacted our XR iron sales. Putter sales were $30 million in Q1, 2016, a decline of 3.9% compared to last year. Odyssey continues to have success in the marketplace with US dollar share increasing 3% to 34.7% March year-to-date, versus prior year. The reported decline is related to launch timing as we are in year 2 of our Odyssey works line of putters and launched the RX line in Asia in Q4 of 2015.

Golf ball sales were $41 million in Q1, a decline of 3.7% compared to prior year. The Chromesoft and Supersoft line of golf balls are continuing to have success in the marketplace. Our US dollar share increased to 12.2% March year-to-date, an improvement of 9.4% versus 2015 and our highest dollar market share on record. The decline in reported revenue was caused by launch timing on some of our new golf balls. Accessories and other sales were $58 million in Q1 2016, a decline of 2.7% compared to prior year.

Turning now to the balance sheet. We ended Q1 2016 with cash of $35 million compared to $23 million for Q1 of 2015. A 51.2% increase. Regarding our asset base credit facility, we had borrowings of $79 million at the end of Q1 2016 which is 16.3% lower than the $94 million of borrowings we had in 2015. Available liquidity's as of March 31, 2016 including cash improved to $148 million, a 31.7% increase versus prior year. Our consolidated net receivables were $233 million at the end of Q1 2016.

A decline of 11% compared to 2015. DSO decreased to 77 days compared to 84 days in 2015. We remain comfortable with the overall quality of our accounts receivable at this time. Our inventory balance is $186 million at Q1 2016. An increase of 2.6% compared to Q1 of 2015. We remain comfortable with the quality of our inventory at this time. Capital expenditures for Q1 2016 were $5 million compared to $2 million in 2015. Consistent with our expectation.

Depreciation and amortization expense was $4 million in Q1 of 2016, compared to $5 million in 2015. Our trailing 12-month EBITDA increased 49% to $46 million as of Q1 2016. The Company also bought back 328,000 shares of stock in Q1 2016 for just under $3 million in cash. I'll now comment on our 2016 guidance. Let's start with Q2 guidance. We estimate Q2 2016 net sales on a GAAP bases to be in the range of $238 million to $245 million an increase to 35.5% to 6.5% versus Q2 2015.

This anticipated increase in net sales during the second quarter reflects the Company's brand momentum and success of our 2016 product line, along with confidence in market conditions. Operating expenses are expected to be up, both sequentially to Q1 2016 and versus Q2 2015. Due to the change in timing of our marketing spend that I mentioned earlier.

We estimate Q2 2016 earnings per share on a fully diluted basis to be in the range of $0.33 to $0.37 per share on 95 million shares outstanding, an increase of $0.18 to $0.22 versus Q2 of 2015. This guidance includes an $0.18 gain related to the sale of approximately 10% of our Top Golf position. I'll now turn to the full year guidance.

We estimate full year 2016 net sales on a GAAP basis to be in the range of $855 million to $880 million, an increase of $10 million from our previous guidance. This increase is primarily due to strengthening foreign currency rates since the start of the year. Full year 2016 gross margin is estimated to be 44.5%, an improvement of 100 bases points versus our previous guidance and 210 bases points favorable to full year 2015.

This improvement versus our previous guidance is due to the positive impact of currencies and continued performance in our manufacturing operations and supply chain along with improved sales mix. Operating expenses are estimated to be approximately $348 million for full year 2016. This is slightly higher than our previous guidance of $345 million with the changing currency being the primary driver of the increase. Our 2016 earnings per share estimate on a fully diluted basis a range of $0.40 to $0.50 on 95 million shares outstanding.

This increase of $0.25 per share is accounted for by an $0.18 gain related to the sale of a portion of our Top Golf position, $0.04 of favorable currency impact versus our prior estimate, and $0.03 of improvement driven primarily by higher gross margin. While currency has improved relative to our previous guidance, it is still creating a slight headwind on EPS versus prior year with approximately $0.03 of negative impact. We estimate our capital expenditures to be approximately $15 million and our depreciation and amortization expense to be approximately $18 million in 2016.

Finally, I would like to mention that our current estimates for 2016 do not include any non-cash charges or benefits. For example it does note include any change in the tax valuation allowance on our deferred tax asset. However, as our US business continues to demonstrate sustained profitability going forward, we expect that this value valuation allowance will eventually be reversed. At that time we will generate a large non-cash income tax benefit that will also result in an increased to our overall estimated effective tax rate to approximately 38.5%. Of course our cash taxes will continue to benefit from our after-tax NOLs of approximately $96 million for some time going forward. That concludes our prepared remarks for today. We will now open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Your first question come from the line of Scott Hamann, from KeyBanc. Your line is open.

Scott Hamann - *KeyBanc Capital Markets - Analyst*

Thanks. Good afternoon. Chip, just kind of starting from a high level, kind of called out weather as a little bit of an issue in the first quarter. Can you kind of give us a snapshot where you see retail right now, inventory and, have you kind of seen maybe an up-tick in retail exiting the quarter here and maybe early into April as the season has opened up?

Chip Brewer - *Callaway Golf Company - President, CEO*

Sure, Scott. Yes. I mentioned weather. And that weather was really in the warm weather markets in the US as well as UK during Q1. Particularly early in the quarter. You saw the Data Tech numbers showed a slight decline in Q1. And similar weather conditions in the UK that were a little bit of a drag. But I wouldn't over read into that. It did have an impact in Q1. Entering Q2, we saw improving weather in March and I don't really at this point have any reference of whether April was up or down in relation to historical.

But we don't see anything that would give us concern on weather going forward at this point. Retail, I don't have anything for you at this point other than our expectation is that the slowness that we saw in Q1 was strictly a Q1 issue and that the markets will still hit our expectations for the full year.

Scott Hamann - *KeyBanc Capital Markets - Analyst*

Okay. And then can you quantify what the shift in the marketing expense from 1Q to 2Q and just some color around that decision to do that and maybe if that helps enhance your retail a little bit in 2Q and later and that's kind of what you're thinking?

Robert Julian - *Callaway Golf Company - CFO*

I'll start, Scott, this is Robert, just by saying we're not quantifying the specific amount of marketing expense. That shift is reflected on our full-year results. It is a little bit matching marketing to, you know, when our products are being promoted and people are buying, I'll let Chip speak more on that. But we're not breaking it out specifically how much of a shift there was in marketing.

Chip Brewer - *Callaway Golf Company - President, CEO*

You'll see a couple different things, Scott. And one is we talk about launch timing quite a bit to explain some of the variances and therefore with that change in launch timing, you would expect a natural and matching shift in timing of some of the expenditures. The other thing you see from us is that you'll see us market throughout the year, particularly in golf ball and we've seen some positive results associated with that.

Scott Hamann - *KeyBanc Capital Markets - Analyst*

Okay. And then lastly on the balls, can you give us some context on 800 doors? Kind of what percentage of the Green Grass adjustable market is that and just some of the reasons that you're hearing maybe why people are switching over? Does it have to do with some of the Plus-1 program or is it the product or what's kind of driving those decisions? Thanks.

Chip Brewer - *Callaway Golf Company - President, CEO*

It's, you know, 10% to 20% of the our possible doors. You see a nice trend, Scott, and the sales team in the US has done a really good job growing that business. Our Green Grass business was a key strength for us in every category in Q1 as it was in Q3 and Q4 of last year. We had a lot of success with Supersoft when we launched it. We had a lot of success with Chromesoft when we launched it. After we had those two successes, our pitch to go into Green Grass and motivate the Pro to support us was much stronger.

And so therefore you see some of these results and more people coming onboard. Our 12.2% market share for the quarter, 13% for the month of March is now our highest on record. So it's just the sense of a building momentum, you know, a more clearly defined No. 2 position in the category. I think the Pros are seeing it. I think retailers are seeing it. And as a result you're seeing strength in distribution that matches that which is really important because 45% of the golf ball business over the course of a year, according to the DataTech channels, 45% of it is the Green Grass channel. So nice to see us making that progress and an important strategic initiative for us.

Robert Julian - *Callaway Golf Company - CFO*

Is that it, Scott?

Scott Hamann - *KeyBanc Capital Markets - Analyst*

I'm good, thanks.

Robert Julian - *Callaway Golf Company - CFO*

Thank you.

Operator

Your next question comes from the line of Mike Swartz from SunTrust. Your line is open.

Mike Swartz - *SunTrust Robinson Humphrey - Analyst*

Good afternoon. Maybe following Scott's questions relative to the ball business. Kind of I guess interested in your take on the ball business in terms of just the growth rates we've seen the last couple quarters. I was a little I guess caught off-guard with the decline this quarter. Could you maybe give us a little bit more color behind that? Was there a shift in order patterns in the December quarter or it's more just launch timing?

Chip Brewer - *Callaway Golf Company - President, CEO*

Sure. Absolutely, Mike. Totally natural that you would have that question. And you'll see it quarter-to-quarter with us. It's sometimes tough to match up on a year-over-year basis as we move, you know, launch timing and make other strategic decisions that we believe are in the best interests of the long-term health of this business and creating shareholder value over that long term.

So you saw a surge in volume last year in Q4. If you look at the bigger picture, you see growth in golf ball. You saw last year 10% currency neutral growth in golf ball. You see market share trends. You did not see growth in our dollar revenue volume in the golf ball category this year in Q1. Strictly because of launch timing. And the two factors associated with that. One is that we replaced Chromesoft in the marketplace but we replaced it on top of Chromesoft that was already launched roughly a year ago. So therefore, the selling opportunity of the new Chromesoft was a little lower than it was when it was a fresh launch. At least at the retail side of the world which is the majority of the volume in Q1. There was also a specific product for a large customer that the launch timing was in Q1 last year that was not in Q1 this year. And so the big picture trends in the golf ball are very much intact even though you did not see that in this Q1.

Scott Hamann - *KeyBanc Capital Markets - Analyst*

And is it safe to say the 800 new Green Grass doors, I mean, that wouldn't be reflected in the market share data that you just gave us?

Chip Brewer - *Callaway Golf Company - President, CEO*

I would think that part of that would be reflected in the market share data, but I can't tell you to what effect. So if we have registered them as new doors, they took in 24 dozen golf balls, I believe. So to what degree and when they received those golf balls, I don't have that amount of granularity. The sell-through when we talk about market share, it's, you know, sell-through data and majority of Green Grass volume comes in Q2 and Q3.

Mike Swartz - *SunTrust Robinson Humphrey - Analyst*

Okay. That's helpful. Maybe a little more granularity as you talk about the custom club business. You've talked about it for some time growing at a double-digit rate. Could you give us a little more context of maybe where that is today versus five years ago and, you know, what's the potential for the custom club business in terms of your percentage of revenues?

Chip Brewer - *Callaway Golf Company - President, CEO*

It's a great question. I don't have as much granularity there as I would like to. So we'll take that as an action item to try to come up with a better representation and presentation for that going forward. It's been growing at double-digit rates, 20% growth now for multiple years. It's a great sign of brand strength. It's a great sign and ties with average selling price. It's a trend in the marketplace in terms of, you know, how clubs are sold and most premium product is bought. And I believe it will be, you know, more than half of the premium share at some point will come through a custom club or fitting operation.

So seeing us excel in that category and in some of our bigger retailers, especially retailers, you know, we are the leader with them now in that custom club business. And, you know, literally I had them giggle when I suggested that we might be able to do that, you know, four years ago. So it's a great success story. I mention it because it's so important for us but I don't have the data at hand specifically to give you the percentages with any degree of confidence.

Mike Swartz - *SunTrust Robinson Humphrey - Analyst*

Okay. Thanks, Chip.

Chip Brewer - *Callaway Golf Company - President, CEO*

Thank you.

Operator

Your next question comes from the line of Lee Giordano, from Sterne Agee. Your line is open.

Lee Giordano - *Sterne Agee - Analyst*

Just a question, Chip on the new strategic opportunities that you're looking at in the core business and also tangential areas. What are the metrics you're looking for here as you focus on new opportunities? Is it accretion potential, growth potential, synergy's? I guess I'm just trying to get a sense of how and what your thought process is as you're evaluating these opportunities. Thanks.

Chip Brewer - *Callaway Golf Company - President, CEO*

Sure and we know who you are. You know, when we look for is we do look for growth. We look for opportunities that are profitable. It's got to be accretive. It's got to provide us growth and we look usually for something where we're going to add some value to it and we're going to be able to help create value along that way. The TSI JV is a pretty strong example of that. That's one of those tangential ones. It's a peril. It's in a market that we know very well in Japan. In that case it's a shared brand. There are going to be a lot of synergy's associated with that.

The structure will enhance growth rates and, you know, we're excited about that one. So this shift in strategy as we've, you know, I think done a reasonably good job of turning the business around and we're in a strong financial position, comfortable with the strength of our core although, you know, I can't overemphasize enough that we are committed to sustaining our strength in that core first and foremost.

But the opportunity now to look at some of these growth opportunities is exciting for us and we're, you know, confident that that's going to add to growth and be accretive and deliver shareholder value.

Lee Giordano - *Sterne Agee - Analyst*

That's great. And then just following up, can you just remind us how the cadence of new product launches looks this year versus last year and how we should think about the back half?

Chip Brewer - *Callaway Golf Company - President, CEO*

Sure. I'm only going to give you a little bit on the back half for competitive reasons unfortunately. What we've done and we've announced is it that we've moved our iron life cycles to two years. So XR and Apex which are our primary iron franchises are both two-year cycles right now. And Apex was launched in Q4 of last year. It is doing beautifully, very happy with that product's market share performance, brand image. XR is now essentially in its second year.

We line extended that with XR-OS, a super game improvement offering that complements that category. The XR-16 driver is a two-year product as well. That was launched here in Q1. And, you know, during the second half of the year, we're going to have several more product launches but unfortunately for competitive reasons, I would rather not get into them at this point. They're not announced as of yet.

Lee Giordano - *Sterne Agee - Analyst*

Thanks a lot.

Chip Brewer - *Callaway Golf Company - President, CEO*

Thank you.

Operator

Your next question comes from the line of Andrew Burns, from D.A. Davidson. Your line is open.

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

Good afternoon, guys. Great start to the year.

Chip Brewer - *Callaway Golf Company - President, CEO*

Thank you.

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

Couple of questions for you. Great job handling receivable exposure amongst recent bankruptcies and, you know, we've seen you handle bankruptcies before all the way back to (inaudible). Just wondering if you look at the big picture here, the sporting goods retail channel seems to be evolving pretty quickly. Does this make you think about your distribution channel strategy any differently whether it's online or Green Grass going to the next three, five years as a long term?

Chip Brewer - *Callaway Golf Company - President, CEO*

Andrew, Chip here. The answer is primarily no because with our premium brand position and product range, you know, we really are concentrated, you know, top tier sporting goods, specialty retail Green Grass. And, we really didn't have significant exposure to that portion of the market in sporting goods that has struggled here as of late. So it's quite frankly not that impactful to us.

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

Great, thanks. And I was hoping you could comment on some of the recent product launches in the ultra-premium market whether it's Titleist or Parsons Extreme, there's very small runs but they seem to be break-through price points. Wondering if you could comment on the potential of the ultra-premium market or is it something that is worth paying attention to?

Chip Brewer - *Callaway Golf Company - President, CEO*

Yeah, sure, Andrew. You know, first of all, we pay attention to everything. And, you know, Titleist, we have a lot of respect for that brand and Company. Parsons is obviously new on the scene and doing their own thing and I'm sure they're creating a little bit of interest so we have respect for them and are definitely paying attention to them. These premium, ultra-premium small range products, we've done many of those ourselves. You know, both in the US and Overseas.

Often the putter category but could come in any which way. We have products such as sub zero driver now that is a very limited distribution product that really lines up exactly along the lines of some of the things that you're talking about there. So it's a strategy we're aware of. We use it from time-to-time and we'll continue to track it. And that's unfortunately all I can really comment on it at this point.

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

Great. Thanks and good luck for the balance of the year.

Chip Brewer - *Callaway Golf Company - President, CEO*

Thank you very much.

Operator

Your next question comes from the line of George Kelly, from Imperial Capital. Your line is open.

George Kelly - *Imperial Capital - Analyst*

Hi, guys. Just one question from me. Wondering if you could talk more about TSI and sort of what it allows you to do in Japan and what does this year look like, what's baked into guidance?

Robert Julian - *Callaway Golf Company - CFO*

I will start, George. This is Robert on the financials and I'll let Chip talk about the strategies and where it leads us. We have been in partnership with TSI for some time actually as a licensee, and we're forming this joint venture which is expected to launch sometime in the second half. In terms of this impact on the 2016 guidance and financials, it's actually fairly minimal. There might be a little bit of revenue in generating some income that will more or less offset the start-up expense so from an EPS point-of-view, it's almost no impact at all and we might get a very small amount of revenue.

It will be accretive in 2017. However we're not going to be breaking out that business as a separate reporting entity so we're not going to give specific guidance about the overall revenue and EPS that it will generate going forward.

Chip Brewer - *Callaway Golf Company - President, CEO*

And then George, this is Chip. Let me comment a little bit more on the strategic side of that. It does open up some really exciting paths for us. First of all, it's going to be accretive both on the revenue and bottom line perspective in 2017 so that in itself is exciting. The structure of our relationship previously was one where they were a licensee and it was contractual and we had a very good partnership but they were reticent to invest in that business because they didn't own the brand.

And, you know, at any one point in time, we could pull the license in a sense. We really have got a high comfort level with TSI and I think they with us. So by forming this partnership, the intent is that we're going to invest going forward and that apparel is really head-to-toe business there. So it would include footwear, it will include the apparel under the Callaway brand which is very strong in that market to start with. And it will be investments to grow that with the potential to look at other Asian markets for growth down the road.

So it has a lot of strategic merit to it. And we'll be excited to report on that as we go through the year and work like mad to get it up and running in a successful manner.

George Kelly - *Imperial Capital - Analyst*

And just one follow-up on that. The royalty structure, will that change at all?

Chip Brewer - *Callaway Golf Company - President, CEO*

You know, we're not going to comment on the specific economics of it and clearly it's a joint venture. We will have minority, sorry, majority position and the rest of that we'll leave alone for now.

George Kelly - *Imperial Capital - Analyst*

Gotcha. Thank you.

Chip Brewer - *Callaway Golf Company - President, CEO*

Thank you.

Operator

Your next question comes from the line of Casey Alexander, from Ladenburg. Your line is open.

Casey Alexander - *Ladenburg Thalmann & Company - Analyst*

Hi, good afternoon. I missed the numbers on the share repurchase program. Could you review that again?

Robert Julian - *Callaway Golf Company - CFO*

So we repurchased 328,000 shares in the quarter.

Casey Alexander - *Ladenburg Thalmann & Company - Analyst*

That was when I dropped the phone.

Robert Julian - *Callaway Golf Company - CFO*

328,000 shares in the quarter for just a little under $3 million in cash.

Casey Alexander - *Ladenburg Thalmann & Company - Analyst*

Okay. Secondly, can you give me a sense. What are you trying to accomplish when you're changing the way you're looking at currencies vis-à-vis the way you construct your guidance?

Robert Julian - *Callaway Golf Company - CFO*

The currencies have moved so dramatically over the last few years that we felt we had to break out and provide currency neutral guidance because they were massive moves. Even at the beginning of this year, I believe it was on the revenue side, $12 million in revenue, and it was I think $0.07 or $0.08 in earnings on $0.20, you know, gigantic portions. And it was much more significant than that going forward.

As the currencies during Q1 have moved to the point where it's insignificant, it's basically neutral for the full year on a revenue basis, it's a slight hurt year-over-year on the EPS and we are a going to continue to report on it but it clouds the reporting and conversation. You get lost in currency ether with all the different metrics and GAAP is in our opinion a cleaner and preferred path.

We'll do the math, Casey. We'll always tell you what the impact is but as Chip said, it's become so small now that if we were to give currency neutral guidance it would effectively look almost exactly like the "as reported guidance" and we would really prefer to use GAAP as reported numbers. If sometime in the future you get another huge shift and that becomes a big number, maybe we would revert back but our strategy right now or our intention right now is to talk about that as a variance like any other variance that we might talk about. You know, our actual results differ from guidance. We'll tell you if a certain amount of it was due to a change in the assumptions on currency.

Casey Alexander - *Ladenburg Thalmann & Company - Analyst*

Now does that mean we would then go back to square one next year when you reintroduce new hedges?

Robert Julian - *Callaway Golf Company - CFO*

Oh, no. Our goal is to use GAAP. And so, you know, and then just report on the impact of currencies we would normally do.

Casey Alexander - *Ladenburg Thalmann & Company - Analyst*

Well, I mean on the first became of the release it says that the gross margins and reduced operating expenses allowed the Company to more than offset $7 million in net foreign currency losses. Which is a little confusing the way that that's written given the fact that for last three years, it cost the Company money because currencies went against you and now it almost appears as though you're saying that it cost you money that currencies went for you.

Robert Julian - *Callaway Golf Company - CFO*

Yes. I think we have to separate what is our full year guidance that is just GAAP that is almost neutral in terms of currency and what happened in Q1 which did still have a fairly sizable currency impact. I had mentioned in my comments on EPS for example it was $0.08. You know, 20% impact on EPS in Q1. It sort of reverses itself. It was somewhat negative in Q1. It's going to be somewhat positive throughout the rest of the year. It turns out to be fairly neutral on a full year basis. And so the story is a little bit different, Casey, between what's happening in Q1 versus what's happening in our full year guidance and even the trend on currencies from what we're seeing in Q1 year-over-year and what we'll see in the rest of the year-over-year on currency, it does reverse.

Chip Brewer - *Callaway Golf Company - President, CEO*

You know, our intent here, Casey, is to simplify and clarify.

Casey Alexander - *Ladenburg Thalmann & Company - Analyst*

Well, I think you accomplished point 2 but not point 1.

Chip Brewer - *Callaway Golf Company - President, CEO*

I understand your point on that. The only change here was that we didn't provide future guidance currency neutral. Your comments aren't even related to that. Your comments are regarding Q1 performance where we're reporting everything just as we have. But that's the nature of this currency scenario. It does create a lot of interesting and challenging conversations. By providing GAAP guidance, we know what we're going to be reporting against. But as always we will reflect on your point-of-view and try to do that in which we believe is the benefit of shareholders and being transparent and clear.

Casey Alexander - *Ladenburg Thalmann & Company - Analyst*

Okay. When you did the call following the Top Golf transaction you suggested that the majority of the gain would be covered by the NOLs. Have you guys determined or gotten opinion on what the tax is going to be on the Top Golf gain?

Robert Julian - *Callaway Golf Company - CFO*

No. All we paid was a minimum tax, very, very minimal.

Casey Alexander - *Ladenburg Thalmann & Company - Analyst*

Okay. All right. In the ball share in the 13% in March, do you know what the No. 3 percentage share was? I mean how far had you separated yourself from No. 3?

Chip Brewer - *Callaway Golf Company - President, CEO*

Yes, we know and Robert will now sing to you. (Laughter).

Robert Julian - *Callaway Golf Company - CFO*

Year-to-date dollar share, Bridgestone Golf, make sure I'm on the right thing. On and off. 12.2 is Callaway. Bridgestone is 9.9.

Chip Brewer - *Callaway Golf Company - President, CEO*

Correct.

Casey Alexander - *Ladenburg Thalmann & Company - Analyst*

Okay. Thank you. And we weren't asking to divulge names.

Chip Brewer - *Callaway Golf Company - President, CEO*

We're trying to be transparent.

Casey Alexander - *Ladenburg Thalmann & Company - Analyst*

Yeah. All right. Okay. That's it from me, thank you.

Chip Brewer - *Callaway Golf Company - President, CEO*

Thanks, Casey.

Operator

Your next question comes from the line of Jonathan Abdili, from X.L.C. R. Capital. Your line is open.

Jonathan Abodeely - *X.L.C.R. Capital - Analyst*

Hi, everybody. Thanks for taking my call. I just had a question for you, Chip on Callaway Media Productions and Callaway's social media efforts. It's very exciting to follow. You guys generate great content and I view it as a very strategic competitive advantage and I'm just wondering if you could elaborate a little bit more about behind the scenes, how much you plan to leverage these assets? Yes, thank you very much.

Chip Brewer - *Callaway Golf Company - President, CEO*

Sure, Jonathan. Thank you so much for the question and, you know, it gives me an opportunity to just compliment Harry Arnett and the Marketing team and what a wonderful job they've done in really creating energy around this brand. Both in traditional and in the new age mediums.

The Callaway Media Productions our digital strategy has been kind of break-through for this industry. And it's creating a lot of energy and excitement. It reaches a young part of the golf community which is very brand enhancing for us. It reaches them in a manner which they enjoy interacting. It makes the brand more accessible.

And, you know, as we look at that going forward, we really do see it as a comparative advantage for ourselves. So I'm really proud of what they've done and you're nice to ask about it.

Jonathan Abodeely - *X.L.C.R. Capital - Analyst*

Great. I hope you guys figure out a way to leverage that because it really is an unique asset and a skill set that I think is a meaningful competitive advantage. Thanks again.

Chip Brewer - *Callaway Golf Company - President, CEO*

You see our brand metrics in terms of the brand strength appeal to more younger golfers, veteran players, etc., no doubt all of that is related to all elements of our strategy but certainly the Callaway Media Productions is part of that.

Jonathan Abodeely - *X.L.C.R. Capital - Analyst*

Great. Keep up the great work.

Chip Brewer - *Callaway Golf Company - President, CEO*

Thank you.

Operator

There are no further questions at this time.

Chip Brewer - *Callaway Golf Company - President, CEO*

Thank you very much, everybody for calling in. And we look forward to updating you after Q2. Have a great season.

Operator

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