Thank you, operator and good afternoon, everyone. Welcome to Topgolf Callaway Brands’ second quarter 2023 earnings conference call. I’m Katina Metzidakis, the Company’s Vice President of Investor Relations and Corporate Communications. Joining me as speakers 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 second quarter 2023 financial results. In addition, there is a presentation that accompanies today’s prepared remarks and may make it easier for you to follow the call. This earnings presentation, as well as the earnings press release, are both available on the Company’s Investor Relations website under the “Financial Results” tab.

Most of the financial numbers reported and discussed on today’s call are based on U.S. Generally Accepted Accounting Principles. In the instances where we report non-GAAP measures, we have reconciled the non-GAAP measures to the corresponding GAAP measures at the back of the presentation 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. We encourage you to review the safe harbor statements contained in the presentation and the press release for a more complete description.

And with that, I would now like to turn the call over to Chip Brewer.
Chip Brewer, President and Chief Executive Officer

Thank you, Katina and welcome to the team.

Good afternoon to everyone on the call and thank you for joining us today. Q2 was a solid quarter for Topgolf Callaway Brands, driven by strength across all our business segments. At the halfway point of 2023, here are just the highlights of what we see: market share gains and brand growth in golf equipment; a stronger economic model and proven growth algorithm in the Topgolf venue business; and continued growth in our apparel assets. We also see a resilient and engaged consumer across all of our businesses.

We remain on track to deliver strong EBITDA growth for the full year and to transition to being cash flow positive, both at the corporate level as well as at Topgolf individually. This transition to being cash flow positive is an important milestone for our business and we are confident it will ramp from here.

Having said this, we also recognize that there is more quarterly noise in our results than would be ideal. Most significantly, last year’s retail inventory catch up in our golf equipment business and, separately, the post-COVID surge in the events business at Topgolf, make year-over-year quarterly comparisons difficult and cloud the true progress we are making in improving the fundamental economic engine of our business. In our comments today, we hope to clearly explain this short-term volatility; as well as highlight the long-term positive story of continued improvement in the earnings power of our business and the resilience of our core Modern Golf consumers.

With that said, let’s shift gears, and talk about the business segments. We will start by discussing Topgolf. This is a business which is expected to add three to four million new off-course golf participants each year for every 11 new venues and will thus help drive growth across the entire Modern Golf ecosystem. With this growth, Topgolf will soon have more consumers visiting it than exist in all of U.S. on-course golf, including one-half of the total on-course golf population as many now participate in both on- and off-course golf. In what is truly a synergistic relationship,
Topgolf’s sister brands at Topgolf Callaway Brands Corp. will be helping drive this growth and also have a competitive advantage in reach to all these Modern Golf consumers.

As outlined by Artie in his June 1st fireside chat, there are three key performance drivers for our Topgolf venue business:

• First is our development pipeline,
• Second is same venue sales growth, and
• Third is venue margin expansion.

Let’s walk through each one.

Starting with our development pipeline, this quarter, we successfully opened two new venues; in King of Prussia, Pennsylvania and St. Petersburg, Florida, both of which drove excitement and brand heat in those regions. We are pleased to report that our new venues continue to perform extremely well, and that we remain on track to open 11 new owned and operated venues in 2023, in line with our guidance.

Turning to our second performance driver, same venue sales. As expected, Topgolf posted its 7th consecutive quarter of same venue sales growth, despite challenges from temporary venue shutdowns from air pollution caused by the fires in Canada. Same venue sales for the quarter was within our guidance range at approximately 1% and the two-year stack, which takes out some of the post-COVID related volatility, shows an even more impressive 9% growth.

As we discussed last quarter, we fully expected Q2 to be challenging from a comp perspective, as last year’s same venue sales benefitted from a post-COVID surge in the events business. That said, we are maintaining our same venue sales guidance for the full year based on the continued strength in the consumer portion of our business along with new initiatives that will ramp during the second half and some nuances in the quarterly comparisons. Let me give you more detail on each of these and walk you through how we get to this conclusion:
• First, and most importantly, we have seen consistent and strong growth in the consumer led portion of our business. This category represents the lion’s share of our business; and we believe it is the best indicator of brand heat.

• Second, as of Q2, we have made continued progress on our digital journey, including reservations. In fact, U.S. venue digital sales penetration increased 8 points versus last year to approximately 34%. The largest driver of this growth is our digital inventory management system, PIE, which has now been rolled out to over half of our venues. This system allows us to maximize sales, improve the customer experience and optimize costs. And, we continue to expect to have all venues on PIE by the end of the year. More specifically to this section of our call, on an individual venue basis it helps drive approximately a two-point increase in same venue sales post implementation and, given the timing of rollout, we estimate it will add at least 1% to same venue sales in Q4.

• Third, we have and are taking incremental pricing both in game play and food and beverage. Based on our experience, as well as competitive positioning, we believe this will have at least a 1% positive impact on same venue sales, primarily in Q4.

• Fourth, we are excited about a new, innovative marketing campaign which will launch later this month. It is designed to both captivate and appeal to the modern golfer; and to drive both incremental awareness and visits. I’m not going to ruin the surprise by trying to describe it to you on this call, but I’m sure you will notice it and I hope it makes you smile.

• Lastly, we believe our second half comp will be slightly less challenging than our Q2 comp. This is because we expect the lap of last year’s especially strong events business to be somewhat less of a headwind for the second half of this year. And, last year’s Q4 comp was negatively impacted by approximately 2 points by venue closures due to extreme cold weather, which we don’t expect to repeat this year.

Moving on to our third performance driver, venue margin expansion. COGS and labor optimization, along with continued leverage of fixed overhead costs, drove sequential quarter over quarter improvement in our Q2 Adjusted EBITDAR margins. This in turn drove total segment
EBITDA towards the high end of our range despite same venue sales coming in towards the low end.

This is just a fantastic story, and it highlights how our venues are becoming increasingly profitable. PIE continues to be a key ingredient to our venue margin expansion. It does so by facilitating increased reservations which in turn support more predictable labor scheduling and increased bay utilization. As mentioned, at the end of Q2, more than half of our venues had implemented PIE and we expect to have all venues utilizing PIE by the end of the year.

The Topgolf team’s excellent work over the last few years puts us well ahead of the plan laid out at the time of the merger and in a strong position to achieve the updated target venue unit economics we provided last quarter, including approximately:

- 35% 4-wall Adjusted EBITDAR margins,
- Two-and-a-half-year payback period,
- 20% return on gross investment, and
- 50% to 60% cash-on-cash returns.

Taken together, these targets represent a fundamental, long-term improvement in the cash generation and profitability of our venue business. In essence, a step change in value.

Lastly, turning to Toptracer, I want to quickly highlight its success in the quarter and continued dominant leadership position as golf’s #1 Range Technology. We continue to see healthy demand for this product, with accelerating bay installations versus Q1, and we are on track to install at least 7,000 bays this year, in line with our guidance.

Moving to our Golf Equipment segment and another example of strong execution. We delivered improved U.S. market share performance in the second quarter, in what has been an excellent year-to-date for our brand in both Tour exposure and product performance. In June, we saw U.S. market share gains in every category in both the on- and off-course channels. For both the month of June and year-to-date, our brand is #1 in drivers, fairway woods, hybrids, total woods, and irons. We
are also #2 in putters and golf ball, with strong shares in these categories as well. This performance shows the continued strength of our brand and our products.

Our Paradym line of clubs, which launched in Q1, was the primary driver of this success. Paradym had continued strong demand throughout Q2 and has been exceptional on Tour all year, with the Paradym driver winning an impressive 9 times on the PGA Tour year-to-date. Not surprisingly, Paradym is the #1 selling driver and fairway wood model year-to-date in the U.S.

I’m proud of these results and believe our performance this year has further strengthened our brand. This in turn will benefit our shareholders not only this year but going forward.

In other brand news, just last month we announced the extension of our long-term partnership with Masters champion Jon Rahm. Jon will continue to play both Callaway and Odyssey equipment, wear Callaway headwear, TravisMathew apparel and footwear, and champion Topgolf’s business (including the Topgolf logo on the side of his headwear). This is another wonderful example of how we are achieving synergies across our brands.

Looking at the overall golf industry and the health of the game, the U.S. hardgoods market continues to hold up quite well, down just 1.6% June year-to-date, consistent with our expectations. In addition, all signs point to golf participation remaining robust with U.S. rounds played up 5.5% through June year-over-year, and strong demand for consumables in the quarter.

Looking ahead, our leadership position in R&D investment, and more specifically our expertise in the use of A.I. in the development of product, gives me continued confidence in our current and future product pipeline.

Turning now to Active Lifestyle, TravisMathew had double-digit growth again this quarter. The brand continues to successfully open new retail stores, including five year-to-date, and totaling 46 overall. The team also continues to do a tremendous job executing the new women’s category expansion which has now grown to become a mid-single digit percent of overall sales, an early sign of success.
TravisMathew also continues to find exciting ways to grow its brand in the Modern Golf ecosystem, including building additional synergies across our brands. In June, the brand had a very successful marketing activation event at the ACC golf tournament in Lake Tahoe. This high-profile event drew participation from several TravisMathew ambassadors as well as Callaway brand ambassador, Stephen Curry, who went on to win the event via a dramatic walk off eagle finish. Both Callaway and TravisMathew, including new TravisMathew brand ambassador Reggie Bush, also participated at Topgolf’s U.S. Open event in El Segundo. We feel incredibly proud to partner with ambassadors who share our excitement about the growing Modern Golf ecosystem and our teams are increasingly enjoying opportunities to leverage cross brand synergies.

Moving along, Jack Wolfskin had a good first half, despite a choppy macro backdrop in Europe, as well as earlier shipment timing this year versus last year, as supply chains corrected. Jack Wolfskin remains on track for steady growth in both revenue and profits for 2023.

In conclusion, we are excited about the strategic direction of our portfolio of global brands in the growing Modern Golf ecosystem. In the near term, our brands are strengthening, and we remain on track to deliver impressive EBITDA growth and transition to positive free cash flow this year. This inflection point is just the first step in what will be a strong, long duration story of overall growth in both EBITDA and cash flow.

As we do this, our top capital allocation priority continues to be investing in the profitable growth of our business, most notably in new venues. This is an area where we have demonstrated strong competency in selecting, building, opening, and operating these unique and high-performing assets. Our Topgolf venues are delivering increasingly attractive returns, and we have a high degree of confidence in their performance both out of the gate and over time.

Looking forward, we remain excited and optimistic about our business which benefits from a defined leadership position in Modern Golf, synergies across our portfolio of premium brands, and a clear path to continued profitable growth.
And now I’ll turn the call to Brian to provide more detail on our financials and outlook.

**Brian Lynch, Executive Vice President, Chief Financial Officer & Chief Legal Officer**

Thank you, Chip, and good afternoon, everyone.

We are pleased with our Q2 results which showed strength across each of our segments and progress against each of the key Topgolf performance drivers Chip discussed, including continued development of 11 new venues this year, seven consecutive quarters of same venue sales growth, and good progress toward our venue margin expansion goals. This progress, together with continued high consumer demand for on- and off-course golf, receding inventory levels and improved liquidity puts us in a strong position to deliver positive free cash flow this year and to meet or exceed our long-term financial targets.

Now let’s turn toward our second quarter financial results.

Second quarter net revenue was $1.2 billion dollars, an increase of 5.7% year-over-year, or 6.5% on a constant currency basis, which was in line with our guidance. This increase was led by Topgolf’s robust 16.6% year-over-year revenue growth. We achieved this result despite an $8 million negative impact from changes in foreign currency exchange rates and the post-COVID inventory fill-in at retail in our products businesses which primarily impacted the first half of 2022.

Q2 non-GAAP operating income was $130.5 million, down approximately 3% and flat on a constant currency basis year-over-year. We are pleased with this performance considering both the challenging lap of the inventory fill-in at retail in our products businesses as well as the planned investments in labor and marketing we made in the Topgolf business.

Q2 non-GAAP net income was $77.8 million, a decrease of $15.7 million compared to Q2 2022. The decrease is attributable to a $20.3 million increase in interest expense, primarily due to higher interest rates and additional term loan debt related to our recent debt refinancing.
Lastly, Q2 Adjusted EBITDA was ahead of our guidance range at $206.2 million, down 0.5% compared to last year, primarily due to unfavorable changes in foreign currency rates. Q2 Adjusted EBITDA increased 2% on a constant currency basis and was driven primarily by operational efficiencies.

Now turning to our segment performance.

In Q2 2023, Topgolf revenue increased $67.1 million to $470.8 million, a year-over-year increase of 16.6%, driven by the addition of 11 new venues and approximately 1% same venue sales growth, which was within our guidance range. We estimate that the impact from temporary venue shutdowns caused by fires in Canada was worth about a point of same venue sales. We believe it is helpful to compare same venue sales on a 2-year stack basis because it removes some of the COVID-related volatility and demonstrates the strength of our venue business. On a two-year stack basis, same venue sales growth for Q2 was 9%. By comparison, Q1 2023 same venue sales was 11% and on a two-year stack basis was 13%.

Topgolf’s segment operating income was $44.0 million, which was largely flat versus last year. As mentioned previously, this result in large part reflects the planned increase in marketing expenses related to Topgolf’s new Come-Play-Around marketing campaign and investments in labor we made in Q3 of 2022. Importantly, the underlying earnings power of this business continues to increase, and we remain on track to achieve our 4-wall Adjusted EBITDAR margin target of 35% by 2025, if not sooner.

Topgolf's Adjusted EBITDA was $92 million, up approximately $6 million compared to Q2 last year and at the high-end of our guidance range due to solid performance in our new venues and improved operational efficiencies at existing venues.

Golf Equipment net revenue was $451 million, flat year-over-year, and up 1% in constant currency. This was good performance considering the previously mentioned retail channel fill-in last year and the unfavorable changes in foreign currency rates. These headwinds were largely
offset by our increased market share gains in golf clubs, strong golf ball sales, and continued strength in overall rounds played.

Golf Equipment segment operating income was $96.4 million, a 3.9% decline versus Q2 2022, primarily due to unfavorable changes in foreign exchange rates. This result was partly offset by stronger gross margins which increased approximately 100bps year-over-year primarily due to increased pricing and lower freight costs.

Lastly, Q2 Active Lifestyle segment revenue was $258 million, slightly down, or flat on a constant currency basis, as compared to Q2 2022. This result is in large part due to a shift in timing of wholesale shipments between Q1 and Q2 as compared to 2022. This is evident in our first half results, where Active Lifestyle revenue increased 13.3% year over year.

Q2 Active Lifestyle operating income of $19.5 million decreased $3 million versus Q2 2022 due to planned operating expenditures to support growth and was partially offset by gross margin increases related to price increases and a higher mix of direct-to-consumer business.

Moving to our balance sheet. As a reminder, we completed a significant debt refinancing in March of this year which added approximately $300 million of additional liquidity, reduced our cost of the refinanced debt, and extended the maturities of our credit facilities. We not only simplified and strengthened our capital structure but also gave ourselves flexibility on how to finance Topgolf venues, including self-financing, which provides us with another option as we decide how to finance future venues.

As of June 30, 2023, available liquidity, which is comprised of cash-on-hand and availability under our credit facilities, was $648 million dollars compared to $415 million dollars at December 31, 2022 and compared to $640 million dollars at June 30, 2022.

At quarter-end, we had total net debt of $2.24 billion dollars which excludes convertible debt of approximately $258 million, compared to $1.44 billion at the end of Q2 2022. This increase relates
primarily to incremental new venue financing, the additional $300 million of term loan debt and normalization of working capital for the non-Topgolf business.

Our Net Debt leverage, which excludes the convertible debt, was 4.1x at June 30, 2023, compared to 2.7x at June 30, 2022. The year-over-year increase was due to new venue development and increases in working capital. Our net debt leverage ratio was in line with March 31, 2023, which was a little better than we discussed last quarter. We continue to expect our leverage to decline in the back half of the year as we generate free cash flow.

Consolidated Net Accounts Receivable was $397 million dollars, compared to $376 million dollars at the end of Q2 2022. Non-Topgolf days sales outstanding increased slightly from 55 to 58 days.

Our Inventory balance increased to $840 million dollars compared to $604 million at June 30, 2022, and is down from our December 31, 2022 balance of $959 million. The team’s active inventory management has led to a reduction of $119 million in the first half of 2023. Continued momentum in our Golf Equipment and Active Lifestyle segments gives us confidence that we remain on track to be at more normal levels of inventory by the end of the year. More importantly, we feel good about the quality of our inventory as much of our older inventory was cleaned up during the pandemic.

Gross Capital Expenditures were approximately $263 million dollars for the first six months of 2023 compared to $243 million for the first six months of 2022. Net capital expenditures, which net out the proceeds from construction reimbursements, were $148 million and $154 million in the first six months of 2023 and 2022, respectively. For full year 2023, we expect total company net capital expenditures of $270 million, which includes $190 million from Topgolf.

Before moving to our outlook, I want to comment on a few other matters.

First, is the Form 8-K we filed yesterday. Last week, we identified unusual IT system activity and immediately took proactive steps in consultation with our advisors to secure our systems. We activated our incident response plan and moved portions of our network off-line as a precautionary
measure. The majority of our systems are back on-line and full access is expected to be restored in the coming days. Based on what we know now, we do not believe the incident will have a material effect on our business, operations, or financial results.

Second, during the quarter we repurchased one million shares in open market transactions for a total cost of $17.8 million.

Finally, I want to provide a brief update on our relationship with Full Swing, the owners of the Swing Suite indoor golf simulation technology that delivers golf ball tracking data and measures ball flight indoors. On August 1, 2023, we acquired certain assets of the Swing Suite business for approximately $12 million. This small acquisition is strategically relevant to us as it allows us to control the use of our Topgolf brand in this channel and, from a financial perspective it is immediately cash flow positive in year one.

Now turning to our balance of the year outlook.

We are maintaining our full year 2023 revenue guidance range of $4.42 billion to $4.47 billion, and our Adjusted EBITDA range of $625 million to $640 million. At Topgolf we continue to guide to approximately $1.9 billion in revenue and an Adjusted EBITDA range of $315 million to $325 million. We are also reaffirming same venue sales guidance to be mid-to-high single digits.

For the third quarter 2023, we estimate revenue to be within the range of $1.05 billion and $1.075 billion, compared to $989 million in Q3 2022.

For Topgolf we estimate third quarter same venue sales growth between 1% and 3%, which would represent 12% to 14% growth on a two-year stack basis.

We estimate Q3 consolidated Adjusted EBITDA of $141 to $154 million, which is slightly ahead of Q3 2022.
Now I would like to provide some additional detail so you can better understand our second half guidance, including the cadence between Q3 and Q4:

- Topgolf’s second half same venue sales growth will be more heavily weighted toward Q4 versus last year for several reasons:
  - In Q4 2022, there was some unusually severe weather that led to the shutdown of a significant number of our venues, negatively impacting same venue sales by approximately 2 percentage points. We are assuming that shutdown does not repeat in Q4 this year.
  - Pricing we are taking at the end of Q3 should also provide at least a one percentage point lift to same venue sales in Q4 versus Q3.
  - Our PIE initiatives should also provide at least a one percentage point lift in same venue sales in Q4 versus Q3.

- Further, we expect Topgolf profitability to improve in the second half as the year-over-year comparisons for marketing and labor become easier, and increased pricing and improved operational efficiencies in our venues from PIE and other initiatives continue.

- Moving to our products businesses, we expect growth in the second half as we will no longer be lapping the retail channel inventory fill-in that occurred in the first half last year.

- Also, our second half golf equipment launch schedule is more heavily weighted toward Q4 of this year as opposed to Q3 last year.

- And, on a consolidated basis, we expect changes in foreign currency rates and lower freight expense to be tailwinds in the second half of this year, especially in Q4.

Overall, and despite the on-going macro-volatility, our business fundamentals remain strong. The Modern Golf consumer remains healthy and engaged. We are on track to deliver double-digit revenue and EBITDA growth this year. We are also successfully managing down our inventories and our liquidity position is strong. And finally, we expect to generate free cash flow this year on
a consolidated basis and at Topgolf, well ahead of plan at the time of the merger, which is a significant proof point for unlocking shareholder value.

That concludes my prepared remarks for today. I will pass it back over to Chip for some additional comments and then we’ll open the call for questions.

**Chip Brewer, President and Chief Executive Officer**

Thanks Brian. Before we open the call for questions, I just wanted to wrap up by reiterating our confidence in our strategy and long-term outlook. Our incredible portfolio of brands provides us with unmatched scale and reach within the Modern Golf ecosystem, an ecosystem in which we believe we are the dominant player. Our businesses, both individually and collectively, have both high barriers to entry and are structurally positioned for accelerated, profitable growth. Overall, we see a business that is well capitalized, has a long runway for continued growth and is set to ramp up free cash flow by year-end and beyond. With this, we remain highly confident in our ability to meet or beat our long-term financial targets.

We are optimistic about the future of Modern Golf and believe that our portfolio of premium brands uniquely positions us to be highly successful in it.

And we will now turn the call open for questions. Operator, over to you.

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