Callaway Golf Company
ELY
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Investment Thesis
1) Pivoting to a growth strategy in a consolidating industry
   - Adidas and Nike have stopped making clubs, balls, and golf-related equipment

2) Increase in popularity in golf in younger generations

3) Exclusive partner with TopGolf (15% ownership)
   - Diversifies target market and increases likelihood to capture new entrants

4) Growing both organically and inorganically through strategic acquisitions
Company Overview & History
Global leader in advanced golf technology

Manufacture and sell golf clubs and golf balls, and sell golf and lifestyle apparel and accessories under the Callaway Golf, Odyssey, OGIO, and TravisMathew brands worldwide

Continue to invest in both core and tangential areas

Strong executive team with deep industry experience

Strong balance sheet with minimal debt
1981: Ely Callaway buys 50 percent of Hickory Sticks USA
1986: Becomes first company to develop technology to create completely flat putting surface
1992: IPO
1997: Acquired Odyssey Sports
2003: Acquired Top-Flite
2006: Became Investor In Top Golf
2016: Acquired Toulon Design and Japan Joint Venture
2017: Acquired TravisMathew and OGIO
Key Executives
Governance

Oliver G. Brewer III
President, CEO and Director
Total Compensation: $4.8 m
Has held key positions in golf industry since 1998

Brian P. Lynch
CFO since July 31, 2017
Total Compensation: $1.1 m
Joined Callaway in 1999

Mark F. Leposky
Senior VP, Global Operations
Total Compensation: 1.14 m
Joined ELY in 2012

SCHOOL OF BUSINESS INVESTMENT PROGRAM
Recent News
Recent News

September 26, 2017 → Extends partnership with Phil Mickelson

August 21, 2017 → Completes acquisition of TravisMathew for $125.5 Million

August 03, 2017 → 2Q17 results: 24% increase in net sales, increases FY net sales and earnings guidance

July 31, 2017 → Brian Lynch appointed as Chief Financial Officer

January 25, 2017 → Signed Global Golf Superstar Michelle Wie

January 11, 2017 → Acquires OGIO for $75.5 Million

January 05, 2017 → Signed Rising Superstar Daniel Berger
Company Strategy
1) **Drive Growth**
   - **Organic**: Continue to invest in technology, the golf ball business and on Tour; capitalize on digital media strategy
   - **Inorganic**: Seek M&A and JV opportunities that are in golf or tangential to golf

2) **Generate free cash and effectively deploy**
   - First priority is to invest in high ROI projects (core business or tangential areas)
   - Return capital to shareholders via buybacks and dividends
**Golf Club Growth Opportunity**
- Introducing extensive new product line-up in 2017-2018
- New EPIC driver with jailbreak technology
- New wedges, fairway woods, hybrids and accessories (Callaway and OGIO-branded)

**Golf Ball Growth Opportunity**
- Constantly innovating and introducing new golf ball technology to the market
- Achieving 10% YOY Sales Growth

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**U.S. Retail Dollar Ball Market Share**

<table>
<thead>
<tr>
<th>Year</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>7.9%</td>
</tr>
<tr>
<td>2014</td>
<td>9.5%</td>
</tr>
<tr>
<td>2015</td>
<td>11.4%</td>
</tr>
<tr>
<td>2016</td>
<td>13.8%</td>
</tr>
<tr>
<td>Jul-17</td>
<td>14.6%</td>
</tr>
</tbody>
</table>
Inorganic Growth Strategy

**Acquisition of OGIO**
- January 2017 all-cash deal
- Lifestyle brand and a strong strategic fit for ELY
  - $10 million of OGIO EBITDA
  - Platform for future growth: expected revenue approx. $45 million
- Accretive to earnings

**Japan Joint Venture**
- JV with TSI Groove & Sports Co, Ltd.: a premier apparel manufacturer in Japan
- Callaway-branded apparel, headwear and footwear
- 52% stake in venture

**Acquisition of TravisMathew**
- California-based apparel business
- Double-digit revenue growth
- Synergies via brand, sourcing, operations, golf channels, and international presence
Exclusive golf partner of TopGolf and 15% owner
- On balance sheet as $49M cost basis
- Recently valued at $400M, TopGolf $2.7B

High growth entertainment concept
- Combines driving range, nightclub, and dining experience into one venue
- 34 locations globally; currently 17 under construction
  - 3 Locations in the UK
  - Expanding to Australia, Canada, and Mexico
Markets
Global Market Presence

#1 in Hard Goods; 26.4% market share, up 400 bps YOY

#1 in Hard Goods; 25.8% market share, up 470 bps YOY

#1 in Hard Goods; 20.5% market share, up 510 bps YOY

Net Sales by Region

U.S. 51%

Europe 14%

Japan 20%

ROW 7%

ROA 8%

Korea: #1 golf brand with 20% market share
Approximately 24M golfers in U.S.
- 84% of golfers are “committed”
- Committed golfers grew 3.1% in 2016

People are trying the sport in record numbers
- 2.5M new golfers in 2016
- Up 67% since 2011

Beginning Golfers (M) (2)

- 2011: 1.5
- 2012: 1.9
- 2013: 1.9
- 2014: 2
- 2015: 2.2
- 2016: 2.5

10.8% CAGR
Technical Analysis
Competitors
Key Brands

**Titleist**: #1 ball in golf and premier golf club and gear manufacturer

**FootJoy**: premium golf shoe and glove producer

**Vokey Design**: wedge developer

**Scotty Cameron**: putter designer

**Pinnacle**: golf ball creator
## Multiples Analysis

<table>
<thead>
<tr>
<th>Company</th>
<th>ELY</th>
<th>GOLF</th>
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</thead>
<tbody>
<tr>
<td>Market Cap</td>
<td>1.4B</td>
<td>1.3B</td>
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<tr>
<td>P/E</td>
<td>7.96x</td>
<td>30.52x</td>
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<tr>
<td>Profit Margin</td>
<td>18.22%</td>
<td>4.52%</td>
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<tr>
<td>Gross Margin</td>
<td>45.38%</td>
<td>50.67%</td>
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<tr>
<td>Revenue Growth</td>
<td>13.56%</td>
<td>-1.25%</td>
</tr>
<tr>
<td>Debt/Equity</td>
<td>0.0096</td>
<td>0.6651</td>
</tr>
<tr>
<td>Metric</td>
<td>Stock</td>
<td>Ind Avg</td>
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<tr>
<td>---------------------------------------</td>
<td>-------</td>
<td>---------</td>
</tr>
<tr>
<td>Price/Earnings TTM</td>
<td>8.0</td>
<td>29.3</td>
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<tr>
<td>Price/Book</td>
<td>2.1</td>
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<tr>
<td>Price/Sales TTM</td>
<td>1.4</td>
<td>3.0</td>
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<tr>
<td>Rev Growth (3 Yr Avg)</td>
<td>1.1</td>
<td>9.8</td>
</tr>
<tr>
<td>Net Income Growth (3 Yr Avg)</td>
<td>—</td>
<td>13.5</td>
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<tr>
<td>Operating Margin % TTM</td>
<td>7.4</td>
<td>13.7</td>
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<tr>
<td>Net Margin % TTM</td>
<td>18.1</td>
<td>10.1</td>
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<tr>
<td>ROA TTM</td>
<td>22.9</td>
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<tr>
<td>ROE TTM</td>
<td>30.7</td>
<td>11.2</td>
</tr>
<tr>
<td>Debt/Equity</td>
<td>—</td>
<td>0.6</td>
</tr>
</tbody>
</table>
Fundamental Analysis
Financial Highlights

**Net Sales (M)**
- 2012: $834
- 2013: $843
- 2014: $887
- 2015: $844
- 2016: $871

**Gross Margin**
- 2012: 30%
- 2013: 37%
- 2014: 40%
- 2015: 42%
- 2016: 44%

**EPS**
- 2012: $(1.96)
- 2013: $(0.31)
- 2014: $0.20
- 2015: $0.17
- 2016*: $1.98

**Net Cash from Operations (M)**
- 2012: $(29)
- 2013: $(9)
- 2014: $37
- 2015: $31
- 2016: $78
Financial Highlights

- Successfully generated considerable free cash flow over last 12 months
- Trailing 12 months adjusted
Financial Highlights

- Improving Gross Margin through price optimization and cost productivity
- Restructured golf ball business; now profitable and expanding
- Managing inventory better
  - Longer life cycles
  - Implemented postponement model
  - New Sales & Operations Planning Process
Financial Highlights

- Eliminated excess capacity and overhead
- Revamped supply chain
- Plant optimization
- Continued growth from prior years

Segment Profitability

(1) Excludes Corporate G&A expenses and Other Income/Expenses not utilized by management in determining segment profitability.
SWOT Analysis
SWOT Analysis

Strengths:
- World renowned brand name
- #1 in hard goods across all major regions
- Business model extending outside of core golf business segment
- Incredibly strong balance sheet

Opportunities:
- Well positioned in a consolidating industry
- Acquisitions of tangential businesses providing synergies
- Capture new entrants through TopGolf

Weaknesses:
- Significant amount of revenue comes from Golf Club business segment
- Cyclicality of business

Threats:
- Sport becoming less popular
- Competition taking market share/pushing margins
- Slowdown in the economy
Summary
1) Proven executive leadership
   - Deep golf industry experience
   - Fostering culture of innovation to further market share gains

2) Continued momentum
   - Pivoted to growth strategy
   - Share gains in all major markets with more runway
   - Strong balance sheet and profitability

3) Signs of Industry consolidation
   - At retail and among equipment manufacturers
   - Presenting opportunities for market participants willing and able to invest
Recommendation
Purchase 700 shares of ELY at $14.60
Total investment of $10,220
Thank you. Thoughts or questions?