

Topgolf Callaway Brands

Q3 2025 Prepared Remarks

Katina Metzidakis, Vice President Investor Relations and Corporate Communications

Good afternoon, and welcome to Topgolf Callaway Brands' third quarter earnings conference call. I'm Katina Metzidakis, Vice President of Investor Relations and Corporate Communications. 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 2025 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, Katina. Good afternoon everyone on the call and thank you for joining us.

Starting on Slide 3 of our investor deck, I'm pleased to report that in Q3 our total business exceeded expectations in both revenue and EBITDA, with revenue up year-over-year in both our Golf Equipment and Topgolf segments. This performance was driven by excellent market conditions along with solid execution in our golf equipment business; as well as by an outstanding consumer response to our value initiatives at Topgolf, where we continued the impressive traffic growth that began mid-year, especially in the 1-2 bay portion of our business; which, in turn set up an all-important transition to overall positive SVS for the quarter. This performance, along with the trends we have seen in October, makes us increasingly confident in our strategic direction and supports the increased full year guidance we are providing today.

I'd like to thank the Topgolf Callaway Brands teams for their dedication and commitment to delivering these results.

Moving to slide 5, and our segment performance highlights, and starting with Golf Equipment.

Overall, we continue to see strong performance in our Golf Equipment business, with Q3 revenue up year-over-year, despite less new product launch volume in this year's quarter. And, importantly, excluding the impact of tariffs, this is the third straight quarter of underlying gross margin expansion; a testament to our proactive efforts here and the excellent work being done by our teams.

Market conditions overall remain excellent. The US market is up 2% year-to-date, based on National Golf Foundation's manufacturer shipment data, but up an impressive mid-single digits on Datatech's sell through reports; and Q3's data was stronger than the year-to-date data on both of these measures. This was supported by continued strong participation and interest in the sport. Rounds played are up 1.4% year-to-date, despite being down earlier in the year due to a wet and cool spring; with rounds played continuing to outpace playable hours, a trend we have seen all year. Market conditions are also up in Europe and the UK; while in Asia, Japan is down slightly year-to-date, and Korea is down low teens.

Turning to our brand and market share performance, we gained share slightly during the quarter and had a particularly strong quarter in golf ball with August delivering an all-time high US share of 22.6% across both on- and off-course channels, and 23% at on course. On another positive note, according to Datatech's Summer 2025 Attitude and Usage Report, Callaway has retained its position as the leader in innovation and technology for the sixth consecutive time. According to this same report, this leadership position also helped drive further improvement in our overall brand rating. I remain confident in our brand strength as well as our product development pipeline.

On the product front, our Elyte Triple Diamond driver was recently ranked # 1 in Golf Digest's test of "spin consistency". This important performance attribute shows off how we utilize our leadership in Ai capabilities to deliver an important performance advantage. And this ranking mirrors Golf Spy's naming the Elyte Triple Diamond driver their Most Wanted of 2025. On the golf ball front, the Chrome Tour Triple Diamond golf ball was also named the longest ball in Golf Spy's independent testing. Lastly in the putter category, after entering the Zero Torque category mid-year we are now already launching our second generation of this putter type; a product called Tri-Hot, which differentiates in this new and hot category by providing a zero torque or toe up design, but requiring less shaft lean via a more forward hosel placement. This design innovation is, in our opinion, superior to other zero torque putters because it is easier to align and requires less set up adjustments from golfers. All of these are small but important wins for our product and brand. We relish these wins and accolades, because the cornerstone of our golf equipment strategy is delivering what we call DSPD or Demonstrably Superior and Pleasingly Different product.

On the tour front, last month, Men's World #4 Xander Schauffele captured his 10th career PGA TOUR title at the Baycurrent Classic in Japan and Jeeno Thitikul continued her strong season with a win in Shanghai, further solidifying her position as Women's World #1.

In summary, our Golf Equipment segment continues to perform strongly, supported by positive market dynamics. Our golf equipment segment revenues were up in the quarter and are up slightly year to date. This is despite more competitor product launches in early 2025 and lower new product launch volume from us in the second half of this year. On the profitability side we are up year to date due to our margin

and cost initiatives but down slightly in the quarter due to the impact of tariffs which of course have become more impactful recently. We remain excited about the direction of the golf equipment category and our brand.

In the Active Lifestyle segment, excluding the Jack Wolfskin business from results, our revenues were approximately flat for the quarter with operating income down a little, due principally to the impact of tariffs in the quarter.

TravisMathew continues to do better than the market overall, with revenues in the quarter approximately flat year-over-year. The brand continues to benefit from growth in its women's category.

The Callaway brand in this segment was also approximately flat for the quarter with market share gains in Japan apparel offsetting soft apparel market conditions in both Korea and Japan.

Turning to tariffs: Across our products business we had incremental tariff expense of twelve million dollars in the quarter, and we continue to forecast approximately forty million dollars for the full year. Given that the new tariffs were phased in during the year, along with the FIFO nature of our inventory, the impact will unfortunately increase meaningfully going forward; assuming of course that the current rates hold.

We intend to mitigate as much of this impact as possible: via efficiency improvements, pricing and vendor negotiations. This is an ongoing process and a key initiative across our organization. As part of this we recently implemented a reduction in force of about 300 positions. As we look forward, in this environment, with continued positive demand but likely higher product costs, I don't see further headcount reductions as appropriate; however, we are going to have to continue to be very attentive to overall cost management and margin initiatives. And, delivering DSPD product that stands apart in the marketplace will be more important than ever. Thanks to our long-term commitment to R&D and innovation, we feel optimistic about our ability to do this.

Turning now to the Topgolf segment: Q3 results exceeded guidance for both revenue and EBITDA, including – as you'll see on slide 7 – an all-important transition to positive same venue sales ("SVS") of a little more than 1% for the quarter, driven by continued positive momentum in traffic.

The big news here is that the 1-2 bay, primarily consumer portion of our business that makes up 80% of annual revenues, has transitioned to positive same-venue sales growth overall, with Q3 traffic up high teens and SVS in this segment up 2.4%. This was driven by the continued consumer appeal of Topgolf, which, as you can see on slide 8, is ranked # 1 in both Fun and Atmosphere by HundredX, coupled with our new value initiatives; principally Sunday Funday and Half-Off Golf Monday through Thursday, both of which were implemented mid-year. I couldn't be more pleased with the immediate and significant response to this strategic repositioning. I believe the consumer insight and execution here was just terrific, and the clear results bode extremely well for our future outlook. We will be continuing these value initiatives for the foreseeable future, while also working on further optimizing our marketing, and continually introducing new reasons to visit Topgolf. Focusing on frequency for a moment, we have already seen improved results year-to-date based on a successful launch of our Summer Fun passes and we are now in the early stages of implementing a new membership or subscription program we call PlayMore.

Turning to our 3+ bay business which is primarily driven by events; while we continue to experience declines here, we have begun to see a leveling off in this portion of our business. This can be seen in both our actual results and our leads. We also have several initiatives planned during Q4 to further improve this performance: including per player pricing, dedicated marketing and online booking capabilities for 3-4 bay events.

Looking more deeply at the balance of the year, we expect SVS to be approximately flat year-over-year for Q4; resulting in SVS of down mid-single digits for the full year. As a reminder, Q4 SVS are disproportionately impacted by our 3+ Bay business which historically has been approximately 30% of the sales mix in this quarter and are even more heavily weighted towards the end of the quarter due to holiday parties.

On the digital front, we continue to roll out our new Toast point-of-sale system. Where implemented, this system has improved speed of service which in turn drives improved labor efficiency and spend per visit. We expect Toast to be in a little over half of our venues by year end and all venues by end of Q2 next year. During Q4, we will also be piloting both pay-in-bay and mobile ordering for food. We are optimistic that these will deliver further gains in efficiency and spend per visit when scaled in 2026.

Moving to profitability, our venue EBITDAR margins remained strong at just over 33% in Q3, around flat year-over-year, despite the increase in our value offerings. We maintain our expectation of EBITDAR margin contraction for the full year, though we are trending to be on the better end of our guidance of down 100 to 200 basis points year-over-year. Given the strategic move to drive more value we believe this demonstrates outstanding execution; and, importantly, we remain confident in the potential for significant future upside.

New venues continue to open well and deliver strong economic returns. We are on track to open four new venues this year, with our third opening just last week in Woodberry, Minnesota and the fourth scheduled to open in New Braunfels, Texas in December.

Lastly, on the leadership front: we are in mid-process on our Topgolf CEO search. I am pleased with the interest in the position and the quality of candidates. Additionally, the current team is performing well in the interim and I remain confident in their ability to do so. A special call out to Erin Chamberlin, Topgolf's COO, who is now serving as interim President; and also a big thank you and well done to the entire Topgolf senior leadership team for stepping up during this period of transition.

In conclusion, Q3 was an excellent quarter, highlighted by the fact that both the golf equipment category and our brand remain strong; as well as Topgolf's continued momentum in driving traffic growth including a positive SVS performance in Q3 and an improved outlook for the balance of the year. These results support us raising our guidance for the full year.

I also want to reaffirm that we remain committed to the separation of Topgolf and are fully engaged in that strategic process.

Lastly, we continue to believe that our strategic direction, coupled with the solid execution that we are delivering, will unlock even greater value for our shareholders and allow both businesses to thrive independently.

Thank you and over to you Brian.

Brian Lynch, Chief Financial and Chief Legal Officer

Thank you, Chip and good afternoon, everyone. As a brief note, on today's call, I will be discussing our financial results on a non-GAAP basis and excluding the impact of the Jack Wolfskin business which we sold in the second quarter of this year.

With that said, we're pleased to report another strong quarter, with third-quarter results exceeding our expectations and guidance.

Consolidated revenues were \$934 million, a 3% increase year-over-year. This revenue growth was led by increased revenue in both the Topgolf and Golf Equipment segments.

Q3 Adjusted EBITDA of \$115 million decreased \$4 million year-over-year. This decrease is due to \$12 million in incremental tariffs in our Core business.

Moving to segment performance.

In Golf Equipment, Q3 revenue increased 4% year-over-year to \$305 million, reflecting a 4% increase in Golf Clubs and 6% increase in Golf Balls.

Golf Equipment Q3 operating income of \$23 million decreased \$4 million year-over-year due to \$8 million in incremental tariffs, which was partially offset by our gross margin and cost savings initiatives.

In Active Lifestyle, Q3 revenue was \$156 million, approximately flat as compared to Q3 of 2024. Operating income decreased \$4 million to \$14 million, primarily due to \$4 million in incremental tariffs. As a reminder, these comparisons exclude Jack Wolfskin results.

Moving to Topgolf, the 4% increase in Q3 revenue to \$472 million was driven by the addition of six new venues since last year and a 1% increase in SVS. Topgolf operating income of \$31 million increased \$3 million year-over-year, while Adjusted EBITDA was roughly flat at \$84 million.

Switching gears to balance sheet and liquidity, our available liquidity, as of September 30, 2025, increased \$391 million to \$1.25 billion due to \$424 million of increased cash compared to the third quarter 2024. This increase was primarily attributable to \$270 million of cash from operations this year, the approximate \$290 million in proceeds from the sale of Jack Wolfskin, as well as improved working capital and lower net capex, partially offset by investments in the Company's business.

At quarter-end, net debt was \$2.23 billion compared to \$2.54 billion last year. This decrease is primarily due to the increased cash.

Excluding venue financing debt, which is essentially capitalized rent related to our Topgolf venues, and including the convertible debt, our REIT-adjusted net debt was \$665 million, down \$435 million year-over-year as a result of the increased cash.

Net debt leverage improved to 3.8x from 4.6x, driven by the higher cash balance. REIT-adjusted net leverage - which includes rent interest payments - improved to 1.4x from 2.4x. We remain comfortable with these leverage levels.

Our inventory balance decreased \$98 million compared to the end of Q3 2024 to \$569 million at the end of Q3 2025, primarily due to \$108 million of inventory being included in the sale of the Jack Wolfskin business.

Turning to our outlook, which can also be found on slide 9 of our presentation, we are raising our full year 2025 revenue guidance to a range of \$3.90 to \$3.94 billion, up \$60 million at the midpoint. We are also raising our full-year Adjusted EBITDA guidance range to \$490 million to \$510 million, up \$40 million at the midpoint. This updated guidance reflects better-than-expected Q3 results, an improved outlook for the balance of the year, including an improvement in Topgolf SVS outlook, as well as continued cost management initiatives which will partially mitigate the impact of the incremental tariffs which are estimated to be approximately \$40 million for the full year 2025.

Turning to Topgolf, we are revising our full year SVS guidance to down mid-single digits. As a result, we are raising our full year Topgolf revenue guidance to a range of \$1.77 to \$1.79 billion, up \$40 million at the midpoint. We are also raising our full year Topgolf adjusted EBITDA guidance to a range of \$295 to \$305 million, up \$20 million at the midpoint. As a reminder, this outlook accounts for the negative impact of Topgolf transitioning to a retail calendar in addition to the leap year impact in 2024, which together leads to a loss of four days of sales in 2025. This change is expected to create an approximate \$20 million headwind to revenue and a \$10 million headwind to adjusted EBITDA.

With regard to capex, our outlook for Topgolf's net capex is approximately \$120 million and approximately \$40 million for our Core business. We continue to expect to be free cash flow positive at both the Total Company and at Topgolf in 2025.

Now turning to our outlook for the quarter, which can be found on slide 10 of our presentation. In Q4, we are forecasting consolidated revenue of \$763 million to \$803 million, vs. \$810 million in Q4 2024 excluding Jack Wolfskin. This estimate reflects the following:

- Impact from the move to retail calendar and sale of the World Golf Tour game, or WGT for short, partially offset by revenue from new venues.
- Equipment launch timing and normal ball retail inventory management ahead of new Chrome launch in 2026, partially offset by improved market conditions.

We estimate Q4 adjusted EBITDA to be in the range of \$13 to \$33 million, compared to \$83 million in the prior year excluding Jack Wolfskin. As previously discussed, the year-over-year comparison is impacted by several headwinds in 2025. These include:

- Incremental tariff expense.
- The year-over-year increase in cash incentive compensation accrual compared to a reversal of accrual in Q4 2024.
- Incremental Topgolf stand-alone costs, the impact of lower 3+ bay revenue and year-over-year variances in items such as property tax and insurance.
- Impact from Topgolf calendar change and sale of WGT.

In conclusion, we are pleased to report strong third quarter results that reflect the resilience and adaptability of our businesses. The encouraging performance in our Golf Equipment and Topgolf businesses, coupled with strategic cost management and our strong liquidity, has positioned us well for the remainder of the year. We are pleased to be able to raise our revenue and Adjusted EBITDA guidance, highlighting our confidence in the strength of our business moving forward. While we acknowledge the challenges ahead, including the impacts of ongoing tariffs, our operational initiatives and commitment to delivering value for our shareholders remain steadfast. We appreciate your continued support.

With that said, I would now like to turn the call back over to the Operator for Q&A.