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ELY - Q1 2015 Callaway Golf Co Earnings Call

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OVERVIEW:

Co. reported 1Q15 consolidated net sales of $284m, net income of $36m and EPS of $0.39. Expects 2015 GAAP net sales to be $840-860m and EPS to be loss of $0.03 to earnings of $0.04.

CORPORATE PARTICIPANTS

Brad Holiday *Callaway Golf Company - CFO, Senior EVP*

Chip Brewer *Callaway Golf Company - President & CEO*

CONFERENCE CALL PARTICIPANTS

Operator

Scott Hamann *KeyBanc Capital Markets - Analyst*

Randy Konik *Jefferies - Analyst*

Dan Wewer *Raymond James - Analyst*

John O'Neil *Imperial Capital - Analyst*

KC Alexander *Gilbert Securities - Analyst*

Andrew Burns *D.A. Davidson - Analyst*

PRESENTATION

Operator

Good afternoon. My name is Eric, and I will be your conference operator today. At this time, I would like to welcome everyone to the Callaway Golf First Quarter 2015 Earnings Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. (Operator Instructions). Thank you.

Brad Holiday, Chief Financial Officer, you may now begin your conference.

Brad Holiday - *Callaway Golf Company - CFO, Senior EVP*

Thanks, Eric, and good afternoon and thanks for joining our first quarter of 2015 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 the first 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 or circumstances, including statements relating to estimated 2015 second quarter or full year net sales, sales growth, gross margins, operating expenses, pre-tax income, tax provision, earnings or loss per share, and profitability, future foreign currency exchange rate changes or the Company's ability to mitigate their effect, future industry or market conditions, market share gains or brand momentum, the success of the Company's future projects, steadily improved performance or creation of long-term shareholder value, the collectability of accounts receivable and scalability 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 our most recent Form 10-K for the year ended December 31, 2014 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-over-period comparisons on a consistent and comparable basis, we will provide certain of 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 informations 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 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, the Company's website at www.callawaygolf.com.

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

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

Thanks, Brad. Good afternoon everybody, and thank you for joining us for today's call. Q1 2015 was a mixed quarter for Callaway Golf. Our revenues were lower than expected due primarily to stiffer headwinds from our International markets. Fortunately, however, I believe the positives outweigh the negatives and have relevance for the long term. These include improved operating efficiencies, where our profitability was higher than anticipated at these revenue levels and continued brand momentum as measured by market share and third party research. These positive factors along with the cautiously optimistic outlook for market conditions for the balance of the year are allowing us to raise our full year earnings guidance.

Overall, we remain pleased with our progress and outlook. With that said, I'll jump into some specifics. Revenues for Q1 were down 19% against guidance of a mid-teens drop. As you may remember, we expected a mid-teens drop due to foreign exchange, a shift in launch timing, where we've moved our premium wood launch from the first quarter into the second half of the year and the year-over-year effect of the April 2014 consumption tax increase in Japan. Approximately 1% of our Q1 mix was due to currency movements, which occurred after our guidance was provided in our January call.

Our Asian businesses were the most down during the quarter. Looking at Japan specifically, our business there was down 28% on a local currency basis. That markets face challenging conditions. The market was down approximately 14% during Q1 along with an inventory correction by several large retailers as they recalibrate to lower inventory levels in order to restore profitability into the business. This re-calibration is a move we understand and appreciate for the long term. Despite a less than stellar Q1, our brand position across Asia remains very strong and we remain optimistic for the balance of the year and the long-term.

Europe performed roughly consistent with expectations and our US business was the highlight for the quarter. For Q1, market conditions were roughly flat in both of these markets. The US business is continuing the strong turnaround story that has been non-folding over the last 3 years. We also had excellent performance from our India subsidiary where the team there is growing their business in an intelligent manner.

Turning to market share. Our business once again performed well, during Q1. In the US, our Hardgoods dollar market share was 20.6%, up 130 basis points year-over-year. In Japan, for the first quarter, we have Hardgoods market share of a 16.6%, up 150 basis points year-over-year. In the UK, our Q1 Hardgoods market share was 17%, down 80 basis points year-over-year. This global market share performance was driven by gains in Irons, Putters and Balls, partially offset by a small decrease in the Woods category.

Our recent launches had been well received by both the trade and consumers. We are pleased with the reception for XR Woods and Irons and excited by the reaction and the potential for the Odyssey Works Putters in Chrome Soft Golf Balls. We think we are positioned for a very strong year in Irons, Putters and Golf Balls. The Wood category is highly competitive this year, and we are most certainly going to hold significant position. However, due to our strategic decision to realign launch timing, the comps for our Wood business during the first half of the year are going to be more difficult.

We got off to a nice start on Tour this year with a lot of exposure energy being delivered to the brand. This last weekend alone, we had staff players finished first and second on the PGA Tour, as well as winning on both the Champions and European Tours.

Our cost management and overall operating efficiencies during Q1 were at expectations or better. We are encouraged by this trend and believe it bodes well for the long-term profitability of our business. Brad will have more color on this during his comments.

Speaking of Brad, being that this is his last earnings call, I'd like to take the opportunity to once again thank him for his many years of service. As Callaway Golf's CEO for more than -- CFO for more than -- I think I'm CEO, so that makes you CFO.

Brad Holiday - *Callaway Golf Company - CFO, Senior EVP*

That's right. That's right.

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

For more than 14 years, Brad has consistently demonstrated high integrity and professionalism. He has significantly contributed to the success of our business and I truly appreciate the opportunity to work with over the last three years. Thanks Brad, and good luck in your upcoming retirement.

Trying to fill Brad's shoes will be Robert Julian, who comes to us from Lydall Corporation where he has been CFO for the last few years. Robert is a strong candidate who separated himself during a rigorous search process. He will be joining the Company on May 11 and I look forward to introducing to you on our next call.

As discussed on almost all earnings calls of this season, foreign exchange has become a significant headwind for us and as a result, we have actively begun looking for ways to help address the issue. We continue to believe that it's unlikely that we'll find anything that could materially impact this year's results. Looking further forward however, in addition to continued improvement in operational performance, we should be able to mitigate the long-term impact through changes in local pricing and improved efficiencies. Still the process is going to take time, probably multiple years to fully adjust and recover.

Turning now to balance of the year guidance. I believe the industry has moved and outlook is cautiously optimistic for Q2 and the balance of the year. I also believe Callaway Golf will be able to sustain our brand momentum. As a result, for the balance of the year, we're holding to our constant currency growth forecast at 12%, that is for periods Q2 through Q4 and only revising our full year constant currency revenue guidance downward by an amount equal to our miss, first forecast in Q1, approximately $10 million on a constant currency basis, which was all in Q1. On the earnings side, thanks to improvements in operating efficiencies and revenue equality, we are raising our EPS estimates by approximately $0.04 to a range that has its midpoint at breakeven or slightly better.

In closing, although there is much work to be done, there is also reason for optimism. I'm confident that Callaway Golf is in a much stronger position today that it has been in quite some. The changes we have implemented are being noticed and are proving effective in driving increased consumer interest and improved operating efficiencies. I also believe that the industry fundamentals are improving. As a result, I remain confident that we are on track with our overall plans and that the plan will be lead to steadily improved performance in long-term shareholder value. I look forward to continue to keep you updated on our progress and appreciate your interest and support.

Brad, over to you.

Brad Holiday - *Callaway Golf Company - CFO, Senior EVP*

Thank you, Chip. Our results for the first quarter were as follows. Consolidated net sales were $284 million, a decrease of 19%, compared to $352 million last year. Sales were adversely impacted primarily by the shift in product launch timing, but also by changes in foreign currency rates and lower sales in Japan due to the consumption tax increase, which took effect in April of last year.

On a constant currency basis year-over-year sales declined 16%. Regionally, sales decreased 9% in the US to $169 million, while our international sales were $116 million, a decrease of 31% on a GAAP basis and 23% on a constant currency basis. Details by region are included in the attachment in today's press.

Gross margins were 44.8% compared to 46.9% last year, a decrease of 210 basis points. This decline was due to changes in foreign currency rates within the increases in costs related to new product technology being offset by increased pricing and operational improvements. On a constant currency basis, gross margins would have been 47% flat to last year, despite the lower sales during the quarter. Operating expenses were $90 million, a 12% decrease compared to last year due primarily to a shift in product launch timing. A majority of this favorable variance will shift into the second quarter with the balance falling into the second of the year.

On a constant currency basis, operating expenses would have been $93 million, a 10% decrease compared to last year. These results generated operating income of $37 million compared to $62 million last year. On a constant currency basis, operating income would have been $47 million or a decrease of 25% compared to last year. We had other income of $500,000 compared to other expense of $4.9 million last year. This shift was due primarily to the impact of changes in currency rates on outstanding foreign currency hedging contracts, which resulted in net gains this year compared to losses last year.

The Company generated net income of $36 million compared to $55 million in 2014 with earnings per share of $0.39 on 94 million shares compared to $0.61 in 2014 on 93 million shares. On a constant currency basis, earnings per share would have been $0.47.

On a product category basis, a schedule sales both on a GAAP basis and currency neutral basis was included as an attachment to our press release today. Additional details on sales by product category, on a currency neutral basis are as follows. Wood sales were $93 million, a decrease of 28% compared to last year, due primarily to the shift in timing of our Big Bertha premium products, which were launched during the past fourth quarter versus during the first quarter of the year. Iron sales were $64 million, a decrease of 12% due to the timing of our XR Irons, which were launched in late February compared to the mid-January launch of our X2 Hot Irons last year, as well as our Apex Irons, where a significant portion were launched during the first quarter last year. Putter sales were $32 million, an increase of 2% compared to last year due to the successful launch of our Odyssey Works line of Putters, which more than offset less closeout volume this year. Golf ball sales were $44 million, a decrease of 16% compared to last year as the successful launch of our new Chrome Soft ball only partially offset last year launch of two products, our premium Speed Regime line and Super Soft golf balls. Accessories and other sales were $64 million, a decrease of 4% compared to last year due to a decline in the sales of packaged sets, bags and gloves. The decline in bags was due to supplier issues as well as port strike delays.

Turning to our balance sheet, we ended the quarter with cash of $23 million, flat compared to $24 million last year. We had $94 million of outstanding borrowings on our ABL credit facilities compared to $141 million last year. Available liquidity including cash at the end of the quarter improved to $123 million compared to $76 million last year. Our consolidated net receivables were $262 million, a decrease of 9% compared to last year, due to lower sales this year. DSOs increased to 84 days compared to 75 days last year, due primarily to the shift in new products launch timings. We remain comfortable with the overall quality of our accounts receivables.

Our inventory balance was $181 million, a decrease of 26% compared to the 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 22% compared to 27% in 2014. We remain comfortable with the quality of our inventory at this time. Also, our trailing 12 month EBITDA was $31 million flat compared to $33 million last year.

Capital expenditures for the quarter were $2 million compared to $4 million last year, and we estimate approximately $15 million for the full year. Depreciation and amortization expense was $5 million for the quarter compared to $6 million for the same period last year, and we estimate approximately $20 million for the full year.

Now turning to our 2015 full-year guidance. For the reasons Chip mentioned, we are lowering our net sales estimate on GAAP basis to a range of $840 million to $860 million, a decline of 3% to 5% compared to $887 million last year. On a constant currency basis, this new estimate would equate to a range of $890 million to $910 million or growth of flat to up 3% compared to last year.

Second quarter sales are estimated to increase approximately 8% on a constant currency basis compared to last year or a plus 1% on a GAAP basis. Gross margins are estimated to be 41%, an improvement of 100 basis points from our last estimate of 40%, due to better than expected results in the first quarter, continued improvements in our manufacturing and supply chain, and improved sales mix over the balance of the year. This would be an improvement of 60 basis points compared to 40.4% in 2014. On a constant currency basis, this new estimate equates to 43.5% or improvement of 310 basis points compared to last year.

Operating expenses are still estimated to be approximately $335 million for the year, consistent with our previous guidance. This compares to $327 million in 2014, with the increase due primarily to additional investment in marketing and tour spending as well as other normal annual cost increases. On a constant currency basis, operating expenses are estimated to be approximately $345 million. As I mentioned earlier, a majority of the savings from the first quarter will move into the second quarter with the balance shifting to the second half of the year.

Pre-tax income is estimated to range from $4 million to $11 million with a corresponding tax provision of approximately $7 million. On a constant currency basis, pre-tax income is estimated to range from $36 million to $43 million or an increase of 64% to 95% compared to last year. This compares to pre-tax income of $22 million in 2014, with a corresponding tax provision of $5.6 million.

Despite the lower sales forecast, we are raising our estimate of fully diluted earnings per share to range from a loss of $0.03 to earnings of $0.04 on 79 million shares outstanding compared to our previous estimated range of a loss of $0.09 to earnings of a $0.01. On constant currency basis, this new earnings estimate per share would range from $0.36 to $0.43, an increase of 80% to 115% compared to last year. This compares to $0.20 in 2014 on 78 million shares.

We will now open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Scott Hamann, KeyBanc Capital Markets.

Scott Hamann - *KeyBanc Capital Markets - Analyst*

Just Chip, on the constant currency updated guide, you said you absorbed the $10 million hit in the first quarter and then the rest of the year was unchanged. Was that $10 million hit solely related to some of the underlying conditions in Japan?

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

Scott, I don't know whether I would say it's solely, but that was the primary factor. Our Asian businesses were down more than what we had anticipated. The market conditions there were a little bit worse than what we had anticipated and that was the majority of the miss.

Scott Hamann - *KeyBanc Capital Markets - Analyst*

And then for the balance of the year, can you give us a sense of what your underlying assumptions are in terms of just kind of general market growth in some of the larger areas and then your share expectations?

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

Yes, I'm not going to get real specific, Scott, but I feel positive about the outlook for market conditions at this point. I expect flat or slightly up in most markets and Callaway has demonstrated ability to compete very effectively in the marketplace and gain market share and I expect us to continue to perform at a high level. We're off to a good start market share in most parts of the globe, and I'm pleased with that performance. So I expect us to maintain a strong position through the year.

Scott Hamann - *KeyBanc Capital Markets - Analyst*

And then just on the GAAP sales guide, can you help us understand just some of the currency moves because it seems like sequentially from your last quarter that there wasn't a material move in some of your -- the basket of currencies at least that we track. Just trying to get an understanding of how we should think about that for the balance of the year.

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

Yes, the big movement, Scott, was really in the euro and then the Canadian dollar. Those are the two who have changed quite a bit from our original guidance. So that's really where a lot of the miss was from a currency with another percent higher than what we would have thought when we gave our original guidance.

Operator

Randy Konik, Jefferies.

Randy Konik - *Jefferies - Analyst*

So I guess, Chip, can you talk a little bit about the inventory levels that your channel partners are kind of seeing or talking about right now, how does the channel feel on inventory? Because I guess what's interesting to note is you're getting these share gains and while the margin structure of the Company, gross margin that is, continues to move higher.

So can you kind of give us some feel for what the channel feels like right now and then expand upon your comments around, the Wood category more competitive? I assume that your guidance or your thought process around the competitive nature around the category, assumes some promotional activity could occur in that particular product category. Just wanted to kind of get your thoughts there.

And then lastly, it feels like when you assess the different markets around the globe, it sounds -- it feels like there is -- you're getting more and more kind of visibility coming through on the North American market and in Europe, offset by almost a little less visibility in Asia. Can you kind of like walk us through, if that's the case and you know, when you think visibility might improve in the Asian market, particularly in Japan?

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

Okay. Let me see if I've got most of that. You want some comment on field inventories and promo activity in the Woods category and then visibility by changes by region. Did I get that Randy?

Scott Hamann - *KeyBanc Capital Markets - Analyst*

Correct. Yes, yes, sure.

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

The inventory in general, you know, if you look across the globe the retailers are probably stocking a little less inventory than they were a year ago. That was particularly acute in the international markets, but date effect also supported that. And if you look at the data set numbers and measuring the US market, retailers are carrying less inventory at the end of March this year than they did last year. So retailers are adjusting their business model.

What I think is the healthy way for the long term and carrying less inventory, but that clearly has an impact on manufacturing shipments, while that process occurs. So, improved over the position of a year ago, the feeling in the marketplace right now really, globally is one of cautious optimism and clearly I think improved fundamentals position.

Promo activity, there will definitely be some promo activity in Q2. There always is and there will be again, you know, the business has market share winners and losers that forces promo activity and then there's some normal planned promo activity. I think the overall level of promotional activity in the industry is going to be lower than it was -- has been in the past. That is another fundamental change going on in our industry, which I think is healthy.

And then in terms of visibility changes by region, I don't really see anything different going on there. You know, it just so happened in this last quarter that Japan market and the Asian markets in general were down a little bit more than we expected. But, I wouldn't say that I have less visibility in those markets than any other market. They just happened to be down this time while the other markets were essentially and might be flat.

Does that answer your question?

Operator

Dan Wewer, Raymond James.

Dan Wewer - *Raymond James - Analyst*

Chip, talking with some of the off course specialty retailers, they appreciate some of your competitors like TaylorMade becoming more rational and the number of drivers they currently have in their offering. But the feedback is that perhaps Callaway is maybe a little bit too aggressive with the number of product launches, new products out in the last 12 months. So I was curious as to your sounds as to whether or not maybe Callaway needs to simplify the driver offering.

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

I'd say, Dan that yes, we probably should simplify our driver offering going forward. We made a strategic decision to move to a different launch timing, and in doing that, we had some product launched a little closer to each other, that is ideal for the long-term. And also in doing that, we have to go through an awkward quarter, which this one just represented. I think it's the right thing for the long-term. And you know in different categories, we are lengthening product launch cycles, certainly in the Iron category, we've moved to 2-year cycles, in fact we're on 2-year product cycles on virtually every category except Woods now. We've changed launch timings, which we think is long-term best interest and strategic. So, there is always room for improvement, but also in general, I'd say a lot of what we've done must be doing okay because the consumers voting based on market share and brand rating and those reviews have been very, very strong and my feeling regarding relationships with the trade are also positive. So we're listening and always evolving a reaction, but I think we're doing more right than wrong.

Dan Wewer - *Raymond James - Analyst*

Right. The second question in regard to your comments around golf balls and I think you used the word potential, but also remember what [Dale Roy] used to say about potential being, you haven't done it yet. So I was just curious with when you think about the, what appears to be the success of Chrome Soft when comparing that I guess to some weakness with Speed Regime ball, how do you handicap via the golf ball business this year?

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

You know, I'm very optimistic regarding the golf balls. As you know, I think that -- I don't want to get ahead of myself, I'm not one who likes to over promise or I do talk about things relative to potential. But, we've had a very successful launch with Chrome Soft. In the over the last three years, we took a Golf ball business that was losing money and turned into a profitable business contributing significantly to our business. We now a product and technology that we think is just dynamite and differentiates in the marketplace, the sell-through of Chrome Soft has been very strong. The consumer reaction, those of who you tried it, love it. But as you said, potential means we haven't done it yet. So, we still haven't done all we want to do in golf ball, but I like our position and then like where we're trending.

Dan Wewer - *Raymond James - Analyst*

The last question I have and penciling through your updated constant currency forecast for this year, it's implying about a 5.5% operating margin rate with gross margin rate of 43.5%, which is almost back to the levels you were back in 2008. So, with that in mind and thinking about, well run golf companies should be in the 7% to 8% rate, how do we bridge operating margin rate, that makes 200 basis points that looks like it's going to kind of come from expense leverage. But I'm not sure there's really much more that you can cut.

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

The, you know,-- it doesn't have to come from the expense leverage per se. You're looking at Q1 and we are down Q1, the majority of our down in Q1 was the shift in launch timing. We feel like we're making good progress. We still have to overcome the FX impact, but we are committed to doing that. Also, that 7% to 8% target will get harder at these FX rates.

So that is another hurdle for us to get through. We're pleased with the progress, you're exactly right on your back of the envelope math there in terms of on a constant currency basis, we've delivered -- we would be delivering excellent results or certainly progress from where we were and we think we continue to make improvements. Now we have to get over both the FX and make further improvements from where we are. We're committed to do that and we'll continue to update you as we make progress against it.

Operator

[Lee Giordano, Sterne Agee CTR].

Unidentified Participant

Chip, for the past couple of years we've had late starts to the spring season, looks like this year at least in the Northeast, you've had another late start due to colder weather. What is kind of your thoughts on the early spring season throughout the country and has weather been any, has it had any impact on the business for you to sell-through at the retail stores or reorders?

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

We're kind of cautiously optimistic on the outlook and most of the customer base we're talking to are as well. They're pockets of the country and the globe that had rough winters that extended a little further into the spring then we would all like. There are other areas that are pretty good.

Then, that is, we think it should be better than last year and you know there is a lot of positives out there. So, weather at this point, we don't think it is going to be you'll pardoned upon the headwinds going into the balance of the year. But as you know that it could change, but at this point, the net some of it is, it looks like we should be in for a better season than last year.

Unidentified Participant

And then just secondly what types of manufacturing improvements have you been implement -- have you implemented to date, and then I guess what's left to complete that, that could result in further efficiencies as we move forward?

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

Yes, Lee getting into the specifics of those improvements will be beyond my ability during this call. As Dan just pointed out, on a constant currency basis, we would be delivering 43.5% gross margin. What you're seeing is greatly improved operating efficiencies, both on the Golf balls, it's the same continuation of that trend. We have a Golf ball business that was $130 million to $135 million business, it was losing money. We've made that same scale business profitable through operating efficiencies. And now we're driving more efficiencies through that same business unit. We're being more efficient in -- the corporate office. I am not going to be able to call out specifics in terms of that, but our throughputs, our efficiencies and the quality of our revenues. You can see our inventories are well down year-over-year. So, the quality of our sales is higher. There's just a lot of changes that have been going on now for several years starting to manifest themselves in the overall efficiency and profitability of the business.

Operator

Mike Swartz, SunTrust.

Unidentified Participant

This is actually Mitch sitting in for Mike. You discussed your Words and Balls outlook in good detail, but can you present some more color on Irons and Putters through the balance of the year?

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

Sure. The Irons and Putters are two categories Mike that -- I'm sorry, Mitch, that we are very excited about. Starting with Putters. Putters is a category where Callaway Golf has had a leadership position for some time with our Odyssey brand. We launched the product this year called Odyssey Works. It has a new in-serve technology in it. That combines great feel and role, and it is doing beautifully in the marketplace.

One of the more successful launches that we've seen in a long time, a big surge in market share, strong product differentiation, strong branding. And as a result, we're very optimistic for that category for the balance of the year. Similar story, in Irons of category where Callaway Golf has had a strong heritage position. Late last year, we had launched the Big Bertha Irons with Cup Face Technology. We've followed that with the XR Irons with Cup Face Technology. This Cup Face Technology delivers ball speed and across the face, unlike anything else we've seen, and through the 1Q in the US, we were the number one selling brand in Irons, in the UK, we are the highest market share coming out of marks that we've had in the history of that market. We've got outstanding differentiated product in the Iron category that should lead us to a strong year in that category.

Unidentified Participant

And then just one more on the gross margin. Give the number of puts and takes in the commentary you've made around Woods being more promotional in the second quarter? How should we think about the cadence of gross margin throughout the year?

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

Yes, Brad. I'll leave that one to you.

Brad Holiday - *Callaway Golf Company - CFO, Senior EVP*

Yes, I don't think Chip would say it would be, Woods be more competitive. I think he said the overall promotional activity would probably be lower this year. He just had mentioned earlier that it was a competitive market, but the inventories are in good shape, so we don't really see it that much incremental as a matter of fact, it's probably going to be a better environment. And typically our margins, if you just look at it kind of first half, second half, we are higher in the first half of the year as we're launching full priced in line product. And then plus you have the volume to go with it and then tail-off a little bit in the second half of the year. That's generally kind of the trend that we would see overall. But the good news is, as Chip pointed out that on a currency neutral basis, I mean, we're seeing significant progress compared to last year and that's really the result of good quality products and sales that we're generating as well as a lot of the operational performance that Chip was talking about in that, that seems to be sticking well, for us. So we're going to continue to keep pushing on that and the team is doing a great job in really driving efficiencies throughout -- across the whole spectrum of things that we do from a supply chain, and manufacturing perspective.

Operator

KC Alexander, Gilbert Securities.

KC Alexander - *Gilbert Securities - Analyst*

Sorry, if it sounds windy, but I'm in transit, I'm in the Northeast, so it's cold and windy. So most of my questions have been answered, but does your guidance presume sort of a similar second-half launch sequence as this last year did, which is sort of what has caused this gap in the first quarter?

Brad Holiday - *Callaway Golf Company - CFO, Senior EVP*

It does indeed KC.

KC Alexander - *Gilbert Securities - Analyst*

And secondly, just last week, I think 67 courses were shuttered in China and I know Callaway has some people on the ground there and I just wondered if you had any color about that and what you think it means for the China market going forward?

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

The China market like is soft, KC. Golf has rightly or wrongly got caught up in some of the government initiatives relative to anti-corruption and maybe excesses that could have occurred with government officials and such. And so, government officials aren't supposed to play golf. Golf courses aren't supposed to be open and it put a little bit of a shadow across the golf industry there as such time. So that market is dealing with that and might deal with it for some time until that sentiment ultimately changes.

KC Alexander - *Gilbert Securities - Analyst*

And, Brad, congratulations on your retirement again.

Brad Holiday - *Callaway Golf Company - CFO, Senior EVP*

Thanks, KC. Appreciate it.

Operator

Andrew Burns, D.A. Davidson.

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

Just a quick follow-up on the ball segment. Just trying to parse out the moving parts here in terms of product launches versus the overall trend here. And so I understand on the ball revenue, why it was down. Just curious as we move through the balance of the year, the potential to get a positive for the overall category for the year as well as, say you were able to do $137 million in revenue as you did in 2014, are there any large drivers one way or the other versus the very strong 11% margin you put up last year in that category?

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

I think the Golf Ball segment, we would expect to have some upside. So we're bullish on the category and we are selling through in the marketplace better this year with our launches than last year. So that provides both operating leverage and some volume potential. We're dealing with the FX issues that apply to Golf Ball as well. So that puts a little pressure on the gross margins there of all the international business, but the net is we're very optimistic on that Golf Ball segment and think it's a key strategic area for us going forward.

Operator

John O'Neil, Imperial Capital.

John O'Neil - *Imperial Capital - Analyst*

With respect to sales comparisons for this quarter were made unusual by a lot of different things, you got foreign exchange, launch timing, inventory reductions at retail, can you talk more about what you're seeing for sell-through rates? What is retail movement look like year-to-date for some of your different categories?

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

Okay. John, are you looking for market conditions or sell-through rates for -- by product category?

John O'Neil - *Imperial Capital - Analyst*

The more of sell-through rates by product category that you're seeing from your retail customers, right. If you get their POS data or you're talking to them, you maybe up at that retail, but they may not have ordered as much because they're reducing their inventory level or they're looking more at timing in second quarter replenishment kind of thing.

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

Our sell through rates is measured by market share, look very good. I'm quite pleased with the brand momentum and overall direction in most categories. Our Wood share is down slightly. I anticipated that. I've called that a highly competitive category. By that I just mean that there are multiple players right now that are doing well. We are doing well, but there is several other brands that are also doing well. I don't expect it to be more promotional, in fact I expect it to be less promotional than last year. Our Iron share is phenomenal, our sell-through is very good. I'm pleased and optimistic on that. Putters is very good, Golf balls very good, Soft Goods/Accessories is fine, nothing really matching expectation I guess. So overall, and this is a global answer right now. I'm very pleased with that brand momentum on most every category.

John O'Neil - *Imperial Capital - Analyst*

I guess I was looking at is more kind of dollar sales growth level, but I think you did comment that the market overall was kind of flat in US and Europe. Is that correct?

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

Yes, so the first quarter's flat in my estimate for the market in Europe and the US will be flat.

John O'Neil - *Imperial Capital - Analyst*

So that if you're gaining shares and you are up in local currency. So I guess my second question would be the revenue guidance implies for the back half of the year kind of sales growth of 6% to 12% in [GAAP] which is quite an acceleration. Maybe if you could just comment on the visibility there, why the increase and this is part of that timing of Woods launch?

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

Well, timing of the Woods launch for the second half will be anniversarying a similar launch. So you know it's really based on the brand momentum and the better outlook for the industry and overall. So those two things combined should show growth and that is what we're predicting.

Operator

There are no further questions at this time. Mr. Brewer, I will turn the call back over to you.

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

Thank you. I don't usually do this, but I'm going to actually provide a small closing comment. And when you look at our business and our industry after year of concerns being expressed about the industry, I believe there are more and more reasons for optimism for the long-term both at the industry and Callaway and I'd like to go through those real quickly. If you look at the sell-through data here in the US, there've been consecutive months of sell-through growth. The Rounds Played data since the second half last year onward has been positive. The (inaudible) participation data is showing that participation is stabilizing. There are several key growth initiatives by the PGA and other governing bodies that we think have potential. TopGolf is a wonderful potential catalyst for the game of golf and millennial participation going forward.

The customers, really across the globe are generally optimistic. The market is finally talking about being more responsible on inventory and focused on profitability and there is a great amount of excitement in Pro Golf. The ratings at this year's Masters were up significantly. The ratings of the PGA Championship ahead of that were up significantly. We've got young guns like Jordan Speith and Rory McIlroy as well as exciting young players on our staffs such as Patrick Reed, Harris English, Chris Kirk, Ryo Ishikawa among others that are exciting golfers, young and old.

Callaway itself has brand momentum in market share and we've demonstrated an ability to drive improved top operating performance and profitability. As a result, we are pleased with our progress and optimistic about the outlook. We appreciate your calling in today and we'll look forward to updating at the end of Q2.

Operator

Ladies and gentlemen, this concludes today's conference call. You may now disconnect.