

January 24, 2016

Callaway Golf Company (ELY:NYSE)

Consumer Goods- Sporting Goods

"It ALL Depends on the Future of Golf"

Company Profile

The Callaway Golf Company ("ELY") is a leading manufacturer and distributor of high quality golf equipment and accessories. ELY is headquartered in Carlsbad, California. The company's products are sold in over 100 countries and it employs approximately 1700 people. ELY sells its products through retailers, directly online and through its pre-owned and trade in services.

Thesis

ELY is a financially stable company, with established cash flows and no long-term debt. In addition, they will benefit from increasing baby boomers retiring rates in the United States. Further, China and India are two untapped markets which ELY has yet to take control of. Last, potentially reduced middle class tax rates under President Trump's administration will lead to an increase in disposable income. All these factors signal positive trends for key revenue drivers. However, golf as a whole, is dwindling in the United States. Golf does not yet capture the interests of consumers in Asia and there are no guarantees President Trump's administration will change tax rates. ELY's growth in the foreseeable future will almost entirely be determined by macro factors out of their control.

Valuation & Recommendation

We determined the target share price for ELY to be \$11.00 using a 50% weight on our DCF analysis alongside a 50% weight on our comparable company analysis. Given ELY's current share price and our target share price, we believe the market is pricing the company relatively higher than it should but. We do not believe there is hard-hitting short or long thesis on this name. Due to the reasonably fair market price, we decided to place a hold rating on ELY.

Analyst: Balreet Bhangoo, BComm 20

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Equity Research	Canada
Price Target	USD\$ 11.00
Rating	Hold
Current Share Price, close	USD\$ 11.80
Total Return	-6.7%

Key Statistics	
52 week H/L	\$12.50/\$8.00
Market Capitalization	\$1.04B
Net Debt	\$0M
Enterprise Value	\$919M
Net Debt/Enterprise Value	0%
Diluted Shares Outstanding	94M
Free Float %	100%
Dividend Yield	0.3%
LTM P/E	34.7x
LTM EV/EBITDA	14.9x

WestPeak's Forecast			
(\$USD)	2016E	2017E	2018E
Revenue	\$867M	\$902M	\$932M
EBITDA	\$71M	\$77M	\$79M
EBIT	\$46M	\$47M	\$50M
Net Income	\$44M	\$31M	\$35M



Source: Bloomberg, CapIQ

Business Overview/Fundamentals

Revenue Streams & Products

ELY has two main broad product categories which it derives revenue from; the first being 'Golf Balls', and the second being 'Golf Clubs & Others.' The product category of Golf Clubs & Others can further be broken down into Woods, Irons, Putters and Accessories.

Woods are comprised of the company's drivers, fairway woods and hybrid products sold under the Callaway Golf brand. These products are generally made of metals (titanium and steel) or a combination of metals and a composite material. Woods accounted for \$222.2 million in revenue during FY 2015.



Irons are comprised of the company's irons and wedges, sold under the Callaway Golf brand. Irons are generally made of metal (either titanium, steel or special alloy) or a composite material (combination of metal and polymer). Irons accounted for \$205.5 million in revenue during FY 2015.



Putters are comprised of only the sale of putters which are sold under the Odyssey brand. Putters accounted for \$86.3 million in revenue during FY 2015.



Woods, Irons and Putters are all available in a variety of specifications to accommodate preferences and skill levels of all golfers.

Golf Balls are comprised of only the sale of golf balls, sold under both the Callaway Golf and Stara brands. The balls are generally either a 2-piece golf ball (consisting of core and cover) or a multiplayer golf ball. The golf balls include covers with a tradition dimple pattern as well as new innovative designs such as lattice of tubes which form hexagons and pentagons. Golf balls accounted for \$143.1 million in revenue during FY 2015.

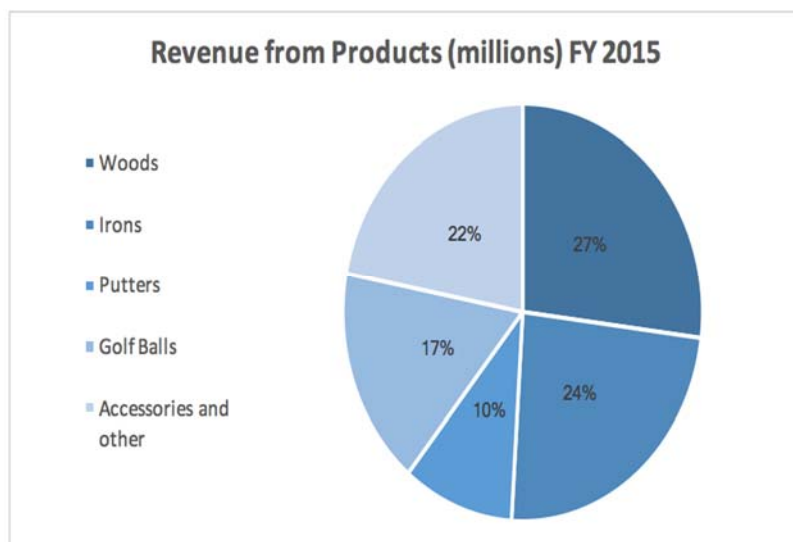


Accessories and Other are comprised of sales including packaged sets, golf bags, globes, footwear, apparel, travel gear, headwear, towels, umbrellas, eyewear and additional accessories. All sales of pre-owned products are included in this category. Additionally, royalties from licensing the company's trademarks are also included in this category. Accessories and Other accounted for \$186.7 million in revenue during FY 2015.



Sources: Callaway Website

The pie chart shows the distribution each product contributed to the total revenue in fiscal year 2015. Geographically, the United States delivers the most revenue accounting for 52.9% in 2015. This is followed by Japan and Europe, respectively contributing 16.3% and 14.8%. The majority of international sales are made through wholly-owned subsidiaries located in Japan, Europe, Korea, Canada, Australia, China and India. A network of distributors helps reach all other countries.



Supply Chain

ELY's primary golf club assembly facility is located in Monterrey, Mexico. ELY also maintains limited golf club assembly lines in its facilities in Carlsbad, California. Golf clubs are also assembled in China, Japan and other local markets based on demand for custom clubs in these regions. Additionally, ELY contracts golf club production to manufacturers in China. Since 2013 most of the golf club production volume was made in countries outside of the United States.

ELY's primary golf ball manufacturing facility is located in Chicopee, Massachusetts. ELY also contracts golf ball production to manufacturers in China and Taiwan. Since 2013 about 60% of total golf ball production volume was in regions outside of the United States. The golf ball manufacturing process is much more automated than the golf club assembly process.

The company purchases the raw materials from domestic and international suppliers. Raw materials purchased include steel, titanium alloys and carbon fibre for manufacturing golf clubs. Synthetic rubber, thermoplastics, zinc oxide and lime stone are purchases for manufacturing golf balls. With such a large and complex supply chain come multiple risks. Failure of vertically integrating the supply chain is discussed in the Risks segment.

The primary distribution centre for North America is located in Dallas, Texas. ELY also maintains and utilizes distribution centres in Swindon, England and Melbourne, Australia. All other distribution services are handled by 3rd party logistical operations in Tokyo, Shanghai and Seoul.



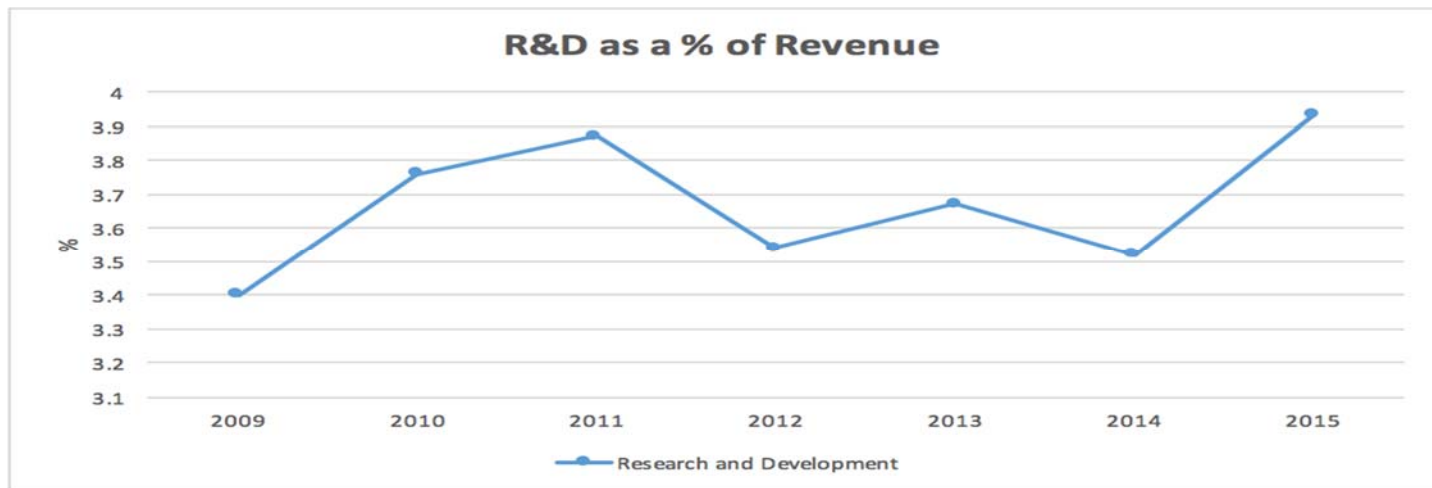
Source: EMC.com

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Research & Development

In order for ELY to grow revenue from the sale of golf clubs and golf balls, only two options exist. Either ELY must increase its market share for golf equipment or the market for golf equipment must grow. The recent decline in the worldwide golf market has made it nearly impossible for ELY to grow sales. Only the first option exists, in which ELY must steal market share away from other competitors. This can be done in a variety of methods which include but are not limited to exceptional service, exceptional products or new and innovative products. ELY's investment in its R&D has been stagnant throughout the years. Without any real major growth signals in the worldwide golf market, ELY should focus on investing more in R&D to capture more market share from its competitors.



Seasonality of Business

The game of golf is primarily played on a seasonal basis. Weather conditions in most parts of the world, where golf is a common sport, restrict the game from being played year-round. Many of ELY's on course customers close during the cold weather months. ELY begins selling its products into the golf equipment market during the first quarter, which signals the beginning of a new golf season. The initial sell-in continues into the second quarter. The second-quarter sales are significantly under the impact of the amount reordered from the products sold during the first quarter. Third quarter sales also depend on reorder business but are almost always less in comparison to the second quarter, due to the fact many retailers begin decreasing inventory due to the nearing end of the golf season. Fourth quarter sales are generally the least of all quarters due to the end of the golf season in many of the markets ELY sells its products. Third and fourth quarter sales can be skewed from time to time due to new launches of products. However, because of golf's seasonality, a majority of ELY's sales occur during the first half of the year.

Dividend Policy

ELY has maintained a consistent dividend policy following the 2008 financial crisis. ELY pays a quarterly dividend of \$0.01 equating to a dividend yield of approximately 0.3%. ELY intends to continue paying quarterly dividends. Future dividends may be affected by the company's view on potential future capital requirements. ELY's relatively small dividend places it in an advantageous position where the company is not jeopardizing its future. The company currently has no share repurchase program in place.

Macro Environment

Industry Overview

The golf equipment business includes a number of well-established and well-financed companies with recognized brand names. ELY's major competitors include TaylorMade, Ping, Acushnet (Titleist brand), Puma (Cobra brand), SRI Sports Limited (Cleveland and Srixon brands), Mizuno and Bridgestone. With many companies selling essentially the same but differentiated good, there is no seller power in the market. During times of turmoil or prosperity, ELY can only align its product's prices with competitors. Very low prices will lead to the entire industry lowering prices and decreased profits across the board whereas very high prices will simply result in customers switching to another brand. Likewise, with many retailers across the world purchasing the equipment, no buyer power exists.

The real power exists with suppliers of inputs required to produce the equipment. ELY relies on a limited amount of suppliers who custom make inputs specially for ELY. Due to a small number of these manufacturers available and difficulty to utilize alternative suppliers quickly, these manufacturers can easily pass on higher commodity prices to ELY.

While there is no clear advantage in the golf club market share in the United States, the golf ball market share is dominated by Acushnet who controls 50% and maintains a leading position in major regions outside the United States.

One of ELY's main competitors, Nike, ceased its golf equipment operations in August 2016 citing it would be "accelerating innovation in golf footwear and apparel [instead of golf equipment]." Furthermore, Adidas is looking to sell its golf equipment brand TaylorMade. Adidas' reasons for leaving the golf equipment market is extremely similar to Nike, Adidas' CEO stated, "TaylorMade is a very viable business. However, we decided that now is the time to focus even more on our core strength in the athletic footwear and apparel market." Mark King former CEO of TaylorMade stated "The biggest growth opportunities are in running, training, basketball," implying golf equipment doesn't face the same growth prospects as other product categories of Adidas. Both these giant's leaving the golf equipment industry offer breathing room for ELY but also signify the poor outlook for the future of the golf equipment business.



Disposable Income

Referred to as the "Gentleman's Game", golf is rather expensive in comparison to other sports. An article published on the popular industry website, StrikeGolfGPS, estimated start-up golf costs to be \$700 excluding lessons, which is simply the costs of playing on a golf course and purchasing golf balls. A "luxury" sport, demand is controlled by disposable income, which is based on the individual's ability to purchase the good. A higher disposable income in households leads to more players in the game. With improving economic

conditions in the United States and President-Elect Trump's promises of lower taxes for the middle class, the disposable income per capita will increase according to Forbes. This increase can potentially lead to a large increase in active golf players in the United States.

Retiring Baby Boomers

The golf equipment market accounts for an estimated 48% of total product revenue in the sporting goods industry, making it the largest product segment according to Ibisworld. The overall segment has posted stable growth over the past five years. The game of golf is popular among the retiring baby boomers, who are driving the demand for golf equipment. Four million baby boomers retire every year, and according to a survey conducted by Bloomberg, these boomers plan to spend more money on golf. Furthermore, boomers also play more rounds of golf than any other age group which drives up demand for golf balls and golf courses throughout the United States. Although the baby boomers will add to the total amount of active golf players in the United States, their addition will not be enough to deviate from the declining trajectory of active golf players.

Lack of Economic Moat

The Callaway Golf Company name offers a great brand image with 30 years of exceptional quality. Unfortunately for ELY, the brand image is the only real source of protection against competitors; ELY lacks an economic moat. Lacking cost advantage, efficient scale, or any intangible assets to keep competitors at bay—ELY holds no source of protection against competitors in a mature and competitive industry. Additionally, as mentioned in the risks, ELY has only control over a fraction of the entire manufacturing process from purchasing raw materials to producing the finish product. Suppliers hold the ability to make ELY bend to their will, for without them ELY cannot produce a majority of its products.

Catalysts

Competitors Leave the Golf Equipment Market

As mentioned above, Nike has left the golf equipment market to focus on golf apparel while Adidas' TaylorMade is currently being shopped around for a potential buyer. This means TaylorMade will remain a competitor but, they will no longer have the full force of the behemoth Adidas driving them. Several private equity firms have looked at TaylorMade but ultimately decided against a bid, citing its losses and the sport's waning popularity, according to sources close to the company informing Thomson Reuters.

The more interesting case is Nike exiting the golf equipment market. Even with two of the biggest names in Golf, Tiger Woods and Rory McIlroy, endorsing Nike. Nike Golf has been the worst performing division for Nike, with sales down 8.2% in the recent fiscal year. Furthermore, after a high of \$792 million in 2013 Nike

Golf's revenue has been on a downward spiral. Nike's golf equipment division earned revenues of \$706 million in the fiscal year 2016.

A question arises, why would Nike leave \$700 million dollars a year in revenue on the table? Their outlook on a regressing golf industry combined with their year over year decreasing revenues played a role. Furthermore, Nike believes it's in their interest to focus on apparel. For ELY, this opens up a massive amount of market share which they have the potential to seize.

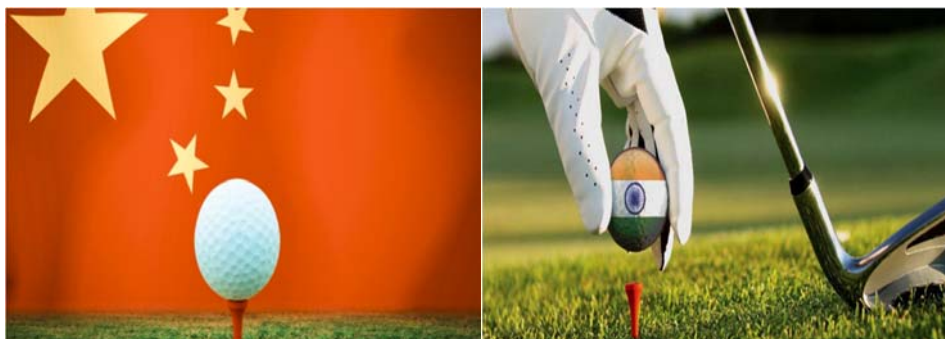
Emerging Markets

Golf companies are relying on China and India to drive revenues far into the future. However, due to a lack of popularity and golf infrastructure (golf courses and facilities) in the emerging market, golf has not boosted profits in the way golf equipment manufacturers were hoping.

The reintroduction of golf in the Olympic Games means greater funding from National Olympic Committees and governments in Asian countries. This additional funding can lead to more public support which increases investments into golf infrastructure which ultimately increases the number active golf players in Asian countries. China and India, with populations 1.35 billion and 1.25 billion respectively, contain a large consumer base which has not been introduced to the sport of golf, a large consumer base of potential revenue

China, one of the fastest growing golf countries in the world, operates 473 facilities. Obtaining information on growth is difficult as the government imposed a ban on golf course construction in 2004 in an effort to protect the country's land and water resources. The ban, still in effect, applies to all areas of China except a major tourist area, Hainan Island. Although it is possible to bypass restrictions by filing Golf facilities applications that title the developments as sports training facilities, resorts, or other types of developments. However, the Chinese government is now taking a more active enforcement stance and demolishing courses that were illegally built. Some estimates believe up to 100 illegal courses may be closed. The future of golf in China may seem gloom for resorts, but in terms of consumers it is growing.

As of right now, Adidas' TaylorMade is the preferred choice of golf equipment. Ely cannot sit idle while TaylorMade establishes customer loyalty in a vital market. In order to utilize China & India as a revenue catalyst, ELY needs to invest more into marketing and increasing their brand presence in these emerging markets.



Source: Vancity Buzz and eTurboNews

Investment in Topgolf

Topgolf International is a premier entertainment and event venue with unique point-scoring golf games for all skill levels with music, an upscale bar, food and drinks. The underlying theme of the venture is to give a night club appeal which meets the driving range. Topgolf currently has 28 locations with 8 more opening soon; tying in to their aggressive expansion plan. ELY established a partnership agreement where ELY acts as the supplier of all golf equipment at Topgolf facilities. ELY's attempt at diversifying revenue proves to be a solid investment as Topgolf continues to expand and generate revenue. In Q2 2016, ELY agreed to sell a percent of its stake in Topgolf, lowering ELY's ownership in the company to 15%. Although, the sale generated gains of \$17.6 million. ELY's total Topgolf investment, prior to this transaction, was \$54.6 million. This transaction will represent a 306% percent gain on the initial investment.



Source: Topgolf Website

Management Team

Mr. Oliver G. Brewer III- Chief Executive Officer, President

Oliver (Chip) Brewer joined ELY as CEO in March 2012. Prior to ELY, Brewer brings in company specific knowledge and a vast amount of golf industry knowledge due to his long tenure with Adams Golf. He served as CEO, President, COO and Senior VP of Sales with Adams Golf, gaining valuable management skills. His total annual compensation of \$4,305,268 is composed of \$750,000 salary, \$2,430,268 worth of stock options and all other compensation totalling \$1,939,129. Brewer currently holds 253,018 shares.

Mr. Robert K. Julian- Chief Financial Officer, Senior Vice President

Robert K Julian joined ELY as CFO in May 2015. Prior to ELY, Julian brings 20 years of financial leadership and experience. Julian gained valuable management skills while positioned in key financial leadership roles with Cisco, Honeywell and Rockwell. His total annual compensation of \$2,107,346 is composed of \$539,726 salary, \$1,286,820 worth of stock options and all other compensation being \$857,346.

Mr. Mark F. Leposky- Senior Vice President of Global Operations

Mark Leposky joined ELY as VP of Global Operations in April 2012. Leposky is responsible for all areas of the company's manufacturing, sourcing and logistics. Prior to ELY, Mr. Leposky served as the CEO of Gathering Storm Holding which designed, developed and manufactured products for TaylorMade- Adidas Golf. Furthermore, Leposky brings in valuable logistics and management experience from prior roles in Coca-Cola, UPS and Fisher Scientific International. His total annual compensation of \$1,233,893 is composed of \$407,145 salary, stock options worth \$377,948 and all other compensation totalling valuing \$873,832. Leposky currently holds 56,885 shares.

Risks

Decreasing Number of Active Golf Players

As mentioned previously, over 800 golf courses were closed in the U.S over the last decade according to Bloomberg. Additionally, since 2005 the number of active golf players in the U.S has declined every year according to the National Golf Foundation (NGF). This results from a variety of factors. Golf is a more expensive pastime compared to other sports. Furthermore, golf is not seen as exciting as other sports leading to the biggest drop-off in players among the younger generation- 200,000 players under 35 left the game last year according to the NGF. The game is also having trouble retaining players, those who play it once often do not take up the game again. Millennials are not attracted to golf compared to other more engaging sports, leading to an overall decline in United States consumers of golf related goods.

Unfavourable Economic Conditions

There is a reason golf is referred to as the "Gentleman's Game", it is more expensive to play in comparison to other sports. Excluding the expensive country club memberships or the pricey one-time play on a course the equipment is fairly costly. Golf balls, clubs, pants, hats and bags all tend to be lavish and on the high end in terms of price. In times of unfavourable economic conditions, the middle class tends to transition away from the occasional game of golf to different, and more economically viable options.

Foreign Exchange Risks

In 2015, approximately 47% of total sales were derived to customers outside of the United States. Conducting business in various currencies worldwide exposes the company to fluctuations in foreign currency relative to the U.S. dollar. If the company is unable to adjust prices in the competitive marketplace in a timely manner, the effects of currency fluctuations could affect financial results adversely. The company participates in hedging activities to mitigate risks in foreign currency fluctuations- the extent to which these activities mitigate risks depends upon the amount of transactions being hedged.

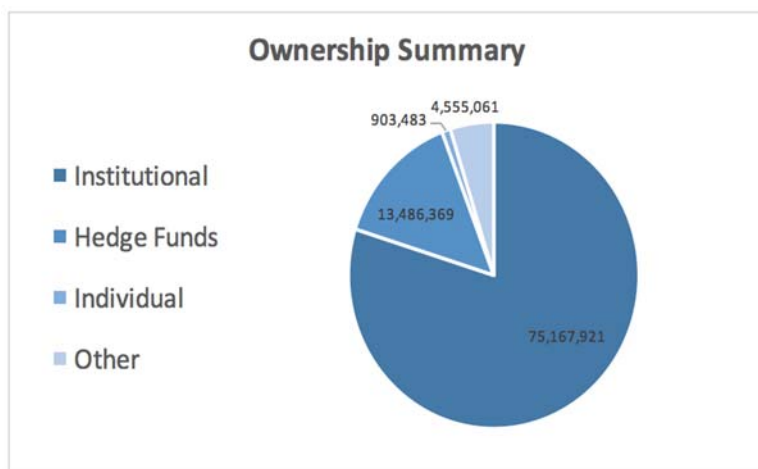
Reliance on 3rd Party Suppliers & Distributors

ELY is dependent on a limited amount of suppliers for its shafts and clubheads. Additionally, some of the company's products require specially developed manufacturing techniques and process which make it extremely difficult to utilize alternative suppliers quickly. Furthermore, many company suppliers are not well capitalized which leads to a risk of bankruptcy during prolonged unfavourable economic conditions. The company also depends on a limited number of suppliers for the materials it utilizes to manufacture golf balls, which are customized for the company. Any delay, interruption or bankruptcy of a 3rd party supplier could have serious negative effects on the company's business. The company also relies on 3rd party distributors in over 70 foreign countries. A change in the relationship between the company and the distributors could negatively impact the volume of international sales.

Shareholder Base & Liquidity

Shareholder Base

ELY currently has 94,112,834 common stock shares outstanding. With 80% of the ownership coming from institutions. The largest shareholders include Blackrock with 10.18%, Dimensional Fund Advisors LP with 5.44% and the Vanguard Group owning 5.28%. Insider ownership at ELY is miniscule, with only 0.98% of shares held by insides representing approximately \$10.5 million in insider holdings. Management showed their solidarity in the company with share buying activity at the beginning of 2016.



Liquidity

ELY's 12-month average daily trading volume is 777,000 shares daily. Considering the capitalization of the stock, this trading volume is healthy and supports large trades. The short interest as a % of the float sits at 2.14.

Comparable Company Valuation

Acushnet Holdings Corporation (GOLF:NYSE)

Acushnet Holdings Corp. operates as a holding company which designs, develops, manufactures, and distributes golf products through its subsidiaries.

Johnson Outdoors Inc. (JOUT:NasdaqGS)

Johnson outdoors Inc. designs, manufacturers and markets outdoor recreational products.

Nautilus, Inc. (NLS:NYSE)

Nautilus, Inc. markets, develops and manufactures health and fitness products alongside related accessories.

Brunswick Corporation (BC:NYSE)

Brunswick Corporation manufactures consumer products serving the outdoor and indoor active recreation markets.

Comparable Company Valuation Summary

The comparable group output must be viewed with caution. Excluding Acushnet Holdings Corporation, the other peers produce products which are growing segments in the United States. That said, ELY maintains a relatively overvalued position in relation to its peers. Although, the extent of this overvaluation is not extreme and the comparable company analysis will be weighted 50%. The comparable company valuation produced a valuation of \$9.50/share.

Discounted Cash Flow Valuation

Assumptions

We assumed the company will operate in the same capacity throughout the foreseeable future, leading to relatively constant assumptions. No evidence exists for reasoning any drastic actions which would change the current operating trajectory of ELY. We utilized historical values from the past years and made future values align through a linear fashion. Lastly, we assumed there will not be a change to share capital in the foreseeable future.

Revenue

Due to ELY's steady production capacity and growth, we felt it was reasonable to forecast revenue growth rate in a linear fashion. We increased ELY's revenue projection for the 2017 fiscal year due to the fact Nike left the golf equipment market and opened up over \$700 million dollars of golf equipment market share to competitors. We also decided to reduce revenue projections in future years due to the fact golf participation numbers are currently on a dwindling path downwards in the United States, a country segment making up 50% of ELY's total revenue.

WACC Calculation

We decided to calculate the weighted average cost of capital for the discounted cash flow analysis. Due to the fact ELY currently holds no long term debt, the WACC calculation used a 100% equity weight. We utilized an

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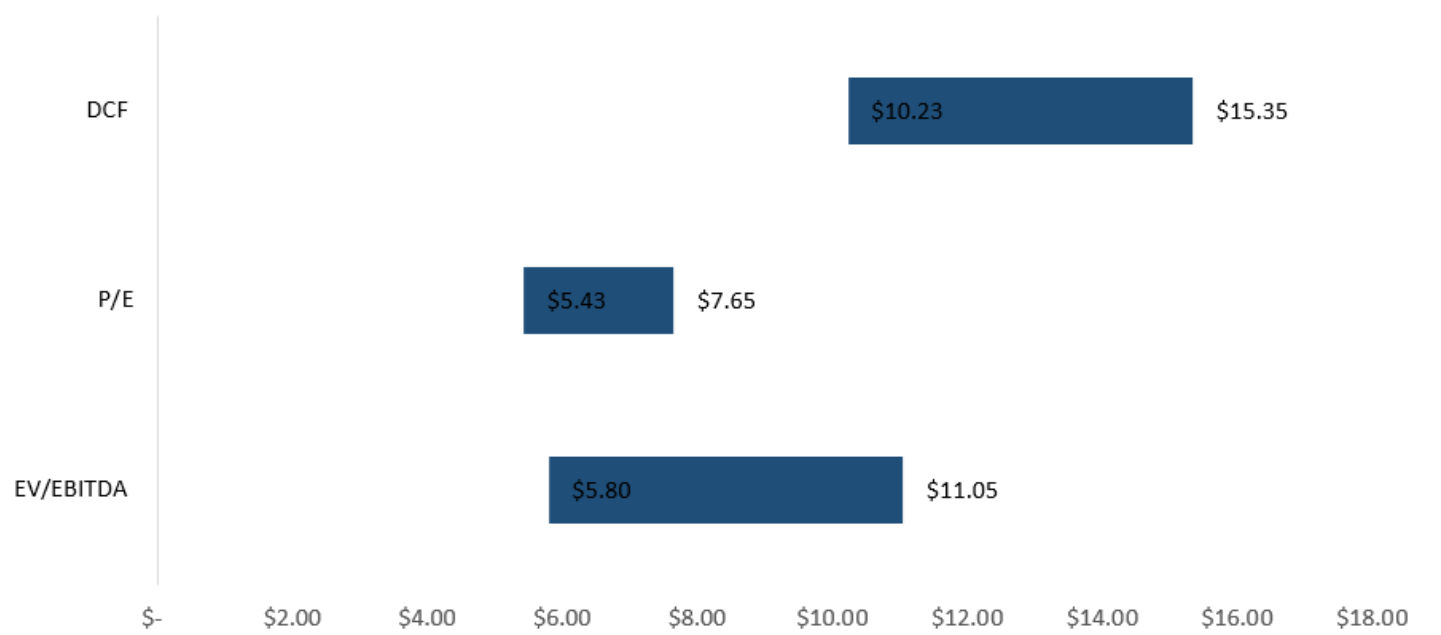
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implied equity risk premium rate of 5% from NYU Stern Professor Aswath Damodaran’s website. Next, we used a risk free rate of 1.94%, which is the 5 year US Treasury Rate. Lastly, we used a Beta of 1.198, which is taken from Bloomberg. These numbers were used in calculating our WACC to be 7.93%. Using this WACC calculation, we produced a valuation of \$12.13/share. Employing reasonable growth assumptions and with no reason to believe ELY will deviate from their current course of business, the \$12.13/share valuation is reasonable.

Recommendation

ELY is a premier golf club and golf ball maker with a renowned name in quality; too bad great products do not translate into great companies. Unfortunately for ELY, factors which will lead to company growth are almost entirely macro- meaning ELY has almost no control over future golf market growth. ELY’s investment into Topgolf translates into additional revenue streams and the launching of new products is seen as an attempt to capture more market share. ELY currently possess all the tools to grow but, this growth will be entirely dependent on the size of the golf market in the future. Due to future instability, we decided to place a Hold rating and a target share price of \$11.00 for ELY.

Share Price Analysis



Appendix 1: Pro Forma Income Statement

WESTPEAK RESEARCH

Income Statement

	2012	2013	2014	2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016	2017	2018	2019	2020	2021
Revenue	834065	842801	886945	843794	274053	245594	187850	159950	867447	902145	932946	964004	992106	1020194
Cost of Goods Sold	551486	502500	507783	468782	141661	130781	104771	94371	471584	487158	503791	515742	530777	540703
Gross Profit	282579	340301	379162	375012	132392	114813	83079	65580	395864	414987	429155	448262	461329	479491
R&D	29542	30937	31285	33213	8234	8288	8420	6558	31500	36086	37318	43380	44645	45909
Selling Expense	268088	226496	234231	228910	59129	64388	55869		179386					
General and Administrative	66773	68087	61662	68567	15544	17089	19851		52484					
SG&A	331719	291050	290153	289935	72479	79342	73584	67659	293064	302219	312537	318121	327395	336664
EBITDA	-78682	18314	57724	51864	51679	27183	1075	-8637	71300	76682	79300	86760	89290	96918
D&A	34411	25543	21236	17379	4157	4180	4204	4462	17003	19921	19010	17932	16942	16028
SBC	3142	3533	5740	7542	2194	2135	2136	2133	8598	9500	10000	10500	11000	11500
EBIT	-116235	-10762	30748	26943	45328	20868	-5265	-15232	45699	47261	50290	58328	61347	69390
Interest expense	5513	9123	9499	8733	783	679	487	426	2375	2375	2375	2375	2375	2375
Other items	-3702	-6563	-390	-1853	4754	1809	-1307		5256					
Gain on golf related ventures						17662			17662					
Income Before Income Tax	-118046	-13322	21639	20063	39791	36042	-4445	-15658	55730	44886	47915	55953	58972	67015
Income Tax	4900	5599	5631	5495	1401	1937	1294	6576	11208	13466	12458	14548	15922	18094
Net Income Before controlling interest	-122946	-18921	16008	14568	38390	34105	-5739	-22235	44521	31420	35457	41406	43050	48921
Less: Non-controlling interests	8447	3352					127		127					
Net Income	-131393	-22273	16008	14568	38390	34105	-5866	-22235	44394	31420	35457	41406	43050	48921
Shares Outstanding, Basic	67061	72809	77559	83116	93952	94029	94081	94081	94081	94081	94081	94081	94081	94081
Shares Outstanding, Diluted	67061	72809	78385	84611	95424	95893	94081	94081	94081	94081	94081	94081	94081	94081
Earnings Per Share, Basic	-\$ 1.96	-\$ 0.31	\$ 0.21	\$ 0.18	\$ 0.41	\$ 0.36	-\$ 0.06	-\$ 0.24	\$ 0.47	\$ 0.33	\$ 0.38	\$ 0.44	\$ 0.46	\$ 0.52
Earnings Per Share, Diluted	-\$ 1.96	-\$ 0.31	\$ 0.20	\$ 0.17	\$ 0.40	\$ 0.36	-\$ 0.06	-\$ 0.24	\$ 0.47	\$ 0.33	\$ 0.38	\$ 0.44	\$ 0.46	\$ 0.52

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Appendix 2: Pro Forma Cash Flow Statement

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Cashflow Statement

	2012	2013	2014	2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016	2017	2018	2019	2020	2021
Net Income	-122946.0	-18921.0	16008.0	14568.0	38390.0	34105.0	-5866.0	-22234.8	44394.2	31420.2	35457.1	41405.6	43049.7	48921.1
Depreciation and Amortization	34411.0	25543.0	21236.0	17379.0	4157.0	4180.0	4204.0	4462.0	17003.0	19921.4	19010.4	17931.9	16942.4	16028.2
Stock based compensation	3142.0	3533.0	5740.0	7542.0	2194.0	2135.0	2136.0	2133.0	8598.0	9500.0	10000.0	10500.0	11000.0	11500.0
Deferred income taxes	-1925.0	-2309.0	604.0	128.0	0.0	-347.0	-23.0		-370.0					
Discount amortization on convertible notes	235.0	702.0	739.0	531.0	0.0	0.0	0.0		0.0					
Provision for doubtful accounts receivable	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0					
Impairment charges	21933.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0					
Gain on sale of assets	-6602.0	0.0	0.0	0.0	0.0	-17662.0	0.0		-17662.0					
Loss on disposal and write-down of PP&E	-1261.0	2242.0	-1331.0	-1006.0	-270.0	146.0	7.0		-117.0					
Unrealized losses on foreign currency hedges	0.0	0.0	0.0	0.0	0.0	884.0	1996.0		2880.0					
Net income attributable to non-controlling interests							127.0		127.0					
Cash Flows before Working Capital	-73013.0	10790.0	42996.0	39142.0	44471.0	23441.0	2581.0	-15639.8	54853.2	60841.5	64467.5	69837.4	70992.1	76449.3
Accounts receivable	23701.0	-6690.0	-23314.0	-11591.0	-114973.0	28521.0	47712.0	21689.3	-17050.7	633.1	-4641.2	-4680.0	-4234.6	-4232.3
Inventory	20216.0	-60966.0	47334.0	-5347.0	25625.0	36218.0	2999.0	927.7	65769.7	-50801.1	-27766.8	-12631.3	-14479.4	-12301.8
Accrued Liabilities								1390.1	1390.1	4415.7	1232.0	1242.3	1124.1	1123.5
Accounts payable	1042.0	34663.0	-30578.0	5382.0	-11793.0	-6682.0	7985.0	-10723.1	-21213.1	12580.3	4101.1	2946.9	3707.2	2447.5
Accrued employee benefits	-4057.0	11523.0	6328.0	-3395.0	-11641.0	3522.0	4777.0		-3342.0					
Income taxes receivable and payable	2563.0	2761.0	-4125.0	-370.0	-718.0	557.0	-478.0		-639.0					
Accrued warranty expense	-601.0	-1133.0	-799.0	99.0	644.0	-178.0	-657.0		-191.0					
Other assets	1044.0	-190.0	2884.0	7060.0	-2821.0	3739.0	2941.0		3859.0					
Other liabilities	297.0	293.0	-3846.0	-399.0	-253.0	82.0	0.0		-171.0					
Cash Provided By Operating Activities	-28808.0	-8949.0	36880.0	30581.0	-71459.0	89220.0	67860.0	-2355.8	83265.2	27669.5	37392.6	56715.3	57109.3	63486.1
Purchase of investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0					
Proceeds from sales of investments	26861.0	0.0	0.0	0.0	6.0	23423.0	0.0		23429.0					
Proceeds from maturity of investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0					
Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-75500.0	-75500.0	0.0	0.0	0.0	0.0	0.0
Proceeds from sale of PP&E	355.0	4148.0	458.0	2.0	0.0	20.0	0.0	0.0	20.0	0.0	0.0	0.0	0.0	0.0
Purchase of PP&E	-18403.0	-13038.0	-10753.0	-14369.0	-4963.0	-2524.0	-4676.0	-2676.0	-14839.0	-14000.0	-12000.0	-11500.0	-11000.0	-10500.0
Note receivable	0.0	0.0	0.0	-3104.0	3104.0	0.0	0.0		3104.0					
Investment in golf-related ventures	-3268.0	-13637.0	-14771.0	-940.0	-1260.0	-300.0	0.0		-1560.0					
Cash Used in Investing Activities	5545.0	-22527.0	-25066.0	-18411.0	-3113.0	20619.0	-4676.0	-78176.0	-65346.0	-14000.0	-12000.0	-11500.0	-11000.0	-10500.0
Repayment of proceeds from asset-based crec	0.0	25660.0	-10425.0	-266.0	64000.0	-73638.0	-5331.0		-14969.0					
Repayment of notes payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0					
Proceeds from issuance of convertible notes	46819.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0					
Exercise of Stock Options	19.0	1652.0	2291.0	6565.0	384.0	1712.0	529.0		2625.0					
Tax payments related to shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0					
Dividends paid	-11019.0	-5599.0	-3105.0	-3391.0	-941.0	-941.0	-940.0	-940.0	-3762.0	-3762.0	-3762.0	-3762.0	-3762.0	-3762.0
Tax effect of employee stock plans	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0					
Acquisition of treasury stock	0.0	0.0	-1006.0	-1960.0	-2878.0	-2255.0	0.0		-5133.0					
Credit facility amendment costs	0.0	0.0	-608.0	0.0	0.0	0.0	0.0		0.0					
Equity issuance costs	0.0	-341.0	-7.0	0.0	0.0	0.0	0.0		0.0					
Debt issuance costs	-3534.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0					
Other financing activities	-159.0	-32.0	-26.0	0.0	0.0	0.0	0.0		0.0					
Cash Provided By (Used In) Financing Activities	32126.0	21340.0	-12886.0	948.0	60565.0	-75122.0	-5742.0	-940.0	-21239.0	-3762.0	-3762.0	-3762.0	-3762.0	-3762.0
Foreign Exchange Impact	117.0	-5074.0	1914.0	-952.0	-658.0	-2234.0	-433.0	0.0	-3325.0	0.0	0.0	0.0	0.0	0.0
Beginning Cash Balance	43023.0	52003.0	36793.0	37635.0	49801.0	35136.0	67619.0	124628.0	49801.0	43156.2	53063.7	74694.3	116147.7	158495.0
Net Change in Cash	8980.0	-15210.0	842.0	12166.0	-14665.0	32483.0	57009.0	-81471.8	-6644.8	9907.5	21630.6	41453.3	42347.3	49224.1
Ending Cash Balance	52003.0	36793.0	37635.0	49801.0	35136.0	67619.0	124628.0	43156.2	43156.2	53063.7	74694.3	116147.7	158495.0	207719.1

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Appendix 3: Pro Forma Balance Sheet

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Balance Sheet

	2012	2013	2014	2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016	2017	2018	2019	2020	2021
ASSETS														
Cash and Cash Equivalents	52003	36793	37635	49801	35136	67619	124628	43156	43156	53064	74694	116148	158495	207719
Accounts receivable	91072	92203	109848	115607	233210	205058	158262	136573	136573	135940	140581	145261	149495	153728
Inventory	211734	263492	207229	208883	186149	151446	157002	156074	156074	206875	234642	247274	261753	274055
Deffered taxes, net	4170	6419	5081											
Income taxes receivable	1810	228	928	487	1857	2382	927	927	927	927	927	927	927	927
Other current assets	23811	22468	23312	16709	14346	12670	11136	11136	11136	11136	11136	11136	11136	11136
Assets held for sale	2396													
Total Current Assets	386996	421603	384033	391487	470698	439175	451955	347866	347866	407942	461980	520745	581807	647565
Property and equipment	89093	71341	58093	55808	55631	53399	55775	129489	129489	123568	116557	110125	104183	98655
Intangible assets	89189	88901	88833	88782	88769	88757	88743	88743	88743	88743	88743	88743	88743	88743
Goodwill	29034	29212	27821	26500	26777	26306	26235	26235	26235	26235	26235	26235	26235	26235
Long term deferred tax assets	1910	2299	2346	6962	6942	7255	7267	7267	7267	7267	7267	7267	7267	7267
Investment in golf-related ventures			50677	53315	54575	49108	49108	49108	49108	49108	49108	49108	49108	49108
Other assets	41414	50507	13008	8370	8480	8525	9054	9054	9054	9054	9054	9054	9054	9054
Total Non-Current Assets	250640	242260	240778	239737	241174	233350	236182	309896	309896	303975	296964	290532	284590	279062
Total Assets	637636	663863	624811	631224	711872	672525	688137	657762	657762	711916	758945	811277	866396	926627
LIABILITIES														
Accounts payable	129021	157120	123251	122620	110268	106482	118264	107541	107541	120121	124222	127169	130876	133324
Accrued employee compensation	20649	31585	37386	33518	22025	25433	30280	31670	31670	36086	37318	38560	39684	40808
Asset-based credit facility		25660	15235	14969	78969	5331								
Accrued warranty expense	7539	6406	5607	5706	6350	6172	5515	5515	5515	5515	5515	5515	5515	5515
Income tax liability	3430	5425	2623	1823	2741	3769	1747	1747	1747	1747	1747	1747	1747	1747
Deferred taxes, net	927		26											
Total Current Liabilities	161566	226196	184128	178636	220353	147187	155806	146473	146473	163469	168802	172991	177823	181394
Income taxes payable	6565	4387	3867	3476	3224	3325	3383	3383	3383	3383	3383	3383	3383	3383
Deffered taxes, net	33533	35271	35043	35093	34866	34824	34844	34844	34844	34844	34844	34844	34844	34844
Convertible notes, net	107133	107835	108574											
Long-term incentive comp	7131	5555	1665	1074	770	882	1212	1212	1212	1212	1212	1212	1212	1212
Total Non-Current Liabilities	154362	153048	149149	39643	38860	39031	39439	39439	39439	39439	39439	39439	39439	39439
Total Liabilities	315928	379244	333277	218279	259213	186218	195245	185912	185912	202908	208241	212430	217262	220833
SHAREHOLDER'S EQUITY														
Common equity	723	783	784	938	942	942	942	942	942	942	942	942	942	942
Additional paid-in capital	204510	205712	210057	322793	324922	325805	327716	329849	329849	339349	349349	359849	370849	382349
Accumulated other comprehensive loss	14770	12177	-796	-11813	-9248	171607	-9219	-9219	-9219	-9219	-9219	-9219	-9219	-9219
Retained Earnings	113831	77038	89932	101047	138451	-10356	164800	141625	141625	169283	200978	238622	277910	323069
Preferred stock	4													
Less: common stock held in treasury	-14848	-11091	-8443	-20	-2408	-1691	-936	-936	-936	-936	-936	-936	-936	-936
Non-controlling interest	2718						9589	9589	9589	9589	9589	9589	9589	9589
Total Shareholder's Equity	321708	284619	291534	412945	452659	486307	492892	471850	471850	509008	550703	598847	649135	705794

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Appendix 4: Discounted Cash Flow Analysis

DCF Analysis														
	2012	2013	2014	2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016	2017	2018	2019	2020	2021
WACC Calculation														
Book Value of Debt	0.0													
Market Value of Equity	1044299.1													
Total Capitalization	1044299.1													
Debt														
Pre-Tax Cost of Debt	3%													
Effective Tax Rate	27.4%													
After-Tax Cost of Debt	2.2%													
Capital Asset Pricing Model														
Risk-Free Rate	2%													
Equity Market Risk Premium	5%													
Beta	1.20													
Cost of Equity	7.9%													
Debt Weight	0.0%													
Equity Weight	100.0%													
WACC	7.93%													
Growth Rate	2.0%													
Free Cash Flow Analysis														
EBIT	-116235.0	-10762.0	30748.0	26943.0	45328.0	20868.0	-5265.0	-15232.3	47260.9	50290.0	58328.5	61347.2	69390.3	
Tax Rate	-4.2%	-42.0%	26.0%	27.4%	3.5%	5.4%	-29.1%	-42.0%	30.0%	26.0%	26.0%	27.0%	27.0%	
D&A	34411.0	25543.0	21236.0	17379.0	4157.0	4180.0	4204.0	4462.0	19921.4	19010.4	17931.9	16942.4	16028.2	
Change in NWC	44959.0	-32993.0	-6558.0	-11556.0	-101141.0	58057.0	58696.0	13284.0	-33172.1	-27074.8	-13122.1	-13882.7	-12963.2	
Capital Expenditures	-18403.0	-13038.0	-10753.0	-14369.0	-4963.0	-2524.0	-4676.0	-2676.0	-14000.0	-12000.0	-11500.0	-11000.0	-10500.0	
Free Cash Flow	-150010.8	30212.9	39787.6	34129.7	144067.0	-36654.5	-65965.7	-33127.9	72176.1	71299.8	62717.0	64608.6	69146.2	
Discount Period								0.25	1.25	2.25	3.25	4.25	5.25	
Discounted Free Cash Flow								-32501.8	65609.3	60050.8	48941.1	46712.8	46320.4	
Share Price Calculation														
Free Cash Flow Sum	235132.5													
Terminal Value	781119.4													
Enterprise Value	1016251.9													
Less: Debt	0.0													
Less: Cash	124628.0													
Equity	1140879.9													
Shares Outstanding	94081.0													
Implied Share Value	\$	12.13												
GROWTH	WACC													
		7.0%	7.5%	8.0%	8.5%	9.0%								
	1.8%	\$ 13.81	\$ 12.68	\$ 11.73	\$ 10.93	\$ 10.23								
	2.0%	\$ 14.20	\$ 13.00	\$ 12.00	\$ 11.15	\$ 10.42								
	2.2%	\$ 14.63	\$ 13.34	\$ 12.28	\$ 11.38	\$ 10.62								
	2.4%	\$ 15.10	\$ 13.72	\$ 12.58	\$ 11.63	\$ 10.82								
	2.5%	\$ 15.35	\$ 13.91	\$ 12.74	\$ 11.76	\$ 10.93								

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Appendix 5: Comparable Company Valuation

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Comparables Analysis

	Cash	Debt	Market Capitalization	EV	TTM EBITDA	Share Price	TTM EPS		EV/EBITDA	P/E
Acushnet Holding Corp.	85.7	976.0	1411.5	2301.8	153.0	19.36	0.86		15.0	22.5
Nautilus, Inc.	31.2	68.0	569.7	606.5	53.2	16.45	1.03		11.4	16.0
Brunswick Corporation	456.9	448.0	4959.8	4950.9	455.2	55.65	2.69		10.9	20.7
Johnson Outdoors	75.6	7.4	347.0	278.8	40.3	35.57	1.69		6.9	21.0
Callaway Golf Co	124.6	0.0	1029.2	904.6	60.8	11.80	0.34		14.9	34.7

	HIGH	AVERAGE	LOW	IMPLIED TARGET EV		IMPLIED TARGET SHARE PRICE
EV/EBITDA	15.0 x	11.1 x	6.9 x	672.8		\$ 8.48
				915.2	HIGH	\$ 11.05
				420.9	LOW	\$ 5.80
	HIGH	AVERAGE	LOW	IMPLIED P/E		IMPLIED TARGET SHARE PRICE
P/E	22.5 x	20.1 x	16.0 x	20.1 x		\$ 6.82
				22.5 x	HIGH	\$ 7.65
				16.0 x	LOW	\$ 5.43

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