



**Q2 2020**  
**EARNINGS PRESENTATION**  
**NASDAQ: HEAR**

August 6, 2020

# SAFE HARBOR STATEMENT



## Forward-Looking Information

This presentation includes forward-looking information and statements within the meaning of the federal securities laws. Except for historical information contained in this release, statements in this release may constitute forward-looking statements regarding assumptions, projections, expectations, targets, intentions or beliefs about future events. Statements containing the words “may”, “could”, “continue”, “would”, “should”, “believe”, “expect”, “anticipate”, “plan”, “goal”, “estimate”, “accelerate”, “target”, “project”, “intend” and similar expressions constitute forward-looking statements. Forward-looking statements involve known and unknown risks and uncertainties, which could cause actual results to differ materially from those contained in any forward-looking statement. These statements are based on management’s current belief, as well as assumptions made by, and information currently available to, management. While the Company believes that its expectations are based upon reasonable assumptions, there can be no assurances that its goals and strategy will be realized. Numerous factors, including risks and uncertainties, may affect actual results and may cause results to differ materially from those expressed in forward-looking statements made by the Company or on its behalf. Some of these factors include, but are not limited to: risks related to the substantial uncertainties inherent in the acceptance of existing and future products; the difficulty of commercializing and protecting new technology; the impact of competitive products and pricing; the impact of the coronavirus (COVID-19) pandemic on consumer demands and manufacturing capabilities; risks relating to, and uncertainty caused by or resulting from, the COVID-19 pandemic; the Company’s partnerships with influencers, athletes and esports teams; risks associated with the expansion of our business, including the implementation of any businesses we acquire, the integration of such businesses within our internal control over financial reporting and operations; and our liquidity. These risks may be in addition to the other factors and matters discussed in the Company’s most recent Annual Report on Form 10-K, Quarterly Report on Form 10-Q and other periodic reports filed with the Securities and Exchange Commission. Except as required by the securities laws of the United States, the Company does not intend to publicly update or revise these forward-looking statements after the date of this release whether as a result of new information, future developments or otherwise. This presentation also contains trademarks and trade names that are property of their respective owners.

## Non-GAAP Financial Measures

In addition to its reported results, the Company has included in this presentation certain financial results, including adjusted EBITDA, adjusted net income, and constant currency revenue, that the Securities and Exchange Commission defines as “non-GAAP financial measures.” Management believes that such non-GAAP financial measures, when read in conjunction with the Company’s reported results, can provide useful supplemental information for investors analyzing period-to-period comparisons of the Company’s results. “Adjusted Net Income” is defined as net income excluding (i) integration and transaction costs related to the acquisition of the business and assets related to the ROCCAT brand, (ii) the effect of the mark-to-market requirement of the financial instrument obligation, (iii) any change in fair value of contingent consideration and (iv) the release of valuation allowances on deferred tax assets. “Adjusted EBITDA” is defined by the Company as net income (loss) before interest, taxes, depreciation and amortization, stock-based compensation (non-cash), and certain non-recurring items that we believe are not representative of core operations (e.g., the integration and transaction costs related to the acquisition of the business and assets related to the ROCCAT brand, the mark-to-market adjustment for the financial instrument obligation and the change in fair value of contingent consideration). “Constant currency revenue” is defined by the Company as revenue excluding the impacts of fluctuations in exchange rates from prior periods. These non-GAAP financial measures are presented because management uses non-GAAP financial measures to evaluate the Company’s operating performance, to perform financial planning, and to determine incentive compensation. Therefore, the Company believes that the presentation of non-GAAP financial measures provides useful supplementary information to, and facilitates additional analysis by, investors. The presented non-GAAP financial measures exclude items that management does not believe reflect the Company’s core operating performance because such items are inherently unusual, non-operating, unpredictable, non-recurring, or non-cash. See a reconciliation of GAAP results to Adjusted Net Income and Adjusted EBITDA included in the appendix for the three months ended June 30, 2020 and 2019.



# **TURTLE BEACH EARNINGS**

## ***Q2 2020 SUMMARY***

Net revenue up 93% to **record \$79.7M** (\$80.1M constant currency)

Gross margin up 480 basis points to **36.7%**

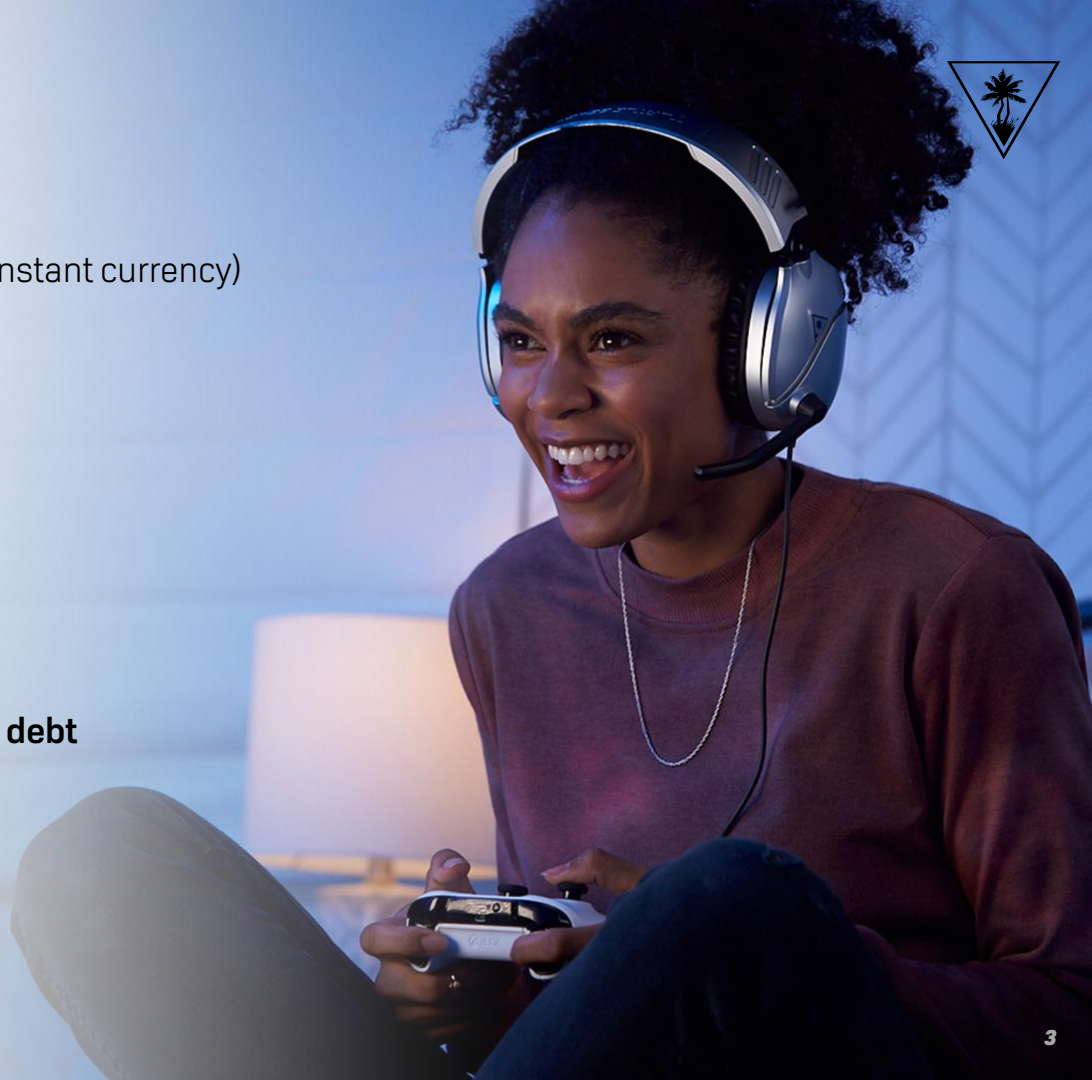
**Net income increased >3x** to \$8.2M vs. \$2.4M

**EPS of \$0.51** vs. \$(0.16)

**Adjusted EBITDA up >8x** to \$12.9M vs. \$1.6M

Cash & cash equivalents of **\$21.2M**

Healthy balance sheet with **no short or long-term debt**





In 2019, Turtle Beach acquired ROCCAT, a leading PC gaming accessories brand, to bring their award-winning product portfolio to more gamers globally.

**#1**

## IN GAMING AUDIO

The Global Market Leader In  
Console Gaming Headsets for 10 years

**40 Million+**  
Headsets Sold Since 2010



**INNOVATION AT  
EVERY PRICE POINT**



**Broad Portfolio**  
of PC Gaming Accessories



**Award Winning Design  
and Build Quality**



**Industry Leading Innovations**

Titan Click – Titan Switch – AIMO Intelligent Lighting

# WHAT'S NEW

## LATEST FROM TURTLE BEACH & ROCCAT



### TOP YOUTUBERS ALI-A AND CLARE SIOBHAN TEAM-UP WITH ROCCAT

Already fans of Turtle Beach gaming headsets, the two UK-based influencers – with over 24 million combined subscribers – are now fully equipped with the latest award-winning gear from ROCCAT for their PC gaming stations. Clare's YouTube channel has over 1.7 million subscribers and is rapidly growing, while Ali-A has over 23 million subscribers and is globally famous for his Call of Duty and Fortnite videos.



### TURTLE BEACH HITS RECORD RETAIL SALES & INCREASED SHARE

In May 2020, the NPD Group released data that showed record April 2020 results for the market and for Turtle Beach. The Company's April 2020 retail sales were more than double the brand's all-time high from April 2018. All 7 top-selling headsets, and 8 of the top-10 best-selling headsets were from Turtle Beach, while the Recon 70 for Xbox One and wireless Stealth 600 for Xbox One were top performers.

# QUARTERLY FINANCIAL OVERVIEW



\$ in millions (except per-share data)	2019 Q2	2020 Q2	Commentary
Revenue	\$41.3	\$79.7 (S80.1 constant currency)	Continued increase driven by stay-at-home orders plus the ability to significantly increase production, fill retailers order & gain market share.
Gross Margin	31.9%	36.7%	Volume-driven fixed cost leverage, lower than normal promotional spending given revenue surge, favorable business mix, partially offset by over \$4M in higher air freight spend to facilitate revenues.
Operating Expenses	\$15.5	\$19.3	Inclusion of costs associated with the ROCCAT acquisition (completed May 2019) and portion of the roughly \$12M incremental growth spend.
Adjusted EBITDA <sup>1</sup>	\$1.6	\$12.9	Reflects above factors.
Net Income (Loss)	\$(2.4)	\$8.2	Reflects above factors.
Diluted EPS	\$(0.16)	\$0.51	Reflects above factors; 14.6M weighted average diluted shares in Q2-19 vs. 16.2M in Q2-20 (due to loss vs. gain).
Adjusted Diluted EPS <sup>1</sup>	\$(0.06)	\$0.42	Reflects above factors.

1. See appendix for a reconciliation of non-GAAP measures.

# BALANCE SHEET



Capitalization		
	At June 30, 2019	At June 30, 2020
Cash & Equivalents	\$3.4M	\$21.2M
Inventories	\$50.4M	\$45.0M
Revolver (asset-based)	\$10.8M	\$0.0
Total Debt	\$10.8M	\$0.0

Balance Sheet Improvements
<ul style="list-style-type: none"><li>• Cash and equivalents increased significantly due to record revenue, higher margins and fixed cost leverage.</li><li>• Inventory decline driven by record Q2 '20 revenue (with much in transit).</li><li>• ROCCAT purchase price of \$12.7M funded with cash and borrowings under revolver in 2019.</li></ul>

# GEN 8 CONSOLE LAUNCH INFORMATION



## Xbox Series X (announced E3/June 2019)

**Release:** Holiday 2020 (expected November)

**Price:** \$499 (expected)

- Backward compatibility
- Major power increase/faster game access/reduced load times
- Will support up to 8K resolution
- 3D Spatial Sound (headset required)
- Project xCloud game streaming service

## PlayStation 5/PS5 (announced April 2019)

**Release:** Holiday 2020 (expected November)

**Price:** \$499 (expected)

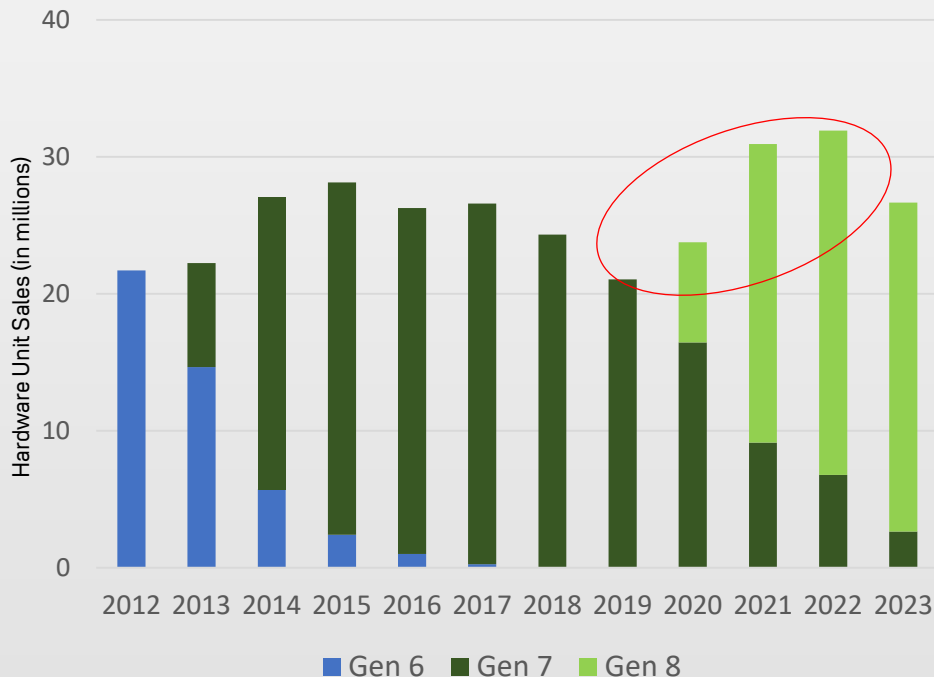
- Backward compatibility
- Major power increase/faster game access/reduced load times
- Will support up to 8K resolution
- 3D Spatial Sound (to be confirmed by Sony, headset required)
- PlayStation Now streaming/focus on AAA titles
- PS5 Two Versions :
  - 1)PS5 w/Ultra HD Blu-ray disc drive
  - 2)PS5 Digital Edition (presumably less expensive)



# XBOX AND PLAYSTATION CONSOLE OUTLOOK – PRE COVID\*



## PlayStation and Xbox Console Unit Sales



*"With the launch of new systems and continued sales for existing consoles, we forecast Microsoft and Sony combined hardware sales will set records in 2021 and 2022."*

**David Cole**, Head DFC Intelligence, Video games industry analyst

- Console transition has typically created a market decline the year prior to transition, an increase late in the year of new console launch, and then several years of accelerated growth post-launch.
- Accessories typically follow same pattern with some lag as some users will wait on new accessory purchases, particularly at the high-end prior to launch and then upgrading accelerates post-launch.
- DFC predicts the combined XB and PS hardware unit sales for Gen 7 and Gen 8 in the first three years of launch to be higher than the combined sales of Gen 6 and Gen 7 in the first three years, setting another record.
- DFC predicts Active Installed Base (AIB) of Gen 8 in the first four years of launch to be slightly higher than AIB of Gen 7.
- Nintendo is not included; a new system core from Nintendo could substantially increase overall market potential.
- The charted DFC forecasts are pre-COVID and our above commentary reflecting typical console transition market patterns have been impacted by both the recent stay-at-home surge in gaming sales as well as the future economic outlook.

Source : DFC Intelligence September 2019 Worldwide Video Game Market Forecasts

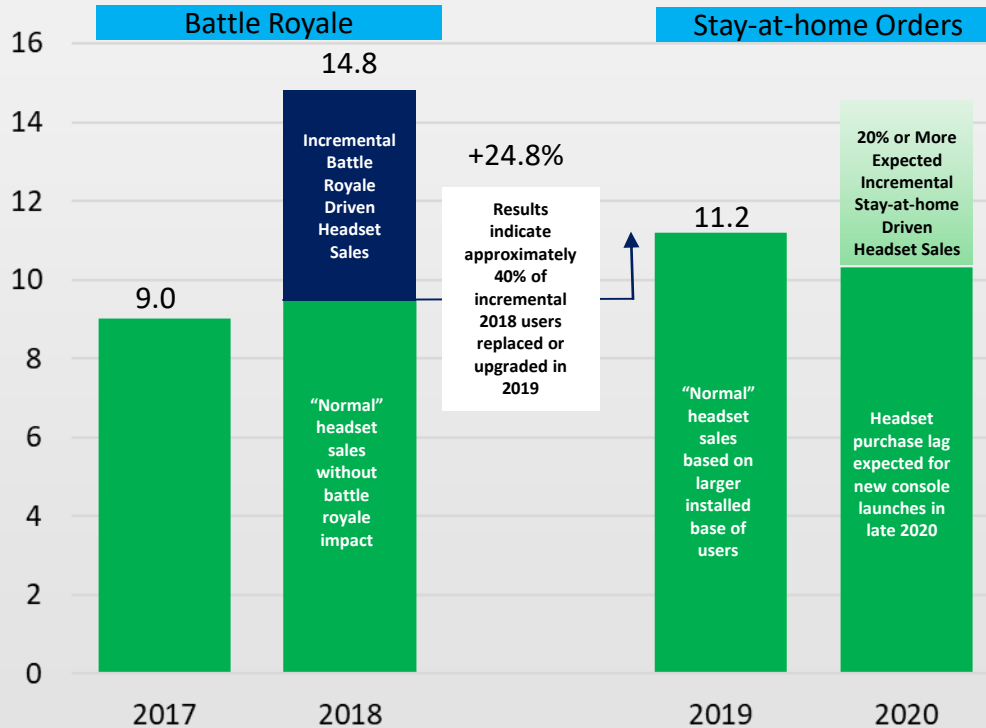
\*COVID-19 related stay-at-home guidance and orders have led to significantly increased sales of gaming accessories and disrupted global economies– DFC Intelligence used for this slide have not yet been updated by DFC.



# ANTICIPATED CONSOLE HEADSET MARKET DYNAMICS

## SIMPLIFIED MARKET MODEL<sup>1</sup>

US & CANADA CONSOLE GAMING HEADSET SELL-THROUGH  
MILLIONS OF UNITS



Recent unprecedented increase in gaming and gaming accessories due to stay-at-home orders.

TB analysis indicates drivers are roughly equally caused by:

1. Existing gamers gaming more
2. Influx of new and lapsed gamers gaming with headsets
3. Gaming headset purchases for work/school/socializing via video apps

Biggest drivers of potential increase from 2020+ estimates are:

- Stronger influx of new gamers/headsets users continues due to stay-at-home
- Faster upgrade/replace cycle among new/lapsed headset users
- New Xbox/PlayStation consoles increasing Q4 demand more than expected
- Stronger slate of new gen games or major games going “free” model

Biggest drivers of potential decrease from 2020+ estimates are:

- Headset upgrade/replace cycle slows due to pull forward purchases
- Inventory constraints on consoles and/or headsets
- Gaming activity slows as economy reopens and recovers from pandemic
- Late release of, or lower demand for, the new consoles

Market sell-in revenues (sales) will vary from sell-through units based on channel inventory adjustments to hold weeks-of-supply and ASP of product sales

1. This is a highly simplified market model to illustrate overall dynamics - actual market dynamics are much more complex than shown

Source: The NPD Group/Retail Tracking Service/Video Games/Dollars/U.S. & Canada/CY 2017, 2018, 2019, 2020; TB analysis of consumer research conducted by NewZoo

# INCREASED 2020 OUTLOOK<sup>1</sup>



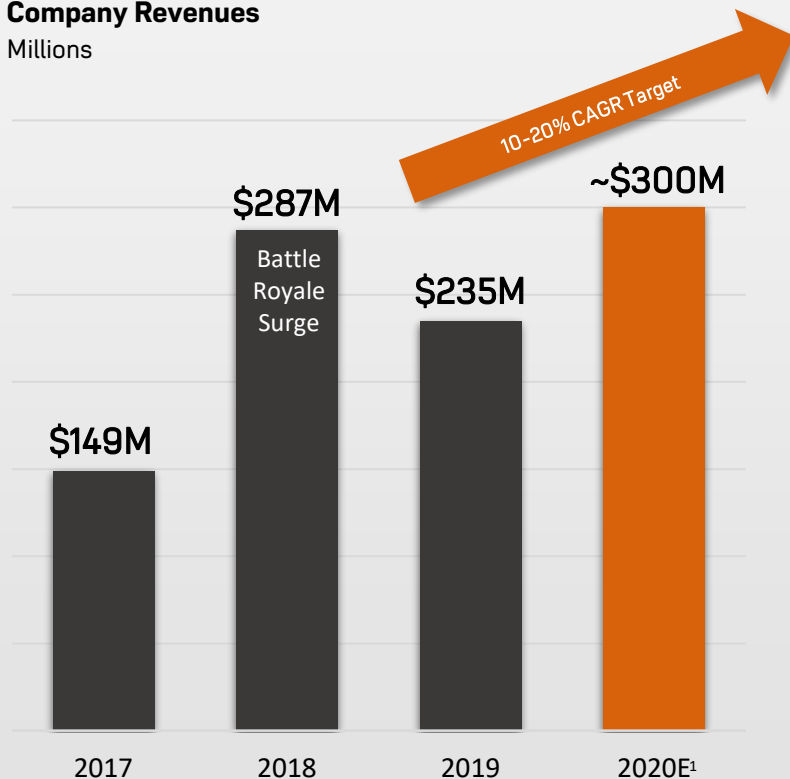
	2020 – Prior	2020 – Updated	2020 Updated Commentary
Net Revenue	\$224-\$234M	~\$300M	Continued strong consumer demand for gaming accessories driven by new & existing gamers, increased use of headsets for non-gaming uses, further increase in demand spurred by new holiday season console launches. <b>Second half net revenue expected to be ~\$185M.</b>
Gross Margin	Low 30%s	Low 30%s	Higher operating leverage offset by increased air freight, tariff costs & impact of tooling & certification investments for new product development.
Adj. EBITDA	\$9M-\$14M	~\$30M	Higher revenue & gross margin partially offset by \$10+M in air freight to enable supply & increased revenue, \$2-3M in tariffs, as well as ~\$12M in marketing & product-related investments to drive long term growth. <b>Second half Adj. EBITDA expected to be ~\$20M.</b>
Diluted Shares	~15.0M	~16.5M	Higher average share count due to a greater portion of the year showing positive net income.
GAAP EPS	\$(0.22)-\$0.03	~\$0.85	Reflects above factors; anticipates full year effective tax rate of ~ 28%. <b>Second half GAAP EPS expected to be ~\$0.50.</b>
Adj. EPS	\$(0.16)-\$0.09	~\$0.80	Reflects above factors, excludes ROCCAT transaction & integration costs, also anticipates full year effective tax rate of approximately 28%. <b>Second half Adj. EPS expected to be ~\$0.50.</b>

1. Guidance updated on August 6, 2020.

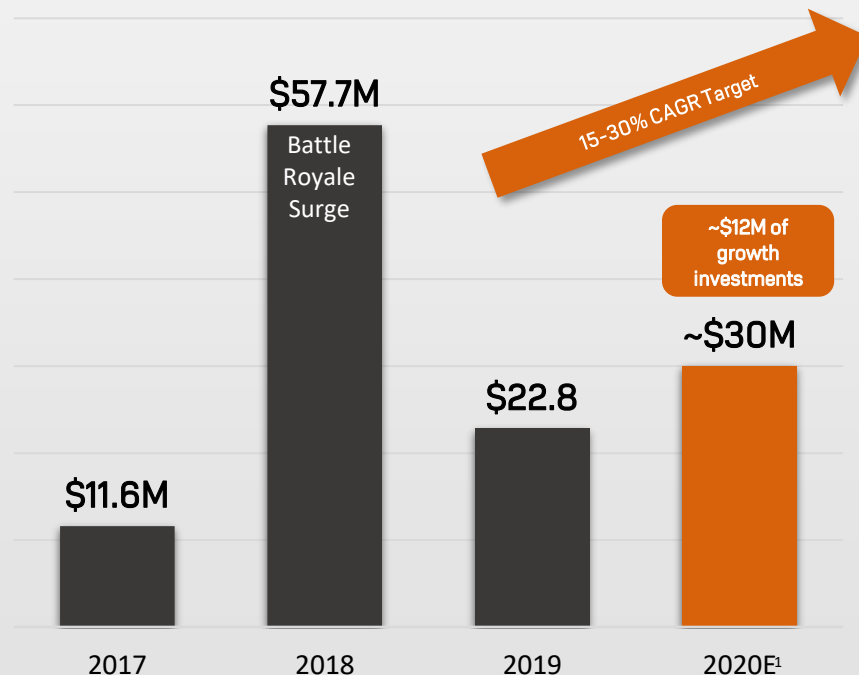
# REVENUE & ADJUSTED EBITDA PROFILE



**Company Revenues**  
Millions



**Adjusted EBITDA<sup>2</sup>**  
Millions



1. Guidance updated on August 6, 2020.

2. See appendix for a reconciliation of non-GAAP measures.

# **TURTLE BEACH EARNINGS**

## **SUMMARY KEY TAKEAWAYS**

- **Record performance** driven by stay-at-home orders increasing demand and **strong operational execution**
- Continued **leadership** in the **\$1.3B<sup>1</sup> console gaming headset market** with ten consecutive years of **over 40% market share**
- **Exceeding expectations** in pursuit of **\$3.0B<sup>1</sup> PC accessories market** enabled by 2019 acquisition of leading German PC gaming accessory maker, ROCCAT
- Further increasing **investments to drive future revenue growth** by expanding PC portfolio and developing ROCCAT brand
- Healthy balance sheet with **no long-term debt**
- Authorization of up to \$15M share repurchase with \$2.5M in shares purchased in 2019

1. Newzoo 2020 Peripheral Market estimates – updated in March 2020  
2. The NPD Group/Retail Tracking Service/Video Games/Dollars/US/Jan2010-Dec 2019 update





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# ***APPENDIX***



# GAAP NET INCOME TO ADJUSTED NET INCOME RECONCILIATION

## THREE MONTHS ENDED JUNE 30<sup>TH</sup>



	Three Months Ended	
	June 30, 2020	June 30, 2019
<u>Net Income (Loss)</u>		
GAAP Net Income (Loss)	\$ 8,204	\$ (2,373)
Adjustments, net of tax:		
Gain on financial instrument obligation	—	—
Gain on acquisition-related settlement	(1,702)	—
Change in fair value of contingent consideration	223	—
Acquisition integration costs	44	1,477
Non-GAAP Earnings	<u>\$ 6,769</u>	<u>\$ (896)</u>
Diluted Earnings Per Share		
GAAP- Diluted	\$ 0.51	\$ (0.16)
Gain on financial instrument obligation	—	—
Gain on acquisition-related settlement	(0.10)	—
Change in fair value of contingent consideration	0.01	—
Acquisition integration costs	—	0.10
Non-GAAP- Diluted	<u>\$ 0.42</u>	<u>\$ (0.06)</u>

# GAAP TO ADJUSTED EBITDA RECONCILIATION

## THREE MONTHS ENDED JUNE 30, 2020



	Three Months Ended June 30, 2020					
	As Reported	Adj Depreciation	Adj Amortization	Adj Stock Compensation	Other <sup>(1)</sup>	Adj EBITDA
Net revenue	\$ 79,680	\$ -	\$ -	\$ -	\$ -	\$ 79,680
Cost of revenue	<u>50,453</u>	<u>(593)</u>	<u>-</u>	<u>(280)</u>	<u>-</u>	<u>49,580</u>
<b>Gross Profit</b>	<b>29,227</b>	<b>593</b>	<b>-</b>	<b>280</b>	<b>-</b>	<b>30,100</b>
Operating expenses	<u>19,270</u>	<u>(435)</u>	<u>(220)</u>	<u>(1,126)</u>	<u>(63)</u>	<u>17,427</u>
<b>Operating income</b>	<b>9,957</b>	<b>1,028</b>	<b>220</b>	<b>1,406</b>	<b>63</b>	<b>12,674</b>
Interest expense	83					
Other non-operating expense, net	<u>(1,616)</u>				1,388	<u>(228)</u>
Income before income tax	11,490					
Income tax expense	<u>3,286</u>					
<b>Net income</b>	<b><u>\$ 8,204</u></b>					
					<b>Adjusted EBITDA</b>	<b><u>\$ 12,902</u></b>

1. Other includes certain business acquisition costs, gain on an acquisition-related settlement and change in fair value of contingent consideration.

# GAAP TO ADJUSTED EBITDA RECONCILIATION

## SIX MONTHS ENDED JUNE 30, 2020



	Six Months Ended June 30, 2020					
	As Reported	Adj Depreciation	Adj Amortization	Adj Stock Compensation	Other <sup>(1)</sup>	Adj EBITDA
Net revenue	\$ 114,687	\$ -	\$ -	\$ -	\$ -	\$ 114,687
Cost of revenue	<u>74,675</u>	<u>(1,184)</u>	<u>-</u>	<u>(338)</u>	<u>-</u>	<u>73,153</u>
<b>Gross Profit</b>	<b>40,012</b>	<b>1,184</b>	<b>-</b>	<b>338</b>	<b>-</b>	<b>41,534</b>
Operating expenses	<u>35,068</u>	<u>(877)</u>	<u>(443)</u>	<u>(2,067)</u>	<u>(343)</u>	<u>31,338</u>
<b>Operating income</b>	<b>4,944</b>	<b>2,061</b>	<b>443</b>	<b>2,405</b>	<b>343</b>	<b>10,196</b>
Interest expense	252					
Other non-operating expense, net	<u>(1,419)</u>				1,367	<u>(52)</u>
Income before income tax	6,111					
Income tax expense	<u>1,462</u>					
<b>Net income</b>	<b><u>\$ 4,649</u></b>					
					<b>Adjusted EBITDA</b>	<b><u>\$ 10,248</u></b>

1. Other includes certain business acquisition costs, gain on an acquisition-related settlement and change in fair value of contingent consideration.



# GAAP TO ADJUSTED EBITDA RECONCILIATION

## FULL YEARS



	December 31, 2019	December 31, 2018	December 31, 2017
<b>Consolidated</b>			
Net Income (Loss)	17,944	39,190	(3,248)
Depreciation	4,556	3,954	4,074
Amortization of intangibles	642	303	348
Interest	929	5,335	7,916
Taxes	(6,237)	1,737	593
Stock Compensation	3,558	1,877	1,430
Restructuring Expense	-	-	533
Goodwill Impairment	-	-	-
Business Transaction Expense	3,516	-	(79)
Change in Fair Value of Contingent Consideration	(471)	-	-
Unrealized loss (gain) on financial instrument obligation	(1,601)	5,291	-
<b>Adj EBITDA</b>	<b>22,836</b>	<b>57,687</b>	<b>11,567</b>