

Callaway Golf (ELY)



Today's Price: \$29.29
 Dividend Yield: 0%
 Market Cap: \$5.45B
 Industry: Consumer Discretionary
 Headquarters: Carlsbad, CA

A classic brand that has dominated the golf industry - with an added twist of technological innovation to shake things up.

Business Overview

Callaway Golf Co. (Callaway) engages in the manufacturing and distribution of golf equipment and accessories. Callaway has traditionally operated through two main segments: Golf Equipment and Apparel, Gear, & Other. In March 2021, Callaway completed its acquisition of Topgolf for \$2.3B.

Revenue Segmentation: Q3 2021 Revenue (\$856 million): Topgolf 39%, Golf Equipment 34%, Apparel, Gear and Other 27%

Thesis Points

1. Acquisition of TopGolf diversified into an entertainment industry that is stronger than anyone imagined: After acquiring TopGolf - high-tech recreational driving range, ELY sets itself in the golf entertainment business. TopGolf is good for all skill level and all ages, and for training as well as recreational gatherings. Interest in Golf blew up during the pandemic, with same-venue revenue reaching pre-pandemic level. It helps ELY become a household name, (#topgolf has 503M views on TikTok). The increase interest in Golf will further magnify post-pandemic, and ELY's rapid expansion plans has potential to dominate this new market. The ball tracking software is also sold and used professionally and at many golf courses, bringing an additional stream of revenue.

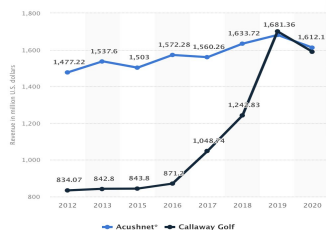
2. Direct-to-Consumer focus sets up for significant long-term earnings potential: Leading position in golf equipment and apparel markets – significant growth in 2020 have shown continuation in 2021. Outpaced many of the impacts from global supply chain disruptions along with card spending data indicated sustained growth of spending specifically on golf. Apparel sales supported by continued growth in the direct-to-consumer and e-commerce channels, putting company in desirable positioning for continuing strong sales volumes without difficulties of supply chain issues.

3. TopGolf driving growth in other business sectors: The acquisition of TopGolf not only provides Callaway an entry point into the entertainment industry, but also offers synergies with its other business sectors. With over 50% of TopGolf customers not playing traditional golf, there is an opportunity for cross-selling and getting more people involved in the sport, driving industry growth and therefore sales in equipment. In addition, TopGolf caters to target demographics of wealthy individuals with a competitive spirit. We predict TopGolf will be a driver for all of Callaway's business sectors and positively impact industry growth.



Industry Overview

Callaway Golf Co. is one of two major players in the golf industry, along with Acushnet Holdings Corp. (NYSE:GOLF), commonly known as Titleist. Outside of ELY and GOLF, the rest of the Equipment and Apparel sectors are characterized by smaller, privately-owned companies such as Ping, Puma (Cobra brand), Mizuno, and Bridgestone. Due to the nature of golf, the entire industry is subject to local weather constraints and general seasonality. The acquisition of Topgolf differentiates ELY from the rest of the industry, representing a season-neutral revenue driver beyond the typical 18-hole experience. The COVID-19 pandemic served as a significant boost to the industry as a whole, leading to surging demand in round bookings, equipment/apparel purchases, and non-traditional golf experiences.



ELY's significant growth in market share in Equipment & Apparel businesses

Additional Commentary

Valuation: The addition of new TopGolf locations will drive revenue for the next few years, but it will eventually taper back to near historical values of about 10%. Capital Expenditures will also jump in the next year to invest in new facilities, but will also return to historicals.

Risks: A Reduction in the interest for golf, Topgolf revenue impacted by indoor golf, intense competition across all segments of the business.

