



## Callaway Golf Company Announces Record Net Sales And Earnings For The Second Quarter And First Half Of 2018 And Increases Full Year Financial Guidance

- Second quarter 2018 net sales of \$396 million, a \$91 million (30%) increase compared to the second quarter of 2017.
- Second quarter 2018 earnings per share of \$0.63, a \$0.30 per share (91%) increase compared to the second quarter of 2017.
- Full year 2018 net sales guidance increased to \$1,210 - \$1,225 million, compared to prior guidance of \$1,170 - \$1,185 million.
- Full year 2018 earnings per share guidance increased to \$0.95 - \$1.00, compared to prior guidance of \$0.77 - \$0.82.

CARLSBAD, Calif., Aug. 2, 2018 /PRNewswire/ -- Callaway Golf Company (NYSE:ELY) announced today record sales and earnings for the second quarter and first half of 2018 and increased its full year 2018 sales and earnings guidance.

In the second quarter of 2018, as compared to the same period in 2017, the Company's net sales increased \$91 million (30%) to \$396 million, and earnings per share increased \$0.30 (91%) to \$0.63. These record financial results were driven by increased sales in all operating segments, all major product categories and all major regions. For the second quarter of 2018, compared to the second quarter of 2017, net sales increased as follows:

|              |         |              |         |
|--------------|---------|--------------|---------|
| Woods        | + 5.2%  | U.S.         | + 38.7% |
| Irons        | + 35.0% | Europe       | + 8.0%  |
| Putters      | + 12.4% | Japan        | + 24.5% |
| Golf Balls   | + 35.1% | Rest of Asia | + 36.5% |
| Gear & Other | + 64.1% | Other        | + 12.4% |

As a result of the Company's better than expected first half, the Company increased its full year 2018 sales guidance to \$1,210 million - \$1,225 million as compared to its prior guidance of \$1,170 million - \$1,185 million. The Company also increased its full year 2018 earnings per share guidance to \$0.95 - \$1.00 compared to prior guidance of \$0.77 - \$0.82.

"The excellent start in Q1 has continued through Q2," commented Chip Brewer, President and Chief Executive Officer of Callaway Golf Company. "Business around the globe remains strong with all major regions reporting significant sales growth and our new businesses, particularly TravisMathew, performing at or above plan. On the product side, we have strength across the entire line, especially with the Rogue line of woods and irons as well as the new Chrome Soft golf balls. We also continued to benefit from favorable market conditions. As a result, our EBITDA increased 62% during the second quarter compared to the prior year. I continue to be extremely pleased with our performance and our long term outlook."

### GAAP and Non-GAAP Results

*In addition to the Company's results prepared in accordance with GAAP, the Company provided information on a non-GAAP basis. The purpose of this non-GAAP presentation is to provide additional information to investors regarding the underlying performance of the Company's business without non-recurring items. This non-GAAP*

information presents the Company's financial results for the second quarter and first half of 2017 excluding the non-recurring transaction and transition expenses related to the OGIO acquisition. The manner in which this non-GAAP information is derived is discussed in more detail toward the end of this release, and the Company has provided in the tables to this release a reconciliation of the non-GAAP information to the most directly comparable GAAP information.

### **Summary of Second Quarter 2018 Financial Results**

The Company announced the following GAAP and non-GAAP financial results for the second quarter of 2018 (*in millions, except EPS*):

|                             | 2018 RESULTS (GAAP) |                |                   | NON-GAAP PRESENTATION |                  |                   |
|-----------------------------|---------------------|----------------|-------------------|-----------------------|------------------|-------------------|
|                             | Q2 2018             | Q2 2017        | Change            | Q2 2018 GAAP          | Q2 2017 non-GAAP | Change            |
| Net Sales                   | \$396               | \$305          | \$91              | \$396                 | \$305            | \$91              |
| Gross Profit/<br>% of Sales | \$193<br>48.6%      | \$148<br>48.7% | \$45<br>(10 b.p.) | \$193<br>48.6%        | \$148<br>48.7%   | \$45<br>(10 b.p.) |
| Operating Expenses          | \$118               | \$99           | \$19              | \$118                 | \$97             | \$21              |
| Pre-Tax Income              | \$78                | \$48           | \$30              | \$78                  | \$50             | \$28              |
| Income Tax Provision        | \$17                | \$16           | \$1               | \$17                  | \$17             | \$0               |
| Net Income                  | \$61                | \$31           | \$30              | \$61                  | \$33             | \$28              |
| EPS                         | \$0.63              | \$0.33         | \$0.30            | \$0.63                | \$0.34           | \$0.29            |

|        | Q2 2018 | Q2 2017 | Change |
|--------|---------|---------|--------|
| EBITDA | \$85    | \$52    | \$33   |

For the second quarter of 2018, the Company's net sales increased \$91 million (30%) to \$396 million, compared to \$305 million for the same period in 2017. Net sales increased in all operating segments and regions, and across all major product categories. The increase in net sales is attributable to the strength of the Company's 2018 product line and continued brand momentum, a \$6 million favorable impact resulting from changes in foreign currency rates, an increase in product launches during the first half of the year and improved market conditions. In addition, second quarter net sales of gear and accessories increased significantly as a result of the Company's acquisition of TravisMathew in the third quarter of 2017.

For the second quarter of 2018, the Company's gross margin decreased 10 basis points to 48.6% compared to 48.7% for the second quarter of 2017. This slight decrease was impacted by higher product costs as more technology is incorporated into the new launches, but was partially offset by increases in average selling prices, the TravisMathew business, which is accretive to gross margins, and the net favorable translation impact of changes in foreign currency rates.

Operating expenses increased \$19 million to \$118 million in the second quarter of 2018 compared to \$99 million for the same period in 2017. This increase is primarily due to the addition in 2018 of operating expenses from the TravisMathew business as well as some variable expenses associated with higher core business net sales.

Second quarter 2018 earnings per share increased \$0.30 (91%) to \$0.63, which is a record second quarter for the Company, compared to \$0.33 for the second quarter of 2017. On a non-GAAP basis, 2017 second quarter earnings per share was \$0.34, which excludes \$0.01 per share related to the impact of the non-recurring OGIO transaction and transition expenses. The increased earnings in 2018 reflect the increased sales in the core business, the addition of the TravisMathew business, operating expense leverage, favorable foreign currency rates and hedging activities and a lower tax rate due to the tax reform legislation enacted at the end of 2017.

### **Summary of First Half 2018 Financial Results**

The Company announced the following GAAP and non-GAAP financial results for the first half of 2018 (*in millions, except EPS*):

#### **2018 RESULTS (GAAP)**

#### **NON-GAAP PRESENTATION**

|                             | H1<br>2018     | H1<br>2017     | Change           | H1 2018<br>GAAP | H1 2017<br>non-GAAP | Change           |
|-----------------------------|----------------|----------------|------------------|-----------------|---------------------|------------------|
| Net Sales                   | \$800          | \$613          | \$187            | \$800           | \$613               | \$187            |
| Gross Profit/<br>% of Sales | \$393<br>49.2% | \$296<br>48.2% | \$97<br>100 b.p. | \$393<br>49.2%  | \$296<br>48.2%      | \$97<br>100 b.p. |
| Operating Expenses          | \$233          | \$203          | \$30             | \$233           | \$196               | \$37             |
| Pre-Tax Income              | \$158          | \$87           | \$71             | \$158           | \$93                | \$65             |
| Income Tax Provision        | \$34           | \$29           | \$5              | \$34            | \$31                | \$3              |
| Net Income                  | \$124          | \$57           | \$67             | \$124           | \$61                | \$63             |
| EPS                         | \$1.28         | \$0.59         | \$0.69           | \$1.28          | \$0.64              | \$0.64           |

|        | H1 2018 | H1 2017 | Change |
|--------|---------|---------|--------|
| EBITDA | \$171   | \$96    | \$75   |

For the first half of 2018, the Company's net sales increased \$187 million (30%) to \$800 million, compared to \$613 million for the same period in 2017. Net sales increased in all operating segments and all regions, and across all major product categories. The increase in net sales is attributable to the strength of the Company's 2018 product line and continued brand momentum, a \$17 million favorable impact resulting from changes in foreign currency rates, an increase in product launches during the first half of 2018 versus 2017, and improved market conditions. In addition, first half net sales of gear and accessories increased significantly as a result of the Company's acquisition of TravisMathew in the third quarter of 2017. For the first half of 2018, compared to the first half of 2017, net sales increased as follows:

|              |         |              |         |
|--------------|---------|--------------|---------|
| Woods        | + 13.2% | U.S.         | + 35.2% |
| Irons        | + 46.0% | Europe       | + 11.4% |
| Putters      | + 18.3% | Japan        | + 36.6% |
| Golf Balls   | + 24.6% | Rest of Asia | + 35.9% |
| Gear & Other | + 48.9% | Other        | + 9.9%  |

For the first half of 2018, the Company's gross margin increased 100 basis points to 49.2% compared to 48.2% for the first half of 2017. This increase reflects an overall increase in average selling prices, the addition of the TravisMathew business, which is accretive to gross margins, and the net favorable translation impact of changes in foreign currency rates, partially offset by higher product costs as more technology is incorporated into the new launches.

Operating expenses increased \$30 million to \$233 million in the first half of 2018 compared to \$203 million for the same period in 2017. This increase is primarily due to the addition in 2018 of operating expenses from the TravisMathew business as well as some variable expenses associated with higher core business net sales.

First half 2018 earnings per share increased \$0.69 (117%) to \$1.28, which is a record first half for the Company, compared to \$0.59 for the first half of 2017. On a non-GAAP basis, 2017 first half earnings per share was \$0.64, which excludes \$0.05 per share related to the impact of the non-recurring OGIO transaction and transition expenses. The increased earnings in 2018 reflect the increased sales in the core business, the addition of the TravisMathew business, operating expense leverage, favorable foreign currency rates and hedging activities and a lower tax rate due to the tax reform legislation enacted at the end of 2017.

### ***Business Outlook for 2018***

***Basis for 2017 Non-GAAP Results.*** In order to make the 2018 guidance more comparable to 2017, as discussed above, the Company has presented 2017 results on a non-GAAP basis by excluding from 2017 the non-recurring expenses related to the OGIO and TravisMathew acquisitions (\$0.07 per share for the full year and \$0.02 for the third quarter). Furthermore, the Company excluded from full year 2017 earnings per share certain non-cash, non-recurring tax adjustments (\$0.04 per share).

### **Full Year 2018**

Given the Company's financial performance during the first half of 2018, the Company is increasing its full year 2018 financial guidance as follows:

|                    | Revised 2018<br>GAAP Estimate | Previous 2018<br>GAAP Estimate | 2017<br>Non-GAAP<br>Results |
|--------------------|-------------------------------|--------------------------------|-----------------------------|
| Net Sales          | \$1,210 - \$1,225 million     | \$1,170 - \$1,185 million      | \$1,049 million             |
| Gross Margins      | 46.8%                         | 47.0%                          | 46.0%                       |
| Operating Expenses | \$445 million                 | \$444 million                  | \$393 million               |
| Earnings Per Share | \$0.95 - \$1.00               | \$0.77 - \$0.82                | \$0.53                      |

The Company's revised 2018 net sales estimate of \$1,210 million - \$1,225 million represents an increase of \$40 million over its prior estimate. This would result in net sales growth of 15% - 17% in 2018 compared to 2017. The estimated incremental sales growth versus previous estimates is expected to be driven by further increases in the core business (currently estimated at 8-10% full year sales growth compared to 2017, on a currency neutral basis), and increases in the TravisMathew business. The increases in core business are expected to be driven by the Rogue line of woods and irons, the new Chrome Soft golf balls, including continued success of the Truvis golf balls, and healthy market conditions. As a result of an overall strengthening of foreign currencies during the first half of 2018, the Company currently estimates that changes in foreign currency rates will positively impact 2018 full year net sales by approximately \$14 million, a \$5 million decrease from when the Company last gave guidance as the U.S. dollar strengthened during the second quarter of 2018.

The Company currently estimates that its 2018 gross margin will decrease 20 basis points from the prior estimate. This decrease is expected to be driven in most part by a strengthening of the U.S. dollar.

The Company estimates that its 2018 operating expenses will increase \$1 million compared to prior estimates. Variable expenses related to higher sales are being mostly offset by a strengthening U.S. dollar. The Company continues to realize operating expense leverage as the top line continues to expand.

The Company increased its GAAP earnings per share guidance to \$0.95 - \$1.00 primarily due to the projected increase in net sales, operating expense leverage, and a lower estimated tax rate. The Company's 2018 earnings per share estimates currently assume a tax rate of approximately 21.5% and a base of 97 million shares.

The cadence of the Company's golf equipment launches in 2018 is skewed toward the first half of the year compared to 2017. As a result, all of the Company's projected sales and earnings growth for 2018 is expected to occur during the first half of the year. Consistent with the Company's expectations at the start of the year, the second half of the year is planned to decrease slightly compared to the same period in 2017. For the full year the Company expects sales growth of 15% – 17% in 2018 compared to 2017.

### **Third Quarter 2018**

The Company currently estimates the following results for the third quarter of 2018 compared to 2017 non-GAAP results for the same period:

|                    | Q3 2018<br>GAAP Estimate | Q3 2017<br>Non-GAAP Results |
|--------------------|--------------------------|-----------------------------|
| Net Sales          | \$243 - \$253 million    | \$244 million               |
| Earnings Per Share | (\$0.03) - \$0.01        | \$0.05                      |

The Company expects flat to 4% sales growth in the third quarter of 2018 compared to the same period in 2017. This projection reflects no major product launches in the third quarter of 2018 versus the 2017 launch of the Company's EPIC Star Irons and Hybrids as well as the launch of the Odyssey Works Red & Black Putters. The addition of the TravisMathew business will partially offset the negative launch timing, and foreign currencies are expected to be slightly negative in the quarter.

The Company's GAAP earnings per share for the third quarter of 2018 is estimated to decrease by \$0.04 - \$0.08 compared to \$0.05 of non-GAAP earnings per share for the third quarter of 2017. GAAP earnings per share for the third quarter of 2017 was \$0.03. This projected decrease is due to launching fewer new products compared to the same period in 2017, while continuing to invest in the core and new businesses, and is partially offset by the favorable impact of the TravisMathew business. The Company's 2018 third quarter earnings per share estimates assume approximately 97 million shares, which is consistent with the third quarter of 2017.

### ***Conference Call and Webcast***

The Company will be holding a conference call at 2:00 p.m. PDT today to discuss the Company's financial results, outlook and business. The call will be broadcast live over the Internet and can be accessed at <http://ir.callawaygolf.com/>. To listen to the call, and to access the Company's presentation materials, please go to the website at least 15 minutes before the call to register and for instructions on how to access the broadcast. A replay of the conference call will be available approximately three hours after the call ends, and will remain available through 9:00 p.m. PDT on Thursday, August 9, 2018. The replay may be accessed through the Internet at <http://ir.callawaygolf.com/>.

### ***Non-GAAP Information***

The GAAP results contained in this press release and the financial statement schedules attached to this press release have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). To supplement the GAAP results, the Company has provided certain non-GAAP financial information as follows:

*Constant Currency Basis.* The Company provided certain information regarding the Company's financial results or projected financial results on a "constant currency basis." This information estimates the impact of changes in foreign currency rates on the translation of the Company's current or projected future period financial results as compared to the applicable comparable period. This impact is derived by taking the current or projected local currency results and translating them into U.S. Dollars based upon the foreign currency exchange rates for the applicable comparable period. It does not include any other effect of changes in foreign currency rates on the Company's results or business.

*Adjusted EBITDA.* The Company provides information about its results excluding interest, taxes, depreciation and amortization expenses, as well as non-recurring OGIO and TravisMathew transaction-related expenses.

*Other Adjustments.* The Company presents certain of its financial results (i) excluding the 2017 non-recurring OGIO and TravisMathew transaction-related expenses and (ii) excluding the 2017 non-cash, non-recurring tax adjustments.

In addition, the Company has included in the schedules to this release a reconciliation of certain non-GAAP information to the most directly comparable GAAP information. The non-GAAP information presented in this release and related schedules should not be considered in isolation or as a substitute for any measure derived in accordance with GAAP. The non-GAAP information may also be inconsistent with the manner in which similar measures are derived or used by other companies. Management uses such non-GAAP information for financial and operational decision-making purposes and as a means to evaluate period-over-period comparisons and in forecasting the Company's business going forward. Management believes that the presentation of such non-GAAP information, when considered in conjunction with the most directly comparable GAAP information, provides additional useful comparative information for investors in their assessment of the underlying performance of the Company's business without regard to these items. The Company has provided reconciling information in the attached schedules.

### ***Forward-Looking Statements***

Statements used in this press release that relate to future plans, events, financial results, performance or prospects, including statements relating to the Company's estimated 2018 sales, gross margins, operating expenses, and earnings per share (or related tax rate and share count), future industry or market conditions, and the assumed benefits to be derived from investments in the Company's core business or the OGIO and TravisMathew acquisitions, are forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995. These statements are based upon current information and expectations. Accurately estimating the forward-looking statements is based upon various risks and unknowns, including unanticipated delays, difficulties or increased costs in integrating the acquired OGIO and TravisMathew businesses or implementing the Company's growth strategy generally; any changes in U.S. trade, tax or other policies, including impacts of the 2017 Tax Cuts and Jobs Act or restrictions on imports or an increase in import tariffs; consumer acceptance of and demand for the Company's products; the level of promotional activity in the marketplace; unfavorable weather conditions; future consumer discretionary purchasing activity, which can be significantly adversely affected by unfavorable economic or market conditions; future retailer purchasing activity, which can be significantly negatively affected by adverse industry conditions and overall retail inventory levels; and future changes in foreign currency exchange rates and the degree of effectiveness of the Company's hedging programs. Actual results may differ materially from those estimated or anticipated as a result of these risks and unknowns or other risks and uncertainties, including continued compliance

with the terms of the Company's credit facilities; delays, difficulties or increased costs in the supply of components or commodities needed to manufacture the Company's products or in manufacturing the Company's products; the ability to secure professional tour player endorsements at reasonable costs; any rule changes or other actions taken by the USGA or other golf association that could have an adverse impact upon demand or supply of the Company's products; a decrease in participation levels in golf; and the effect of terrorist activity, armed conflict, natural disasters or pandemic diseases on the economy generally, on the level of demand for the Company's products or on the Company's ability to manage its supply and delivery logistics in such an environment. For additional information concerning these and other risks and uncertainties that could affect these statements, the golf industry, and the Company's business, see the Company's Annual Report on Form 10-K for the year ended December 31, 2017 as well as other risks and uncertainties detailed from time to time in the Company's reports on Forms 10-K, 10-Q and 8-K subsequently filed with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

## About Callaway Golf

*Through an unwavering commitment to innovation, Callaway Golf Company (NYSE:ELY) creates products designed to make every golfer a better golfer. Callaway Golf Company manufactures and sells golf clubs and golf balls, and sells bags, accessories and apparel in the golf and lifestyle categories, under the Callaway Golf®, Odyssey®, OGIO and TravisMathew brands worldwide. For more information please visit [www.callawaygolf.com](http://www.callawaygolf.com), [www.odysseygolf.com](http://www.odysseygolf.com), [www.ogio.com](http://www.ogio.com), and [www.travismathew.com](http://www.travismathew.com).*

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**CALLAWAY GOLF COMPANY**  
**CONSOLIDATED CONDENSED BALANCE SHEETS**  
(Unaudited)  
(In thousands)

|                                     | <u>June 30,</u><br><u>2018</u> | <u>December 31,</u><br><u>2017</u> |
|-------------------------------------|--------------------------------|------------------------------------|
| <b>ASSETS</b>                       |                                |                                    |
| Current assets:                     |                                |                                    |
| Cash and cash equivalents           | \$ 57,748                      | \$ 85,674                          |
| Accounts receivable, net            | 242,023                        | 94,725                             |
| Inventories                         | 237,068                        | 262,486                            |
| Other current assets                | <u>32,960</u>                  | <u>23,099</u>                      |
| Total current assets                | 569,799                        | 465,984                            |
| Property, plant and equipment, net  | 77,604                         | 70,227                             |
| Intangible assets, net              | 281,279                        | 282,187                            |
| Deferred taxes, net                 | 65,538                         | 91,398                             |
| Investment in golf-related ventures | 70,777                         | 70,495                             |
| Other assets                        | <u>10,425</u>                  | <u>10,866</u>                      |
| Total assets                        | <u>\$1,075,422</u>             | <u>\$ 991,157</u>                  |

**LIABILITIES AND SHAREHOLDERS' EQUITY**

|  |            |            |
|--|------------|------------|
| Current liabilities:                       |            |            |
| Accounts payable and accrued expenses      | \$ 162,217 | \$ 176,127 |
| Accrued employee compensation and benefits | 30,754     | 40,173     |
| Asset-based credit facilities              | 96,140     | 87,755     |
| Accrued warranty expense                   | 8,035      | 6,657      |
| Other current liabilities                  | 2,389      | 2,367      |

|  |                    |                   |
|--|--------------------|-------------------|
| Income tax liability                             | <u>9,792</u>       | <u>1,295</u>      |
| Total current liabilities                        | 309,327            | 314,374           |
| Long-term liabilities                            | 16,359             | 17,408            |
| Total Callaway Golf Company shareholders' equity | 740,682            | 649,631           |
| Non-controlling interest in consolidated entity  | <u>9,054</u>       | <u>9,744</u>      |
| Total liabilities and shareholders' equity       | <u>\$1,075,422</u> | <u>\$ 991,157</u> |

**CALLAWAY GOLF COMPANY**  
**CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS**  
(Unaudited)  
(In thousands, except per share data)

|   | <b>Three Months Ended</b> |                  |
|---|---------------------------|------------------|
|   | <b>June 30,</b>           |                  |
|   | <b>2018</b>               | <b>2017</b>      |
| Net sales   | \$ 396,311                | \$ 304,548       |
| Cost of sales   | <u>203,614</u>            | <u>156,383</u>   |
| Gross profit  | 192,697                   | 148,165          |
| Operating expenses:                                       |                           |                  |
| Selling   | 83,261                    | 68,102           |
| General and administrative                                | 24,408                    | 22,155           |
| Research and development                                  | <u>10,708</u>             | <u>8,863</u>     |
| Total operating expenses                                  | <u>118,377</u>            | <u>99,120</u>    |
| Income from operations                                    | 74,320                    | 49,045           |
| Other income (expense), net                               | <u>3,861</u>              | <u>(1,521)</u>   |
| Income before income taxes                                | 78,181                    | 47,524           |
| Income tax provision                                      | <u>17,247</u>             | <u>16,050</u>    |
| Net income  | 60,934                    | 31,474           |
| Less: Net income attributable to non-controlling interest | <u>67</u>                 | <u>31</u>        |
| Net income attributable to Callaway Golf Company          | <u>\$ 60,867</u>          | <u>\$ 31,443</u> |
| Earnings per common share:                                |                           |                  |
| Basic   | \$ 0.65                   | \$ 0.33          |
| Diluted   | \$ 0.63                   | \$ 0.33          |
| Weighted-average common shares outstanding:               |                           |                  |
| Basic   | 94,367                    | 94,213           |
| Diluted   | 96,928                    | 96,197           |

|  | <b>Six Months Ended</b> |                  |
|--|-------------------------|------------------|
|  | <b>June 30,</b>         |                  |
|  | <b>2018</b>             | <b>2017</b>      |
| Net sales  | \$ 799,502              | \$ 613,475       |
| Cost of sales  | <u>406,343</u>          | <u>317,595</u>   |
| Gross profit   | 393,159                 | 295,880          |
| Operating expenses:  |                         |                  |
| Selling  | 166,221                 | 139,864          |
| General and administrative                                       | 46,302                  | 45,019           |
| Research and development   | <u>20,332</u>           | <u>17,745</u>    |
| Total operating expenses   | <u>232,855</u>          | <u>202,628</u>   |
| Income from operations   | 160,304                 | 93,252           |
| Other expense, net   | <u>(2,173)</u>          | <u>(6,642)</u>   |
| Income before income taxes                                       | 158,131                 | 86,610           |
| Income tax provision   | <u>34,466</u>           | <u>29,256</u>    |
| Net income   | 123,665                 | 57,354           |
| Less: Net income (loss) attributable to non-controlling interest | <u>(57)</u>             | <u>222</u>       |
| Net income attributable to Callaway Golf Company                 | <u>\$ 123,722</u>       | <u>\$ 57,132</u> |

|   |        |        |
|---|--------|--------|
| Earnings per common share:                  |        |        |
| Basic                                       | \$1.31 | \$0.61 |
| Diluted                                     | \$1.28 | \$0.59 |
| Weighted-average common shares outstanding: |        |        |
| Basic                                       | 94,670 | 94,142 |
| Diluted                                     | 96,981 | 96,073 |

**CALLAWAY GOLF COMPANY**  
**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOW**  
(Unaudited)  
(In thousands)

|   | <b>Six Months Ended</b> |                 |
|---|-------------------------|-----------------|
|   | <b>June 30, 2018</b>    |                 |
|   | <u>2018</u>             | <u>2017</u>     |
| Cash flows from operating activities:   |                         |                 |
| Net income  | \$ 123,665              | \$ 57,354       |
| Adjustments to reconcile net income to net cash provided by operating activities: |                         |                 |
| Depreciation and amortization   | 9,766                   | 8,497           |
| Deferred taxes, net   | 30,273                  | 33,028          |
| Non-cash share-based compensation   | 6,464                   | 5,402           |
| (Gain)/loss on disposal of long-lived assets                                      | (3)                     | 1,035           |
| Unrealized (gains)/losses on foreign currency hedges                              | (1,021)                 | 1,550           |
| Changes in assets and liabilities   | <u>(164,057)</u>        | <u>(80,542)</u> |
| Net cash provided by operating activities   | <u>5,087</u>            | <u>26,324</u>   |
| Cash flows from investing activities:   |                         |                 |
| Capital expenditures  | (17,107)                | (12,186)        |
| Investments in golf related ventures  | (282)                   | —               |
| Acquisitions, net of cash acquired  | —                       | (57,890)        |
| Proceeds from sales of property and equipment                                     | —                       | 560             |
| Net cash used in investing activities   | <u>(17,389)</u>         | <u>(69,516)</u> |
| Cash flows from financing activities:   |                         |                 |
| Proceeds from (repayments of) credit facilities, net                              | 8,385                   | (5,735)         |
| Repayments of long-term debt  | (1,083)                 | —               |
| Exercise of stock options   | 1,258                   | 3,085           |
| Dividends paid, net   | (1,897)                 | (1,882)         |
| Acquisition of treasury stock   | (22,301)                | (16,410)        |
| Distributions to non-controlling interests  | (821)                   | (974)           |
| Net cash used in financing activities   | <u>(16,459)</u>         | <u>(21,916)</u> |

|  |                  |                 |
|--|------------------|-----------------|
| Effect of exchange rate changes on cash and cash equivalents | 835              | 1,092           |
| Net decrease in cash and cash equivalents                    | (27,926)         | (64,016)        |
| Cash and cash equivalents at beginning of period             | 85,674           | 125,975         |
| Cash and cash equivalents at end of period                   | <u>\$ 57,748</u> | <u>\$61,959</u> |

**CALLAWAY GOLF COMPANY**  
**Consolidated Net Sales and Operating Segment Information**  
(Unaudited)  
(In thousands)

|                        | Net Sales by Product Category |                   |                  |         |  | Net Sales by Product Category |                   |                   |         |  |
|------------------------|-------------------------------|-------------------|------------------|---------|--|-------------------------------|-------------------|-------------------|---------|--|
|                        | Three Months Ended            |                   | Growth           |         | Non-GAAP<br>Constant<br>Currency<br>vs. 2017 <sup>(1)</sup><br>Percent | Six Months Ended              |                   | Growth            |         | Non-GAAP<br>Constant<br>Currency<br>vs. 2017 <sup>(1)</sup><br>Percent |
|                        | June 30,                      |                   | Dollars          | Percent |  | June 30,                      |                   | Dollars           | Percent |  |
|                        | 2018                          | 2017              |                  |         |  | 2018                          | 2017              |                   |         |  |
| Net sales:             |                               |                   |                  |         |  |                               |                   |                   |         |  |
| Woods                  | \$ 93,958                     | \$ 89,276         | \$ 4,682         | 5.2%    | 3.4%   | \$ 222,760                    | \$ 196,851        | \$ 25,909         | 13.2%   | 10.5%  |
| Irons                  | 111,059                       | 82,285            | 28,774           | 35.0%   | 32.9%  | 206,268                       | 141,296           | 64,972            | 46.0%   | 43.1%  |
| Putters                | 27,785                        | 24,730            | 3,055            | 12.4%   | 10.2%  | 61,215                        | 51,735            | 9,480             | 18.3%   | 14.7%  |
| Golf balls             | 65,882                        | 48,767            | 17,115           | 35.1%   | 33.4%  | 120,804                       | 96,991            | 23,813            | 24.6%   | 22.5%  |
| Gear/Accessories/Other | 97,627                        | 59,490            | 38,137           | 64.1%   | 62.1%  | 188,455                       | 126,602           | 61,853            | 48.9%   | 46.0%  |
|                        | <u>\$ 396,311</u>             | <u>\$ 304,548</u> | <u>\$ 91,763</u> | 30.1%   | 28.2%  | <u>\$ 799,502</u>             | <u>\$ 613,475</u> | <u>\$ 186,027</u> | 30.3%   | 27.6%  |

(1) Calculated by applying 2017 exchange rates to 2018 reported sales in regions outside the U.S.

|                         | Net Sales by Region |                     |                  |         |  | Net Sales by Region |                     |                   |         |  |
|-------------------------|---------------------|---------------------|------------------|---------|--|---------------------|---------------------|-------------------|---------|--|
|                         | Three Months Ended  |                     | Growth           |         | Non-GAAP<br>Constant<br>Currency<br>vs. 2017 <sup>(1)</sup><br>Percent | Six Months Ended    |                     | Growth            |         | Non-GAAP<br>Constant<br>Currency<br>vs. 2017 <sup>(1)</sup><br>Percent |
|                         | June 30,            |                     | Dollars          | Percent |  | June 30,            |                     | Dollars           | Percent |  |
|                         | 2018                | 2017 <sup>(2)</sup> |                  |         |  | 2018                | 2017 <sup>(2)</sup> |                   |         |  |
| Net Sales               |                     |                     |                  |         |  |                     |                     |                   |         |  |
| United States           | \$ 233,373          | \$ 168,253          | \$ 65,120        | 38.7%   | 38.7%  | \$ 468,534          | \$ 346,517          | \$ 122,017        | 35.2%   | 35.2%  |
| Europe                  | 46,325              | 42,912              | 3,413            | 8.0%    | 1.7%   | 97,527              | 87,529              | 9,998             | 11.4%   | 2.1%   |
| Japan                   | 59,666              | 47,908              | 11,758           | 24.5%   | 22.2%  | 128,941             | 94,410              | 34,531            | 36.6%   | 31.9%  |
| Rest of Asia            | 33,059              | 24,216              | 8,843            | 36.5%   | 30.9%  | 57,834              | 42,569              | 15,265            | 35.9%   | 29.4%  |
| Other foreign countries | 23,888              | 21,259              | 2,629            | 12.4%   | 9.2%   | 46,666              | 42,450              | 4,216             | 9.9%    | 6.6%   |
|                         | <u>\$ 396,311</u>   | <u>\$ 304,548</u>   | <u>\$ 91,763</u> | 30.1%   | 28.2%  | <u>\$ 799,502</u>   | <u>\$ 613,475</u>   | <u>\$ 186,027</u> | 30.3%   | 27.6%  |

(1) Calculated by applying 2017 exchange rates to 2018 reported sales in regions outside the U.S.

(2) Prior period amounts have been reclassified to conform to the current year presentation of regional sales related to OGIO-branded products.

|                                    | Operating Segment Information |                   |                  |         | Operating Segment Information |                   |                   |         |
|------------------------------------|-------------------------------|-------------------|------------------|---------|-------------------------------|-------------------|-------------------|---------|
|                                    | Three Months Ended            |                   | Growth           |         | Six Months Ended              |                   | Growth            |         |
|                                    | June 30,                      |                   | Dollars          | Percent | June 30,                      |                   | Dollars           | Percent |
|                                    | 2018                          | 2017              |                  |         | 2018                          | 2017              |                   |         |
| Net Sales                          |                               |                   |                  |         |                               |                   |                   |         |
| Golf Club                          | \$ 232,802                    | \$ 196,291        | \$ 36,511        | 18.6%   | \$ 490,243                    | \$ 389,882        | \$ 100,361        | 25.7%   |
| Golf Ball                          | 65,882                        | 48,767            | 17,115           | 35.1%   | 120,804                       | 96,991            | 23,813            | 24.6%   |
| Gear/Accessories/Other             | 97,627                        | 59,490            | 38,137           | 64.1%   | 188,455                       | 126,602           | 61,853            | 48.9%   |
|                                    | <u>\$ 396,311</u>             | <u>\$ 304,548</u> | <u>\$ 91,763</u> | 30.1%   | <u>\$ 799,502</u>             | <u>\$ 613,475</u> | <u>\$ 186,027</u> | 30.3%   |
| Income (loss) before income taxes: |                               |                   |                  |         |                               |                   |                   |         |
| Golf clubs                         | \$ 50,751                     | \$ 38,445         | \$ 12,306        | 32.0%   | \$ 117,338                    | \$ 73,398         | \$ 43,940         | 59.9%   |
| Golf balls                         | 13,288                        | 10,939            | 2,349            | 21.5%   | 25,813                        | 22,460            | 3,353             | 14.9%   |
| Gear/Accessories/Other             | 24,069                        | 11,877            | 12,192           | 102.7%  | 44,406                        | 21,496            | 22,910            | 106.6%  |
| Reconciling items <sup>(1)</sup>   | (9,927)                       | (13,737)          | 3,810            | -27.7%  | (29,426)                      | (30,744)          | 1,318             | 4.3%    |
|                                    | <u>\$ 78,181</u>              | <u>\$ 47,524</u>  | <u>\$ 30,657</u> | 64.5%   | <u>\$ 158,131</u>             | <u>\$ 86,610</u>  | <u>\$ 71,521</u>  | 82.6%   |

(1) Represents corporate general and administrative expenses and other income (expense) not utilized by management in determining segment profitability.

**CALLAWAY GOLF COMPANY**  
**Supplemental Financial Information and Non-GAAP Reconciliation**  
**(Unaudited)**  
**(In thousands)**

|   | <b>Three Months Ended June 30,</b> |                    |  |                  |
|---|------------------------------------|--------------------|--|------------------|
|   | <b>2018</b>                        |                    | <b>2017</b>                            |                  |
|   | <b>As Reported</b>                 | <b>As Reported</b> | <b>Acquisition Costs<sup>(1)</sup></b> | <b>Non-GAAP</b>  |
| Net sales   | \$396,311                          | \$304,548          | \$ —                                   | \$304,548        |
| Gross profit  | 192,697                            | 148,165            | —                                      | 148,165          |
| % of sales  | 48.6%                              | 48.7%              | —                                      | 48.7%            |
| Operating expenses  | 118,377                            | 99,120             | 2,254                                  | 96,866           |
| Income (loss) from operations                             | 74,320                             | 49,045             | (2,254)                                | 51,299           |
| Other income (expense), net                               | 3,861                              | (1,521)            | —                                      | (1,521)          |
| Income (loss) before income taxes                         | 78,181                             | 47,524             | (2,254)                                | 49,778           |
| Income tax provision (benefit)                            | 17,247                             | 16,050             | (761)                                  | 16,811           |
| Net income (loss)   | 60,934                             | 31,474             | (1,493)                                | 32,967           |
| Less: Net income attributable to non-controlling interest | 67                                 | 31                 | —                                      | 31               |
| Net income (loss) attributable to Callaway Golf Company   | <u>\$ 60,867</u>                   | <u>\$ 31,443</u>   | <u>\$ (1,493)</u>                      | <u>\$ 32,936</u> |
| Diluted earnings (loss) per share:                        | \$ 0.63                            | \$ 0.33            | \$ (0.01)                              | \$ 0.34          |
| Weighted-average shares outstanding:                      | 96,928                             | 96,197             | 96,197                                 | 96,197           |

(1) Represents non-recurring costs associated with the acquisition of Ogio International, Inc in January 2017.

**CALLAWAY GOLF COMPANY**  
**Non-GAAP Reconciliation and Supplemental Financial Information**  
**(Unaudited)**  
**(In thousands)**

|  | <b>Six Months Ended June 30,</b> |                    |   |                  |
|--|----------------------------------|--------------------|---|------------------|
|  | <b>2018</b>                      |                    | <b>2017</b>                                 |                  |
|  | <b>As Reported</b>               | <b>As Reported</b> | <b>Ogio Acquisition Costs<sup>(1)</sup></b> | <b>Non-GAAP</b>  |
| Net sales  | \$799,502                        | \$613,475          | \$ —  | \$613,475        |
| Gross profit   | 393,159                          | 295,880            | —   | 295,880          |
| % of sales   | 49.2%                            | 48.2%              | —   | 48.2%            |
| Operating expenses   | 232,855                          | 202,628            | 6,210                                       | 196,418          |
| Income (loss) from operations                                    | 160,304                          | 93,252             | (6,210)                                     | 99,462           |
| Other expense, net   | (2,173)                          | (6,642)            | —   | (6,642)          |
| Income (loss) before income taxes                                | 158,131                          | 86,610             | (6,210)                                     | 92,820           |
| Income tax provision (benefit)                                   | 34,466                           | 29,256             | (2,098)                                     | 31,354           |
| Net income (loss)  | 123,665                          | 57,354             | (4,112)                                     | 61,466           |
| Less: Net income (loss) attributable to non-controlling interest | (57)                             | 222                | —   | 222              |
| Net income (loss) attributable to Callaway Golf Company          | <u>\$123,722</u>                 | <u>\$ 57,132</u>   | <u>\$ (4,112)</u>                           | <u>\$ 61,244</u> |
| Diluted earnings (loss) per share:                               | \$ 1.28                          | \$ 0.59            | \$ (0.05)                                   | \$ 0.64          |
| Weighted-average shares outstanding:                             | 96,981                           | 96,073             | 96,073                                      | 96,073           |

(1) Represents non-recurring costs associated with the acquisition of Ogio International, Inc. in January 2017.

|                                       | 2018 Trailing Twelve Month Adjusted EBITDA |                         |                      |                  |           | 2017 Trailing Twelve Month Adjusted EBITDA |                         |                      |                  |           |
|---------------------------------------|--|-------------------------|----------------------|------------------|-----------|--|-------------------------|----------------------|------------------|-----------|
|                                       | Quarter Ended                              |                         |                      |                  |           | Quarter Ended                              |                         |                      |                  |           |
|                                       | September<br>30,<br>2017                   | December<br>31,<br>2017 | March<br>31,<br>2018 | June 30,<br>2018 | Total     | September<br>30,<br>2016                   | December<br>31,<br>2016 | March<br>31,<br>2017 | June 30,<br>2017 | Total     |
| Net income (loss)                     | \$ 3,060                                   | \$ (19,386)             | \$ 62,855            | \$60,867         | \$107,396 | \$ (5,866)                                 | \$ 123,271              | \$ 25,689            | \$31,443         | \$174,537 |
| Interest expense, net                 | 642  | 2,004                   | 1,528                | 1,661            | 5,835     | 431  | 348                     | 715                  | 550              | 2,044     |
| Income tax provision (benefit)        | 1,486                                      | (4,354)                 | 17,219               | 17,247           | 31,598    | 1,294                                      | (137,193)               | 13,206               | 16,050           | (106,643) |
| Depreciation and amortization expense | 4,309                                      | 4,799                   | 4,737                | 5,029            | 18,874    | 4,204                                      | 4,045                   | 4,319                | 4,178            | 16,746    |
| EBITDA                                | \$ 9,497                                   | \$ (16,937)             | \$ 86,339            | \$84,804         | \$163,703 | \$ 63                                      | \$ (9,529)              | \$ 43,929            | \$52,221         | \$ 86,684 |
| Ogio & TravisMathew acquisition costs | 3,377                                      | 1,677                   | —                    | —                | 5,054     | —  | —                       | 3,956                | 2,254            | 6,210     |
| Adjusted EBITDA                       | \$ 12,874                                  | \$ (15,260)             | \$ 86,339            | \$84,804         | \$168,757 | \$ 63                                      | \$ (9,529)              | \$ 47,885            | \$54,475         | \$ 92,894 |

**CALLAWAY GOLF COMPANY**  
**Reconciliation of Non-GAAP Third Quarter and Full Year 2017 Results**  
(Unaudited)  
(In thousands)

|   | Three Months Ended September 30, 2017 |                                  |            |
|---|---------------------------------------|----------------------------------|------------|
|   | Total As Reported                     | Acquisition Costs <sup>(1)</sup> | Non-GAAP   |
| Net sales   | \$ 243,604                            | \$ —                             | \$ 243,604 |
| Gross profit  | 104,902                               | (798)                            | 105,700    |
| % of sales  | 43.1%                                 | —                                | 43.4%      |
| Operating expenses  | 98,865                                | 2,579                            | 96,286     |
| Income (loss) from operations                             | 6,037                                 | (3,377)                          | 9,414      |
| Other expense, net  | (1,462)                               | —                                | (1,462)    |
| Income (loss) before income taxes                         | 4,575                                 | (3,377)                          | 7,952      |
| Income tax provision (benefit)                            | 1,486                                 | (1,134)                          | 2,620      |
| Net income (loss)   | 3,089                                 | (2,243)                          | 5,332      |
| Less: Net income attributable to non-controlling interest | 29                                    | —                                | 29         |
| Net income (loss) attributable to Callaway Golf Company   | \$ 3,060                              | \$ (2,243)                       | \$ 5,303   |
| Diluted earnings (loss) per share:                        | \$ 0.03                               | \$ (0.02)                        | \$ 0.05    |
| Weighted-average shares outstanding:                      | 96,879                                | 96,879                           | 96,879     |

(1) Represents non-recurring costs associated with the acquisitions of Ogio International, Inc. in January 2017, and TravisMathew, LLC in August 2017.

|                                   | Year Ended December 31, 2017 |                                  |  |             |
|-----------------------------------|------------------------------|----------------------------------|--|-------------|
|                                   | Total As Reported            | Acquisition Costs <sup>(1)</sup> | Non-Cash Tax Adjustment <sup>(2)</sup> | Non-GAAP    |
| Net sales                         | \$1,048,736                  | \$ —                             | \$ —                                   | \$1,048,736 |
| Gross profit                      | 480,448                      | (2,439)                          | —                                      | 482,887     |
| % of sales                        | 45.8%                        | —                                | —                                      | 46.0%       |
| Operating expenses                | 401,611                      | 8,825                            | —                                      | 392,786     |
| Income (loss) from operations     | 78,837                       | (11,264)                         | —                                      | 90,101      |
| Other expense, net                | (10,782)                     | —                                | —                                      | (10,782)    |
| Income (loss) before income taxes | 68,055                       | (11,264)                         | —                                      | 79,319      |
| Income tax provision (benefit)    | 26,388                       | (4,118)                          | 3,394                                  | 27,112      |
| Net income (loss)                 | 41,667                       | (7,146)                          | (3,394)                                | 52,207      |

|   |                  |                   |                   |                  |
|---|------------------|-------------------|-------------------|------------------|
| Less: Net income attributable to non-controlling interest | 861              | —                 | —                 | 861              |
| Net income (loss) attributable to Callaway Golf Company   | <u>\$ 40,806</u> | <u>\$ (7,146)</u> | <u>\$ (3,394)</u> | <u>\$ 51,346</u> |
| Diluted earnings (loss) per share:                        | \$0.42           | (\$0.07)          | (\$0.04)          | \$ 0.53          |
| Weighted-average shares outstanding:                      | 96,577           | 96,577            | 96,577            | 96,577           |

(1) Represents non-recurring costs associated with the acquisitions of Ogio International, Inc. in January 2017, and TravisMathew, LLC in August 2017.

(2) Represents approximately \$7.5 million of non-recurring income tax expense resulting from the 2017 Tax Cuts and Jobs Act, partially offset by a non-recurring benefit of approximately \$4.1 million related to the revaluation of taxes on intercompany transactions, resulting from the 2016 release of the valuation allowance against the Company's U.S. deferred tax assets.

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SOURCE Callaway Golf Company