



**TURTLE BEACH**<sup>™</sup>  
CORPORATION

NASDAQ: HEAR

Third Quarter 2017 Earnings Presentation  
November 2, 2017

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This presentation includes “forward-looking statements” within the meaning of the federal securities laws. These forward-looking statements are statements that are not historical facts including statements about our beliefs and expectations and statements, and may contain the words “may,” “could,” “would,” “should,” “believe,” “expect,” “anticipate,” “plan,” “estimate,” “target,” “project,” “intend,” “foresee,” and similar expressions. There are a number of risks and uncertainties that could cause actual results to differ materially from the forward-looking statements made herein, including but not limited to, the application of quarter-end and year-end accounting procedures and adjustments, risks related to the Company’s liquidity and financial position, 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, general business and economic conditions, risks associated with the expansion of our business including the implementation of any businesses we acquire, our indebtedness, the outcome of our HyperSound strategic review process, and the other factors discussed in our public filings, including the section entitled “Risk Factors” in our most recent Quarterly Report on Form 10-Q, our Annual Report on Form 10-K and other periodic reports filed with the Securities and Exchange Commission (the “SEC”) and available on the SEC’s website, [www.sec.gov](http://www.sec.gov). Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this presentation. Except as required by law, Turtle Beach Corporation (the “Company”) undertakes no obligation to publicly release any revision to its forward-looking statements to reflect events or circumstances after the date of this presentation. All of the forward-looking statements in this presentation are qualified by such cautionary statements, and subject to the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. This presentation also contains trademarks and trade names that are property of their respective owners.

## Non-GAAP Financial Measures

This presentation contains certain financial measures, including adjusted EBITDA and non-GAAP earnings per share (“EPS”), that are not calculated under the standards or rules of U.S. GAAP, which are referred to as “non-GAAP financial measures.” These non-GAAP financial measures, as calculated by the Company, are not necessarily comparable to similarly titled measures reported by other companies. Additionally, these non-GAAP financial measures are not measurements of financial performance or liquidity under GAAP and should not be considered an alternative to the Company’s other financial information determined under GAAP. Management believes that these 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 EBITDA” is defined by the Company as net income (loss) before interest, taxes, depreciation and amortization, stock-based compensation (non-cash), and certain special items that we believe are not representative of core operations. Non-GAAP EPS is defined as EPS less goodwill and intangible asset impairment, and business transition charges. The Adjusted EBITDA outlook for the fourth quarter and full year 2017 has not been reconciled with the Company’s net loss outlook for the same periods because of the variability, complexity and lack of visibility with respect to certain reconciling items between adjusted EBITDA and net loss, including other income (expense), provision for income taxes and stock-based compensation. These items cannot be reasonably and accurately predicted without the investment of undue time, cost and other resources and, accordingly, a reconciliation of the Company’s adjusted EBITDA outlook to its net loss outlook for such periods is not available without unreasonable effort. These reconciling items could be material to the Company’s actual results for such periods.

# Q3 Highlights

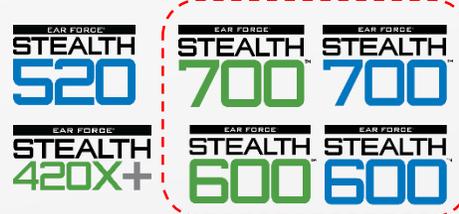
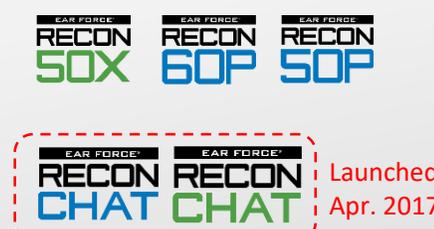
- ▶ Q3 revenues met low end of previously issued guidance range, EPS & adj. EBITDA<sup>1</sup> significantly outperform
- ▶ Key revenue contributors
  - ▶ Recon Chat headsets continue to perform well (#1 share in chat headsets)<sup>2</sup>
  - ▶ Recon 50X was top-selling gaming headset industry-wide in Q3<sup>2</sup>
  - ▶ Stealth 420X+ was top-selling wireless headset for Xbox One<sup>2</sup>
- ▶ Maintained leading US market share in first nine months of 2017 at 40% revenue share & 34% unit share
- ▶ Solid holiday product lineup with strong market growth projected
- ▶ Completed first *HyperSound* license



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

2) US NPD.

# Full Line of Products...with Compelling New Launches

	ASP	Sample Products	TB Key Features
<b>Esports</b>	Varies	 <p>Launched July &amp; Oct. 2017</p>	<ul style="list-style-type: none"> <li>Tournament-grade game &amp; chat audio</li> <li>Unmatched comfort with glasses friendly design &amp; cooling gel-infused ear cushions</li> <li>Powerful amplified audio w/ DTS Headphone:X® 7.1 surround sound and Superhuman Hearing™ (PC Edition)</li> </ul>
<b>Core Gamer</b> <i>16+ hours per week</i>	> \$200		<ul style="list-style-type: none"> <li>Wireless game &amp; chat</li> <li>Active noise-cancellation &amp; Bluetooth®</li> <li>DTS Headphone:X® 7.1 surround sound</li> <li>Superhuman Hearing</li> <li>Magnetic base station</li> </ul>
<b>Enthusiast Gamer</b> <i>7-15 hours per week</i>	\$100 - \$200	 <p>Launched Sept. 2017</p>	<ul style="list-style-type: none"> <li>Immersive surround sound</li> <li>Xbox Wireless (connects directly to Xbox One)</li> <li>Active noise-cancellation &amp; Bluetooth (700 only)</li> <li>Glasses friendly design</li> <li>Superhuman Hearing</li> </ul>
<b>Casual Gamer</b> <i>4-6 hours per week</i>	\$50 - \$100	 <p>Launched July &amp; Oct. 2017</p>	<ul style="list-style-type: none"> <li>Large, powerful 50mm speakers</li> <li>High-sensitivity mic</li> <li>Durable, fan-favorite headset ID</li> <li>Superhuman Hearing (PX24)</li> </ul>
<b>Entry-Level Gamer</b> <i>&lt; 4 hours per week</i>	< \$50	 <p>Launched Apr. 2017</p>	<ul style="list-style-type: none"> <li>High-quality 40mm speakers</li> <li>High-sensitivity mic</li> <li>Lightweight comfort</li> <li>Innovative open earcup</li> <li>Glasses friendly design</li> </ul>



# Stealth 600 & 700 for Xbox One



*“The Stealth 600 is one of the best wireless headsets you can own on PS4 or Xbox One.”*  
- WIRED (Oct. 2017)

*“We highly recommend the Stealth 600 headset for your Xbox One! – 9/10”*  
- GAMESREVIEWS.COM (Nov. 2017)

## WIRELESS HEADSETS. REINVENTED.

- Xbox Wireless (direct connection to Xbox One)
- Windows Sonic for Headphones surround sound
- ProSpecs™ Glasses friendly design
- Superhuman Hearing™
- Large & powerful 50mm speakers
- High-sensitivity, flip-up mic
- Audio presets, including Bass Boost
- Mic monitoring
- Active noise-cancellation (Stealth 700)
- Bluetooth connectivity (Stealth 700)
- App-based settings (Stealth 700)

**Stealth 600 – U.S. \$99.95**

**Stealth 700 – U.S. \$149.95**

**Launched August 2017**





*“Amazing audio quality and comfort keeps the Stealth 600 headset well worth the money.”*  
- PLAYSTATION LIFESTYLE (Oct. 2017)

## WIRELESS HEADSETS. REINVENTED.

- Wireless game & chat
- Immersive surround sound
- ProSpecs Glasses friendly design
- Superhuman Hearing
- Large & powerful 50mm speakers
- High-sensitivity, flip-up mic
- Audio presets, including Bass Boost
- Mic monitoring
- Active noise-cancellation (Stealth 700)
- Bluetooth connectivity (Stealth 700)
- App-based settings (Stealth 700)

**Stealth 600 – U.S. \$99.95**

**Stealth 700 – U.S. \$149.95**

**Launched September 2017**

HEAR THE ACTION. FEEL THE COMFORT. BATTLE READY!



TURTLE BEACH  
EAR FORCE  
**RECON CAMO**  
PS4™ | XBOX ONE | MOBILE



**BIGGER SPEAKERS  
= BETTER SOUND**

The Recon Camo's large 50mm speakers, high-sensitivity mic, and unmatched comfort provide everything you need to dominate the competition. Hear everything. Defeat Everyone.™

## GET READY FOR THE RETURN OF WWII

- Large & powerful 50mm speakers
- Surround sound ready for Xbox One
- High-sensitivity mic for crystal clear chat
- Battle-hardened durable comfort
- Breathable fabric-wrapped ear cushions
- Fan-favorite headset ID with vintage military green camouflage design

**Recon Camo – U.S. \$69.95**

**Launched October 2017**

*“An amazing quality headset. The Recon Camo suits your needs no matter what they are. Great for beginners, veterans and casual gamers, the Recon Camo is truly fashionable and comfortable accessory.”*

- CULTURE OF GAMING (Oct. 2017)

# Elite Pro – PC Edition



- Features same groundbreaking innovations in headset design from original Elite Pro Tournament Gaming Headset, and adds:
  - Powerful amplified audio
  - DTS Headphone:X 7.1 surround sound
  - DTS surround sound modes
  - Superhuman Hearing
- The official gaming headset of Astralis.
- Established in 2016, Astralis won CS:GO ECS Season 2 at less than a year old. Astralis won ELEAGUE Major 2017 in Atlanta, IEM Katowice 2017, cementing themselves among the best CS:GO teams in the world.



*The choice of champions*  
*"Official Audio Partner of Astralis"*

**Elite Pro – PC Edition – U.S. \$199.95**

**Launched July 2017**

# Elite Pro – OpTic Limited Edition



## OPTIC GAMING'S FIRST CUSTOM HEADSET

- In celebration of OpTic Gaming's dedication & commitment to outstanding esports play & to punctuate their historic achievements of 2017, Turtle Beach revealed the Elite Pro – OpTic Limited Edition gaming headset.
- 2017 has been the most decorated in the OpTic Gaming's storied history. Bringing home World Championships in Halo, Gears of War & being crowned as Call of Duty® World Champions.
- Headset features all the same groundbreaking innovations in headset design from the original Elite Pro tournament gaming headset, now with OpTic Gaming's iconic logo & green accents.
- Limited Edition with only 2,000 units available.

**Elite Pro – OpTic Limited Edition – U.S. \$199.95**

**Launched October 2017**



**THIS IS** OPTIC GAMING.  
11 YEARS IN THE MAKING.  
THE YEAR OF CHAMPIONS.  
FOR THE GREEN WALL.  
LIMITED EDITION.  
YOUR HEADSET.

#WeAreElite

NOW SHIPPING

LIMITED QUANTITIES

# Q3-17 Results Meet Revenue, Exceed EPS & Adj. EBITDA Outlook

(vs. prior year period)

- ▶ Net revenue of \$36M vs. \$38.4M
  - ▶ Impacted by orders shifted from Q3 into Q4 by some large customers
- ▶ Gross margin up to 34.9% vs. 10.2% (28.7% excluding *HyperSound*-related charge)
  - ▶ 34.9% vs. 28.7% driven by mix-shift toward higher margin headsets, supply chain & logistics-driven product cost improvements.
- ▶ Operating expenses down to \$10.7M vs. \$46.7M (\$13.6M excluding *HyperSound*-related charges totaling \$33.1M in year-ago period)
  - ▶ \$10.7M vs. \$13.6M driven by tight management of operating costs
- ▶ Net loss improved to \$0.5M or \$(0.01) per share vs. net loss of \$44.8M or \$(0.91) per share (net loss of \$(0.10) per share excluding *HyperSound*-related charges in year-ago period)
- ▶ Adj. EBITDA improved to \$3.3M compared to \$0.5M<sup>1</sup>
  - ▶ Reflects lower revenue, higher margins & lower operating expenses (better adj. EBITDA margins)



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

# Financial Overview

\$ in millions (except per share data)	2016	2017	YOY Δ%
	Q3	Q3	
Revenue	\$38.4	\$36.0	-6%
Gross Profit <sup>1</sup>	\$11.0	\$12.5	+14%
Gross Margin <sup>1</sup>	28.7%	34.9%	+620bps
Headset Gross Margin	33.3%	34.3%	+100bps
Operating Expenses <sup>2</sup>	\$13.6	\$10.7	Reduced 21%
Operating Income (Loss) <sup>2</sup>	(\$9.6)	\$1.9	+\$11.5
Headset Operating Income	\$1.7	\$1.8	+6%
GAAP Net Income (Loss)	(\$44.8)	(\$0.5)	+44.3
GAAP EPS Diluted	(\$0.91)	(\$0.01)	+\$0.90
Non-GAAP Net Income (Loss) <sup>3</sup>	(\$4.7)	(\$0.6)	+\$4.1
Non-GAAP EPS Diluted <sup>3</sup>	(\$0.10)	(\$0.01)	+\$0.09
Adj. EBITDA <sup>3</sup>	\$0.5	\$3.3	+560%
Headset Adj. EBITDA	\$3.4	\$3.5	+3%

1) Excludes a \$7.1M charge in Q3 2016 for inventory reserves associated with the *HyperSound* restructuring.

2) Excludes a *HyperSound* intangible asset impairment and certain other reserve charges totaling \$33.1M associated with the restructuring of this business.

3) See appendix for a reconciliation of non-GAAP measures.

# Balance Sheet

## Capitalization

	@ 9-30-16	@ 9-30-17
<b>Cash &amp; Equivalents</b>	\$3.3M	\$0.5M
Debt		
Revolver (asset-based loan)	\$26.3M	\$24.8M
Term Loans	\$14.8M	\$12.9M
Subordinated Notes	\$18.8M	\$21.2M
<b>Total Debt</b>	<b>\$59.9M</b>	<b>\$58.9M</b>
Series B - Preferred Stock <sup>1</sup>	\$17.1M	\$18.5M

## Balance Sheet Highlights

- ▶ Revolver typically peaks in Q4 and lowest in Q1 after holiday receipts
- ▶ \$49.0M federal, \$21.0M state net operating losses @ Dec 31, 2016 offset taxable income (not scheduled to expire until 2029)
- ▶ \$60M line of credit and expectation to be significantly more profitable on consolidated basis is anticipated to provide sufficient capital to fund our plan

1) Due in October 2030 and has 8% per annum PIK interest.

## Strong New Product Additions



**Recon Chat headsets launched in Q2** and helped propel Turtle Beach to #1 spot for Xbox One and PS4™ (U.S. market)<sup>1</sup> chat headsets.



**XO Three and Recon 150 launched in July** and refresh a fan-favorite headset design with proven market leadership to a new, lower price point of \$69.95.



**Stealth 600 and 700's launched in September**, bringing innovative features to \$99 and \$149 price points.

Xbox One models first-to-market with Xbox Wireless (direct connection to console)

## New Titles Expected To Do Well

**Strong '17 holiday outlook for AAA game titles.**



**NPD predicting at least 4 titles will exceed \$100M in Q4 packaged consumer sales<sup>2</sup>.**

**NPD predicting top 5 selling titles this Q4 will combine to generate at least 20% more packaged consumer revenues than the top 5 one year ago<sup>2</sup>.**

**September Destiny 2 launch drove expected market lift.**

## '17 Results Expected to Improve

- ▶ Consolidated Adj. EBITDA expected to improve to \$11-13M (\$4M in '16)<sup>3</sup>.
- ▶ Consolidated Adj. EBITDA margin expected to improve to 8% (2% in '16)<sup>3</sup>.
- ▶ Adj. EBITDA expected to be sufficient to support senior debt repayment.
- ▶ Average revolver balance (asset-based loan) in 2017 expected to decline vs. 2016.

1. Source: The NPD Group, June 2017.

2. Source: Industry Analysts, Video Games The NPD Group, Inc.

3. Guidance effective on Nov 2, 2017. Reflects midpoint of range.

	Q4-17 <sup>1</sup>	YoY $\Delta$ <sup>2</sup>	Year-Over-Year Commentary & Assumptions
<b>Revenue</b>	\$82.6-\$87.6M	4%	<ul style="list-style-type: none"> <li>Ongoing retailer efforts to reduce run-rate inventory levels &amp; slightly reduced industry outlook moderates expected sales growth rate</li> </ul>
<b>Adj. EBITDA</b>	\$16.7-18.7M	10%	<ul style="list-style-type: none"> <li>Favorable product mix shift &amp; operational cost improvements drives Adj. EBITDA leverage</li> </ul>
<b>Adj. EPS</b>	\$0.25-\$0.29	8%	<ul style="list-style-type: none"> <li>Profit expected to grow faster than sales highlights strong expense management</li> </ul>

1) Guidance effective on Nov 2, 2017.

2) Delta reflects midpoint of the outlook.

# 2017 Outlook<sup>1</sup>

(\$ in millions)	2016	2017 Prior	2017 Update <sup>1</sup>	Year-Over-Year Commentary & Assumptions
<i>Revenue:</i>				
<i>New-Gen</i>	\$160	\$151-\$156	\$146-\$151	Higher channel inventory in first half '17, slight inventory reduction at retail & industry holiday outlook reduction
<i>Old-Gen</i>	\$6.9	~\$0	~\$0	Old-gen business wound down to essentially zero in 2017
<i>Other</i>	\$6.5	\$6	\$6	Longer term opportunity for PC & international growth
<i>HyperSound</i>	\$0.7	~\$0	~\$0	No material revenue, immaterial expenses
<b>Total Revenue</b>	<b>\$174</b>	<b>\$157-\$162</b>	<b>\$152-\$157</b>	
<i>Gross Margin</i>	24.5%	>30%	At least 32%	Lower operations costs, continued COGS improvements, some loss of operating leverage due to lower revenue
<b>Adj. EPS<sup>2</sup></b>	<b>\$(0.33)<sup>2</sup></b>	<b>\$(0.06)- \$(0.10)</b>	<b>Unchanged</b>	
<i>Adjusted EBITDA:</i>				
<i>Headsets</i>	\$14.4	~\$13	Unchanged	Gross margin improvements & cost reductions offset sales headwinds
<i>HyperSound</i>	\$(10.4)	~\$(1)	Unchanged	Switch to license model significantly improves cost structure
<b>Consol. Adj. EBITDA</b>	<b>\$4</b>	<b>\$11-\$13</b>	<b>Unchanged</b>	

1) Guidance effective on Nov 2, 2017.

2) Excludes \$(1.46) per share in goodwill and intangible asset impairment charges, HyperSound restructuring reserves and other restructuring charges.

# Opportunities To Drive Double-Digit Revenue Growth

## History

### 2013 - 2015:

Console platform change forces changeover to new portfolio (not expected to happen again). Strong dollar impacted 2015.

### 2014 - 2016:

Significant investment in HyperSound. Gaming market has weak Q4-16, leading to high channel inventory.

## Focus/Priorities

### 2016:

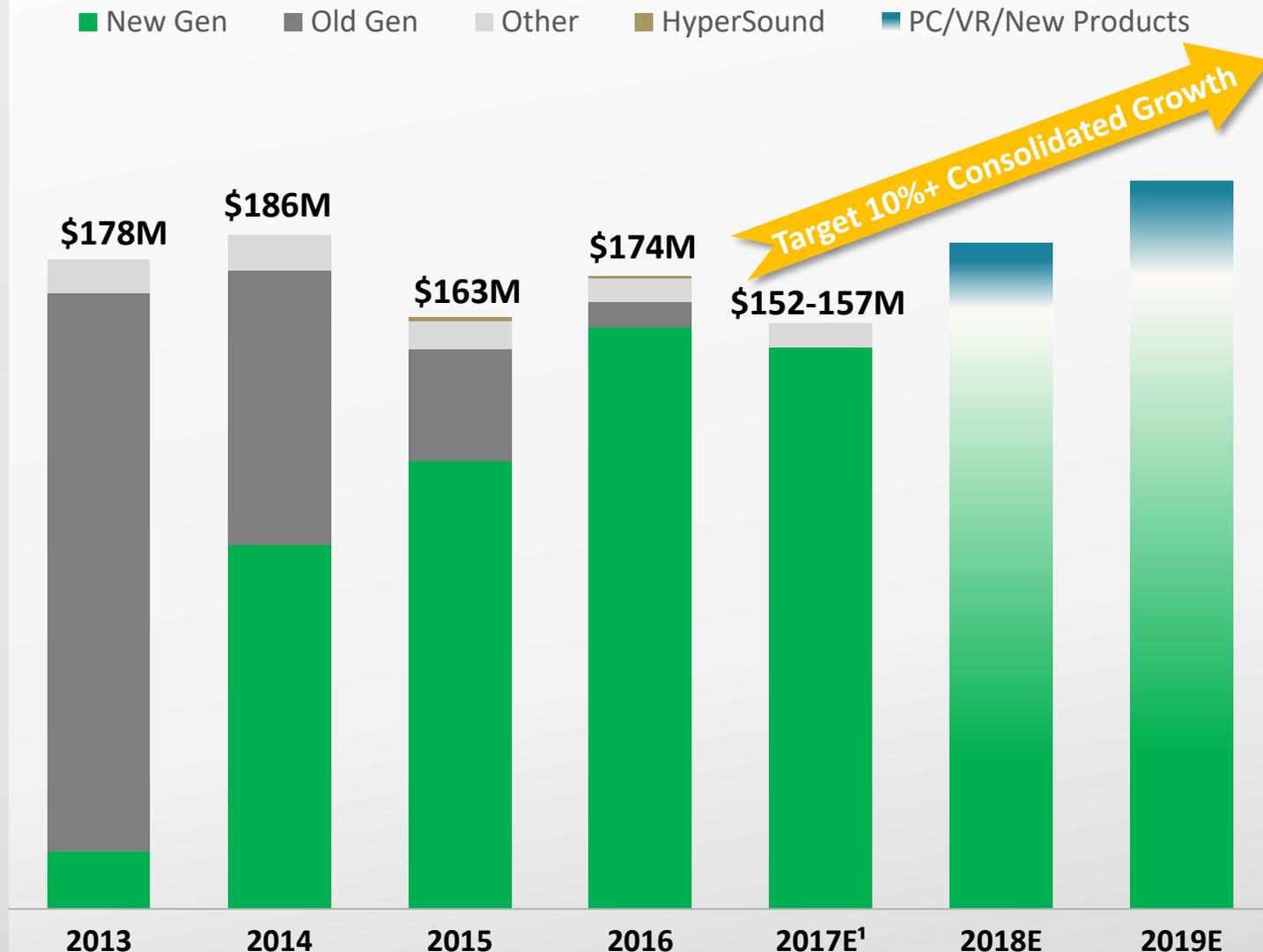
Focus on returning headset business to strong profitability. Wind-down HyperSound. Enter eSports, virtual reality (VR), Streaming Mic categories.

### 2017:

Focus on core headset business and continued profitability improvements. Expand eSports. Nurture new VR and mic business. Lay groundwork for 2018+ growth initiatives in PC and international.

### 2018 - 2019:

Maintain leadership in core console segment. Expand into PC gaming headsets including China market. Drive eSports, VR, mic businesses. Evaluate additional new product categories for 2019+.



Note: Old-gen, new-gen revenue splits are approximations.

1) Guidance effective on Nov 2, 2017.

# Key Takeaways

- ▶ Q3-17 within revenue forecast, significant beat to earnings & adjusted EBITDA
- ▶ 2017 focus on improving profitability and strengthening the balance sheet on track – EBITDA expected to more than double
- ▶ Industry-leading brand and product portfolio with exciting new products in 2017
- ▶ Holiday 2017 expected to be strong with first major launch (Destiny 2) showing expected lift
- ▶ Significant long-term growth opportunities anticipated in PC gaming, China expansion, virtual reality & live-streaming microphones



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## COMPANY WEBSITES

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[www.turtlebeach.com](http://www.turtlebeach.com)

[www.hypersound.com](http://www.hypersound.com)



## Appendix

# Reconciliation of GAAP & Non-GAAP Earnings



	<u>Three Months Ended</u>	
	<u>September 30, 2017</u>	<u>September 30, 2016</u>
<u>Net Income (Loss)</u>		
GAAP Net Income (Loss)	\$ (492)	\$ (44,799)
Goodwill and intangible asset impairment	—	32,084
Business transition charges	(71)	8,049
Non-GAAP Earnings	<u>(563)</u>	<u>(4,666)</u>
 <u>Diluted Earnings Per Share</u>		
GAAP - Diluted	\$ (0.01)	\$ (0.91)
Goodwill and intangible asset impairment	\$ —	\$ 0.65
Business transition charges	\$ —	\$ 0.16
Non-GAAP - Diluted	<u>\$ (0.01)</u>	<u>\$ (0.10)</u>

# GAAP to Adjusted EBITDA Reconciliation – Three Months Ended Sept 30, 2017



Three Months Ended  
September 30, 2017

	As Reported	Adj Depreciation	Adj Amortization	Adj Stock Compensation	Other (1)	Adj EBITDA
Net Revenue	\$ 35,975	\$ —	\$ —	\$ —	\$ —	\$ 35,975
Cost of Revenue	23,437	(165)	—	(20)	312	23,564
<b>Gross Profit</b>	<b>12,538</b>	<b>165</b>	<b>—</b>	<b>20</b>	<b>(312)</b>	<b>12,411</b>
Operating Expense	10,662	(622)	(89)	(350)	(241)	9,360
<b>Operating income (loss)</b>	<b>1,876</b>	<b>787</b>	<b>89</b>	<b>370</b>	<b>(71)</b>	<b>3,051</b>
Interest expense	2,042					
Other non-operating expense, net	(252)					(252)
Earnings (loss) before income tax	86					
Income tax expense	578					
<b>Net loss</b>	<b>\$ (492)</b>				<b>Adjusted EBITDA</b>	<b>\$ 3,303</b>

(1) Other includes business transition costs and restructuring charges.

# GAAP to Adjusted EBITDA Reconciliation – Three Months Ended Sept 30, 2016



	Three Months Ended September 30, 2016					
	As Reported	Adj Depreciation	Adj Amortization	Adj Stock Compensation	Other (2)	Adj EBITDA
Net Revenue	\$ 38,384	\$ —	\$ —	\$ —	\$ —	\$ 38,384
Cost of Revenue	34,457	(83)	(1,218)	(152)	(7,079)	25,925
<b>Gross Profit</b>	<b>3,927</b>	<b>83</b>	<b>1,218</b>	<b>152</b>	<b>7,079</b>	<b>12,459</b>
Operating Expense	46,667	(1,632)	(114)	(865)	(32,423)	11,633
<b>Operating income (loss)</b>	<b>(42,740)</b>	<b>1,715</b>	<b>1,332</b>	<b>1,017</b>	<b>39,502</b>	<b>826</b>
Interest expense	1,866					
Other non-operating expense (income), net	326					326
Earnings (loss) before income tax	(44,932)					
Income tax benefit	(133)					
<b>Net loss</b>	<b>\$ (44,799)</b>				<b>Adjusted EBITDA</b>	<b>\$ 500</b>

(1) Other includes business transition costs and restructuring charges.