CALLAWAY GOLF COMPANY THIRD QUARTER 2026 PREPARED REMARKS

Patrick Burke, Senior Vice President of Investor Relations and Treasury

Good afternoon, and welcome to Callaway Golf Company's third quarter earnings conference call. I'm Patrick Burke, Senior Vice President of Investor Relations and Treasury. Joining me on today's call are Chip Brewer, our President and Chief Executive Officer and Brian Lynch, our Chief Financial Officer and Chief Legal Officer.

Earlier today, the Company issued a press release announcing its third quarter 2026 financial results. Our earnings presentation, as well as earnings press release, are both available on our Investor Relations website under the "Financial Results" tab.

Aside from revenue, the financial numbers reported and discussed on today's call are non-GAAP measures. We identify these non-GAAP measures in the presentation and reconcile the measures to the corresponding GAAP measures in accordance with Regulation G. Please note that this call will include forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from management's current expectations. Please review the safe harbor statements contained in the presentation and the press release for a more complete description.

With that, I would now like to turn the call over to Chip.

Chip Brewer, President and Chief Executive Officer

Thank you Patrick. Good afternoon everyone, and thank you for joining our call today. We are pleased to report another quarter of strong results, including continued excellent year-over-year progress on margins. These results support us raising guidance for the full year and reaffirm that we are building momentum as a focused, pure-play, golf company.

I want to thank The Callaway and TravisMathew teams for their continued focus and contributions. Our teams are executing well in a dynamic environment, and managing the business with the right balance of confidence, agility, and discipline.

I'd also like to remind everyone of the significant transformation our company has accomplished over the last year. In late May of last year, we completed the sale of Jack Wolfskin, and then in January of this year, we completed the sale of a 60% interest in Topgolf. This returned us to being a pure play golf equipment company.

As we made this transition, we recognized the opportunity that it created to refocus on our core business and make meaningful changes and improvements. These transactions quickly allowed us to transform our balance sheet and our capital allocation strategy. Accordingly, as we entered this year, we announced a new $200 million share repurchase program which we have been steadily executing against with approximately 42 million dollars in repurchases in both of the first two quarters of this year and approximately 50 million dollars this last quarter. We also paid off approximately $1.4 billion in debt. We now have a terrific balance sheet, one that de-risks our business and positions us to be able to both reinvest in our business and return capital to shareholders over the long term.

We have also made significant improvements to the profitability of our business through our highly successful gross margin initiatives, as well as strategic changes to our launch cadence which we believe will benefit us in the long term. Our margin profile is now back to healthy levels; and, in the long-run, we see further opportunity here, particularly as we plan to gain market share in the years ahead.

In the last several months we also strengthened our organization with the addition of two outstanding leaders, Harry Arnett as SVP and Chief Brand Officer and Eddie Erkmanis as SVP Global Sports Marketing, both of whom have proven track records of delivering differentiated results in their respective areas. I'm thrilled to have these two leaders on our team and, over time, I believe our shareholders will be too.

Lastly, we always remain committed to strengthening our product capabilities and we see new opportunity here as well. To this end, today we are announcing a $15 million investment in a 3D printing facility that will be located adjacent to our North America Distribution Center in Ft Worth Texas.

We have been researching this technology for approximately 7 years now and producing both prototypes and custom models internally since late 2022. We believe this technology is going to be transformative for the club category and this investment positions us for leadership in this area.

We expect the new facility will come online mid next year, and beginning in 2028 it will support a portion of our US product needs, focusing on custom Titanium product. It will also further support and develop our R&D expertise in this area.

For many years now, there have been no scaled vendors or competitors manufacturing titanium clubs in the US. And, to the best of our knowledge, outside of China, there is no scaled capacity for the 3D printing of titanium clubs using the complex engineering designs and specifications that we require. We intend to lead the golf industry in the development of this technology, and this will be the first facility to support US production of golf clubs in many years.

Zooming in a little closer, a portion of next year's product line will also feature this technology, and it will do so in an interesting and productive way that benefits performance. We look forward to announcing that product to the world in early 2027, discussing it with you on our next call, and to unlocking the full potential of this new technology platform over the next several years.

Now Turning to our recent results. Q3 revenue was $437 million, down 6% year-over-year due to our previously announced decision to launch less product in the second half of this year, but ahead of expectations due to stronger than anticipated acceptance of the products we did launch during the quarter. Adjusted EBITDA was $36 million, up 17% versus the prior year and also above expectations.

For the 9 months year to date, revenue was up 3%, Adjusted EBITDA increased 31% and EPS is up 144%. We believe this revenue performance was slightly better than the broader market across both the Callaway and TravisMathew brands, and the earnings growth demonstrates the operating leverage and execution benefits of our more focused golf platform.

Our gross margin expanded approximately 520 basis points in Q3 and 410 basis points year to date. This significant year-over-year improvement reflects excellent progress against our margin initiatives and the benefits of portfolio actions designed to improve the long-term quality of our revenue and earnings.

Turning to market conditions. After a surge in market performance last year at this time, market conditions were roughly consistent with our expectations in the quarter. US rounds played were down 5% in the quarter, likely due to weather, and are approx flat on a YTD basis. To put that in context, I'd like to remind everyone that 2025 was a record year for rounds played. Moving to sell through: Q3 US ball and club retail sell-through was down approx. 3% in the quarter, but up approx. 6% on a two-year stack basis. YTD, US ball and club sell through is up 1% and nearly 8% on a two year stack basis. Overall, we continue to see the US markets as healthy, with positive long-term trends in participation supported by a committed and enthusiastic player base.

In the UK, we estimate that our trade partners', year to date, ball and club sell-through is down low single digits with rounds played also down simply due to unfavorable weather year over year. In Japan the market was down 1.5% in Q3 and is flat year to date, while market conditions in Korea remain down approximately 10%.

Given the current amount of macroeconomic and geopolitical uncertainty, we are pleased with these market conditions. We of course are closely monitoring the same consumer and geopolitical risks as everyone else, but we also know that golf spending has historically been resilient, and we don't see anything that changes our long-term positive view for golf overall.

In Golf Equipment, the portfolio continues to show strength across several important categories.

In Golf Ball, the Chrome Tour family and Supersoft franchises continue to resonate with consumers, and our share progress continues to validate the investments we have made in product performance, manufacturing capabilities, and green grass distribution. Our year to date US market share is just over 22%, up 163 basis points, with on-course share just over 23%.

In clubs, the Quantum family of woods and irons has continued to receive positive market feedback. Within the woods category, high-lofted fairway woods have been a particularly strong area for the industry overall and for Callaway. This year we launched an innovative new offering

into this category we call Mini- Spinners. These have been particularly well received both in the US and in Japan.

Lasty, our putter business benefitted from a strong reaction to the Turtle putter which launched in Japan in early August. This product helped our Japan putter market shares jump to 40% post launch. This product is already on tour and will be launched globally later this month.

Turning to the apparel and gear segment, the Callaway brand performed roughly in line with expectations while Travis Mathew maintained its strong start to the year and performed slightly ahead of expectations.

At Travis Mathew, consumer response to the women's offering remains positive, and the brand continues to gain ground in the important men's golf category, supported by clearer product pillars, more focused marketing, and exciting new products.

Now moving to our forward guidance. Given the continued strength of our performance we are increasing our full-year revenue forecast by approximately 14 million dollars at the midpoint. This increase reflects our Q3 outperformance plus an incremental 2 million in Q4. It puts us on track to grow our topline this year, even in the face of the strategic decision to exit certain less profitable product sku's and lengthen lifecycles in our iron business. On the bottom line, we are increasing the midpoint of our full year EBITDA guidance by approximately 23 million dollars. This represents the Q3 beat, modestly better margin expectations for Q4, and the flow through of the incremental revenue for Q4.

In closing, we are encouraged by the fact that the game of golf remains healthy as does our financial position. In the first 9 months of this year, we outperformed the golf markets overall, delivered strongly on our gross margin initiatives, and are building a track record for consistently returning capital to shareholders.

And, perhaps more importantly, as we are now ¾ of a year into our return to being a focused, pure play golf company; we are both enjoying and benefitting from the added focus that our new structure provides. As we entered this period, we embraced the opportunity and have made significant operational improvements aimed at further strengthening our business going forward. Many of these changes are now in place, including an upgraded leadership team, strategic shifts in launch timing, sku and retail store rationalization, and an improved margin structure. Others are now starting to take shape, including today's announcement of a new product technology platform that we have been researching for some time and that we are excited about going forward. All of this gives us increased confidence in our long-term ability to continue to outperform the market, to build a stronger company, and to drive shareholder value for our investors.

With that, I will turn the call over to Brian to review our financial results in more detail.

Brian Lynch, Chief Financial Officer and Chief Legal Officer

Thank you, Chip, and good afternoon, everyone. As Chip mentioned, we are pleased with our third quarter performance as both revenue and EBITDA exceeded our expectations. This performance reflects our continued execution against the strategy and priorities we outlined earlier this year for improving profitability, including a strategic shift in irons launch timing, rationalization of lower margin business, and investments in fitting, as well as gross margin expansion and operating cost management. We also continued to return capital to shareholders as we repurchased approximately $50 million of our common stock during the quarter, bringing the year-to-date total to $135 million. While there is more work to be done, our transition to a pure-play golf company is off to a great start.

Now let's turn to our financial results in more detail. Please note that on today's call, I will be discussing our non-GAAP financial results from continuing operations unless otherwise noted. We have provided in our earnings release today a reconciliation of these non-GAAP results to the GAAP results and we provided additional information about the discontinued operations.

With that said, third quarter consolidated net sales decreased 6% year-over-year to $437 million, which was better than expected. The strategic shift in irons launch timing and rationalization of lower margin business, although beneficial in the long-run, impacted net sales during the quarter as expected. We also were lapping strong market conditions in Q3 of last year when U.S. sell-through was up approximately 10%. Changes in foreign currency exchange rates also negatively impacted net sales in the quarter by approximately $4 million. The anticipated decrease in net sales, however, was partially offset by an increase in TravisMathew net sales as well as better than expected launches of the Company's Mini Spinner as well as the TRTL putters in Asia. And as I will discuss further in a couple of minutes, we now expect full year net sales to grow this year; even after the impact of the strategic initiatives previously mentioned.

Q3 gross margin increased approximately 520 basis points year-over-year to 45.0%, driven primarily by continued progress on our gross margin initiatives and a 110 basis point benefit from lower tariff rates. Excluding the tariff benefit, gross margin increased 410 basis points year-over-year. The improvement was broad-based, with margin expansion across all major categories. Importantly, these results reflect the continued benefits of our efforts to simplify the business, improve profitability and focus on higher-return categories and products.

Q3 operating expenses increased slightly year-over-year to $181 million, reflecting cost-of-living increases and other inflationary pressures that were mostly offset by broad-based cost discipline and ongoing expense-reduction efforts across our teams as well as a shift in the timing of approximately $2 million in marketing spend from Q3 into Q4. A portion of the cost-saving initiatives were driven by lower corporate overhead expenses, which declined 4% year-over-year in Q3 and 11% year-over-year through the first nine months of the year.

Adjusted EBITDA of $36 million increased 17% year-over-year. This improvement was driven by the improved gross margins and lower corporate overhead.

Our September 30th inventory increased slightly year over year. Based upon current estimates of the timing of new launch products, we expect inventory to be up at the end of the year. The amount depends on how much new launch product we receive at the end of 2026 versus the beginning of 2027.

Moving to liquidity, we ended the quarter in a net cash position. As of September 30, 2026, we had $76 million of outstanding debt, including $26 million of finance leases, and $434 million of unrestricted cash and cash equivalents. Total available liquidity, which consists of cash on hand and availability under our credit facilities, was $815 million at the end of the third quarter of 2026, compared to $1.26 billion at the same time last year, a decrease of $441 million, which is primarily due to cash used for our debt paydown of $1.4 billion in the first half of 2026.

During the quarter, we continued to return cash to shareholders and have now repurchased approximately 9 million shares through September for a total cost of approximately $135 million. Broken down by quarter, this year we repurchased approximately $42 million of stock in the first and second quarters, and approximately $50 million in the third quarter. As of September 30, 2026, we had approximately $70 million of repurchase authority remaining under our current program.

Looking ahead, Callaway Golf's capital allocation priorities remain unchanged as we focus on:

1. Reinvesting in our business
2. Maintaining a healthy balance sheet and
3. Returning capital to shareholders through the $200 million stock repurchase program authorized earlier this year

As we continue to generate free cash flow in excess of our business needs, we will work with our Board to continue to return capital to shareholders. We still expect to end the year in a net cash position. Based on our expected continued performance and subject to market conditions and buying opportunities, we currently expect to repurchase approximately $50 million of common stock in the fourth quarter. Our capital allocation strategy is intended to provide long-term predictability along with the ability to be opportunistic when appropriate.

And to be clear, the purpose of the share repurchases is not only to offset dilution from employee equity awards but also to reduce share count meaningfully over time. We have made good progress this year. We entered 2026 with approximately 203 million fully diluted shares outstanding and we expect to enter 2027 with less than 180 million fully diluted shares outstanding.

Next, I want to give a quick update on tariffs. We continue to expect that the full year gross tariff expense for 2026 will be approximately $43 million, which compares to gross tariff expense of $34 million in 2025.

We also received additional refunds for tariffs paid as part of the tariff refund program. Through September 2026, we have received approximately $44 million of refunds and associated interest.

As a reminder, we excluded those refunds from our non-GAAP results to give a clearer picture of our period-over-period results. We will continue to account for additional refunds as we receive them, and we will continue to exclude the refunds from our non-GAAP results.

The cost pressures we discussed last quarter from broader geopolitical activity continue. As a reminder, these include increases in certain commodities and strategic metals, such as tungsten, which has increased significantly over 2025 costs. In addition, the continued conflict in the Middle East has led to increased petrochemical-based cost pressures, including increased energy costs for us and our suppliers, increased freight costs (including fuel surcharges) and increased petrochemical based raw material costs such as those used in golf balls. These cost pressures are included in the guidance we provided today, and so far we have been able to manage them in a manner that has not had a material negative impact on our operations or financial results. We will continue to monitor developments in this area and report back as appropriate.

Now turning to our full year and fourth quarter 2026 outlook. Based on our Q3 performance, year-to-date results and current view of the golf market, we are raising our full year Revenue and Adjusted EBITDA guidance. We now expect full year 2026 net sales to grow to $2.065 billion to $2.078 billion, an increase of approximately $14 million at the midpoint compared to prior guidance. The change reflects the flow-through of our Q3 net sales beat, as well as a $2 million organic raise in Q4.

With regard to EBITDA, we are raising our adjusted EBITDA expectations to $272 million to $280 million, an increase of $23 million at the midpoint compared to our prior guidance. This change represents the following:

1. $21 million of the increase is related to the flow-through of the Q3 EBITDA exceed.
2. Plus $2 million from the flow-through of our improved net sales outlook and a slightly improved gross margin outlook.

As a reminder, lower dividend income will be an approximate $5 million year-over-year headwind to adjusted EBITDA in Q4 and $8 million for the full year 2026. This is due to the excess cash we held in the back half of last year, generated from the business and the sale of Jack Wolfskin, which we subsequently used along with proceeds from the Topgolf sale to pay down $1.4 billion of debt in the first half of this year. While this reduces EBITDA versus last year, it is a net benefit to free cash flow given the higher cost of debt relative to the yield we were earning on cash.

Turning to cash flow and margins, we continue to expect 2026 capital expenditures of approximately $40 million and even with the 3D printing investment Chip discussed, we believe approximately $40 million remains a good annual capex run-rate going forward, as investments of this scope are a regular part of our business.

For gross margin, a reminder that due to the seasonality of our business, gross margins are meaningfully lower in the second half compared to the first half and lower in Q4 versus Q3 for the same reason. In addition, while we continue to expect improvement year over year, we anticipate

Q4 gross margins to increase less than what we saw in the first nine months due to the lower volumes related to seasonality and the change in launch cadence we mentioned earlier.

And lastly, a reminder that our cost savings initiatives began in the second half of 2025, which will affect year over year Q4 comparisons. As a result, while we expect corporate overhead expenses to decrease for the full year, Q4 corporate overhead expenses will likely increase compared to last year due to cost of living and other inflationary pressures.

Now turning to Q4 guidance.

We are forecasting Q4 net sales of $328 million to $341 million and adjusted EBITDA of minus $(53) million to minus $(45) million. The year-over-year decrease in revenue is primarily driven by fewer new product launches, including the strategic shift in irons launch timing, rationalization of lower margin business, and tougher comps as the overall U.S. market was up ~7% in Q4 2025 according to Golf Datatech. The year-over-year decline in EBITDA is due to the revenue flow-thru, a shift in the timing of $2 million of marketing spend from Q3 to Q4, the previously communicated investment in fitting, as well as $5M less in dividend income, partially offset by improving GM's and a slight tariff benefit based upon current rates.

We are very pleased with how our business is performing in the current environment and how it is positioned for the future. Despite the current macroeconomic and geopolitical noise, the golf consumer has proven to be reasonably resilient this year and we continue to make strong progress transitioning to a pure-play golf company. We are also in a net cash position and have a strong balance sheet that will provide a solid foundation for our future growth and will derisk our business going forward.

While we intend to wait until the next earnings call to provide financial guidance for 2027, we believe that over time we have the ability to grow revenue faster than the market by gaining market share via the initiatives Chip mentioned earlier and we also believe we have room to further increase our profitability. We also expect to consistently return capital to shareholders via stock repurchases, but we also have the ability to do so opportunistically when appropriate.

All of this together should create long-term shareholder value.

With that said, I will turn the call back over to the operator for Q&A.