



Q2 2019 Earnings Presentation

NASDAQ: HEAR
August 8, 2019



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. Forward-looking 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, general business and economic conditions, 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, our indebtedness, the Company’s liquidity, and other factors discussed in our public filings, including the risk factors included in the Company’s most recent Annual Report on Form 10-K, Quarterly Report on Form 10-Q and the Company’s other periodic reports. Except as required by applicable law, including the securities laws of the United States and the rules and regulations of the Securities and Exchange Commission, the Company is under no obligation to publicly update or revise any forward-looking statement 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

This presentation contains certain financial measures, including adjusted EBITDA and adjusted net income, 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 integration and transaction costs related to the acquisition of the ROCCAT business and excluding the effect of the mark-to-market requirement of the financial instrument obligation. “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 (e.g., the integration and transaction costs related to the ROCCAT acquisition and the mark-to-market adjustment for the financial instrument obligation and). 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 non-GAAP results for the three and six months ended June 30, 2019 and 2018 in the appendix.

- Net revenue of \$41.3M (\$42.0M CC*)
- Gross margin of 31.9%
- Net loss of \$2.4M, or \$(0.16) per share
- Adjusted EBITDA of \$1.6M
- Q2 net revenue, net loss & adjusted EBITDA **drive 1st half '19 results that met or exceeded our outlook**
- **Completed acquisition** of PC gaming accessory business, ROCCAT, more than doubling our addressable market
- **Announced \$15M share repurchase program, acquired ~156,000 shares for ~\$1.5M (avg. of \$9.62/share) during the quarter**



INTRODUCING THE ROCCAT KAIN MOUSE – ONE CLICK AHEAD!



Shown: *Kain 120 AIMO* in Arctic White

- **Kain** is born from ROCCAT's vision to create a PC gaming mouse with the perfect click.
- Introduces *Titan Click* – ROCCAT's all-new click mechanism engineered to unlock accurate, faster, more responsive controls.
- Three models, including entry-level **Kain 100 AIMO**, upgraded sensor variant **Kain 120 AIMO**, and the wireless **Kain 200 AIMO**.
- MSRP starting at \$49.99, launching September.



REVIEW SCORE = 85/100:
"IT LOOKS FANTASTIC, IT FEELS BRILLIANT, AND PERFORMS WELL."



REVIEW SCORE = 8/10:
"LIGHTWEIGHT, ACCURATE, AND SUPER-RESPONSIVE."

Kain 100 AIMO



\$49.99 MSRP

Kain 120 AIMO



\$69.99 MSRP

Kain 200 AIMO



\$99.99 MSRP



RECOMMENDED

REVIEW SCORE = 4.5/5:
"A SOLID, STRIKING, AND AFFORDABLE GAMING MOUSE."

INTRODUCING THE ALL-NEW RECON SPARK



- **Recon Spark** is an entry-level wired gaming headset, and Turtle Beach's first product with a unique *Spark* color treatment.
- Works with Xbox One, PS4™, Nintendo Switch™, PC and mobile devices, and includes a PC splitter cable for full multiplatform compatibility.
- MSRP \$49.95, launched late July.
- Limited-time exclusive with Target stores and at www.turtlebeach.com in North America.



REVIEW SCORE = 9/10:
**"YOU'LL STRUGGLE TO
FIND A BETTER LOOKING,
BETTER QUALITY
HEADSET IN THIS PRICE
RANGE."**

HARDCORE GAMER

**"IF THERE IS A PASSIVE HEADSET
THAT IS BETTER OPTIMIZED FOR
SURROUND SOUND AT THIS PRICE
POINT I HAVEN'T HEARD OF IT."**

Turtle Beach continues building and maintaining a highly curated list of gaming, esports and pop culture athletes, streamers and personalities.

Ali-A: Streamer/Influencer

"I've used Turtle Beach since my early days of gaming and they have been an important part of my setup ever since."

- Ali-A



Ali-A (22M+ Subs)

- Renewed partnership with world's most-watched gaming YouTuber
- Largest Call of Duty channel in the world
- Most popular global Fortnite YouTuber
- 2.9 billion minutes of Ali-A's content viewed on YouTube in 2018 alone

PJ Washington & Kevin Porter Jr.: NBA Draftees/Gamers



PJ Washington
(Charlotte Hornets)



Kevin Porter Jr.
(Cleveland Cavaliers)

- New partnerships with NBA draftees PJ Washington and Kevin Porter Jr.
- Avid gamers Washington and Porter Jr. join fellow NBA star Josh Hart of the New Orleans Pelicans in working with Turtle Beach
- Washington and Porter Jr. will work with Turtle Beach to grow their gaming audience and to merge their basketball and gaming fans

QUARTERLY FINANCIAL OVERVIEW



	2018	2019	Commentary
	Q2	Q2	
\$ in millions (except per-share data)			
Revenue	\$60.8	\$41.3 \$42.0 constant currency	While consumer demand remains significantly above historic levels, decline expected given record demand in '18 driven by Battle Royale.
Gross Margin	33.3%	31.9%	Product mix, volume-based de-leverage, increased refurbishing & warehouse costs, offset by decline in freight.
Operating Expenses	\$12.0	\$15.5	\$1.6M in ROCCAT transaction costs, acquired ROCCAT operating costs, sponsorships & digital marketing, non-cash stock-based compensation.
Net Income	\$(2.3)	\$(2.4)	Q2-18 included unrealized loss of \$8.6M on financial instrument obligation.
Diluted EPS	\$(0.17)	\$(0.16)	14.6M weighted average shares in Q2-19 vs. 13.4M in Q2-18.
Adjusted Diluted EPS ¹	\$0.40	\$(0.06)	Lower gross profit from decline in revenue, increase in OpEx.
Adjusted EBITDA¹	\$9.8	\$1.6	Lower gross profit from decline in revenue, increase in OpEx.

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

Capitalization		
	At 6-30-18	At 6-30-19
Cash & Equivalents	\$9.1M	\$3.4M
Debt Principal		
Revolver (asset-based)	–	\$10.8M
Term Loans	\$12.5M	–
Subordinated Notes	\$19.9M	–
Total Debt	\$32.4M	\$10.8M
Leverage Ratio¹	0.7x	0.2x

Recent Balance Sheet Improvements
<ul style="list-style-type: none"> Renegotiated revolver in Dec 2018, reducing interest rates and extending term to March 2024 Fully repaid all term loans and subordinated notes in Dec 2018 with operating cash flow ROCCAT purchase price of \$12.7M funded with cash and borrowings under revolver

1. Defined as total term loans outstanding and average trailing twelve month revolving debt, divided by consolidated trailing twelve month adjusted EBITDA.

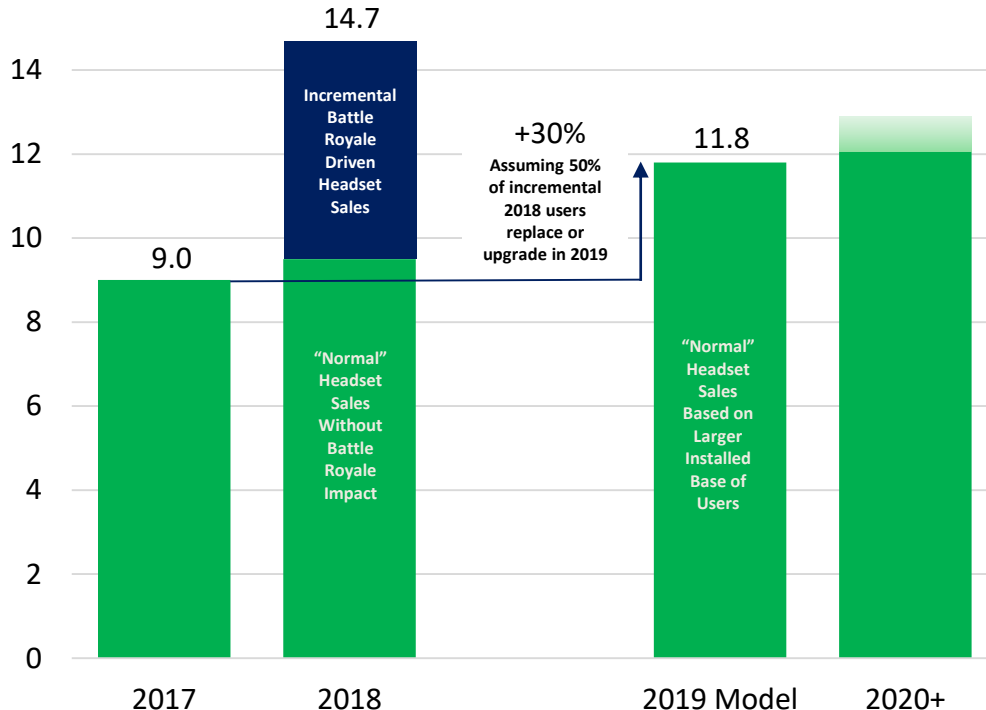
ANTICIPATED CONSOLE HEADSET MARKET DYNAMICS IN 2019



Simplified Market Model¹

US & Canada Console Gaming Headset Sell-Through

Millions of Units



Installed base of console headset users grew significantly in 2018 driven by Battle Royale games

Recent survey results indicate consumer intent to upgrade/replace <24-month cycle (with wide distribution around that average)

Biggest drivers of potential increase from 2019 model estimates are:

- Faster upgrade/replace cycle among new headset users
- Discount console prices in last holiday before new gen consoles
- Stronger slate of Q4 games or major games going "free" model

Biggest drivers of potential decrease from 2019 model estimates are:

- Slower upgrade/replace cycle among new headset users
- Weaker slate of Q4 games than expected
- Market slowdown due to new console announcements

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

GEN 8 CONSOLE LAUNCH INFORMATION

Gen 7 Xbox (Nov 2013)



Gen 8 Xbox (2020)



Project Scarlett (announced at E3 2019)

Release: Holiday 2020 (expected November)

Price: Unknown

- Backward compatible with Xbox One
- Major power increase/faster game access/reduced load times
- Will support up to 8k resolution
- Still play discs/not completely online
- Game Pass subscription service is key/access to AAA games
- Project xCloud game streaming service
- Beefed up Game Studio acquisition for exclusive development

Gen 7 PlayStation (Nov 2013)



Gen 8 PlayStation (2020)



PlayStation 5/PS5 (announced in April 2019)

Release: Holiday 2020 (expected November)

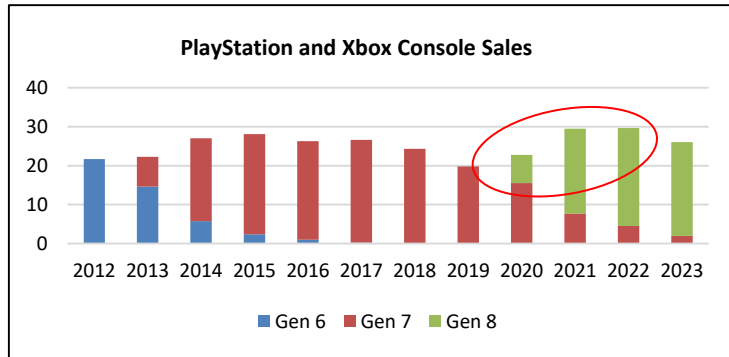
Price: Unknown

- Backwards compatible with PS4
- Major power increase/faster game access/reduced load times
- Will support up to 8k resolution
- Significant focus on high-quality, immersive 3D audio
- Still play discs/not completely online
- Ray tracing technology
- PlayStation Now streaming/focus on AAA titles

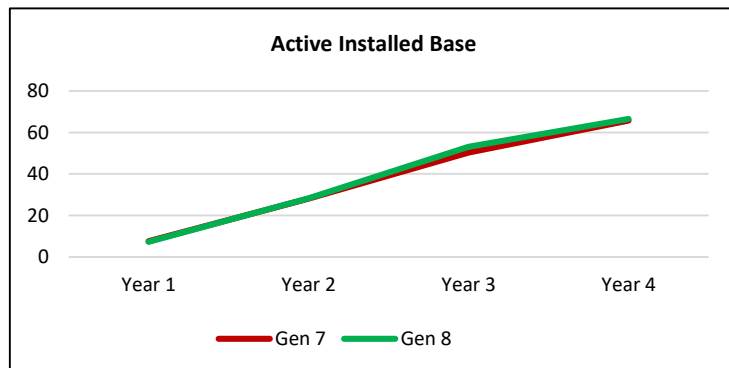
IMPACT OF NEW XBOX AND PLAYSTATION CONSOLES IN 2020



“With the launch of new systems and continued sales for existing console we forecast Microsoft and Sony combined hardware sales will set records in 2021 and 2022.” David Cole, Head DFC Intelligence, Video games industry analyst.



Source : DFC Intelligence July 2019 Worldwide Video Game Market Forecasts; Hardware unit sales (In Millions)



Source : DFC Intelligence July 2019 Worldwide Video Game Market Forecasts; Active Installed Base (In Millions). Year 1 for Gen 7 : 2013 & Year 1 for Gen 8 : 2020

- Console transition has typically created a market decline the year prior to transition, an increase the year of new console launch, and then several years of accelerated growth post-launch.
- Accessories also typically follow same pattern as some users will wait on new accessory purchases, particularly at the high-end prior to launch and then upgrading accelerates post-launch.
- Console makers discounted console pricing in 2012, the last holiday before current gen launches, which contributed to strong Q4 that year.
- DFC predicts the combined XB and PS hardware unit sales for Gen 7 and Gen 8 in the first 3 years of launch to be higher than the combined sales of Gen 6 and Gen 7 in the first 3 years, setting another record.
- Active Installed Base (AIB) of Gen 8 in the first 4 years of launch is expected to be slightly higher than AIB of Gen 7.
- Nintendo and pending cloud gaming systems are not included and could create additional market potential.

UNCHANGED 2019 OUTLOOK¹

	2019	Comments
Net Revenue	\$240M-\$248M	Market assumptions as outlined on right; modest reduction in market share vs. 2018 but higher than 2017 and 2016.
Gross Margin	33%-34%	Reduced operating leverage, one-time ROCCAT charges; tariff impact offset by COGS savings and/or wholesale price increases.
GAAP EPS²	\$0.70-\$0.90	\$12M-\$14M incremental OpEx for ROCCAT, including estimated \$3M in ROCCAT transaction & integration costs, 10% tax rate.
Adj. EPS²	\$0.90-\$1.10	Excludes transaction & integration costs related to ROCCAT acquisition, currently estimated to be ~\$3M in 2019, and gain on a financial instrument obligation.
Diluted Shares	15.7M	
Adj. EBITDA	\$27M-\$31M	Includes some incremental spend and investments for holiday and to advance 2020 position.

Overall Console Headset Market Assumptions:

- Influx of new gaming headset users and upgrade/replace cycle reflect normal historical patterns (no “Fortnite effect” added)
- Console prices are discounted in final holiday before new launches creating holiday sales as % of full year sales similar to last transition (2012)
- Holiday AAA game launches are weaker than 2018 but COD: Modern Warfare launch is very strong
- Pending 10% tariffs, which impact headsets starting September 1 (if they remain in place), are mitigated sufficiently to not have major impact in 2019

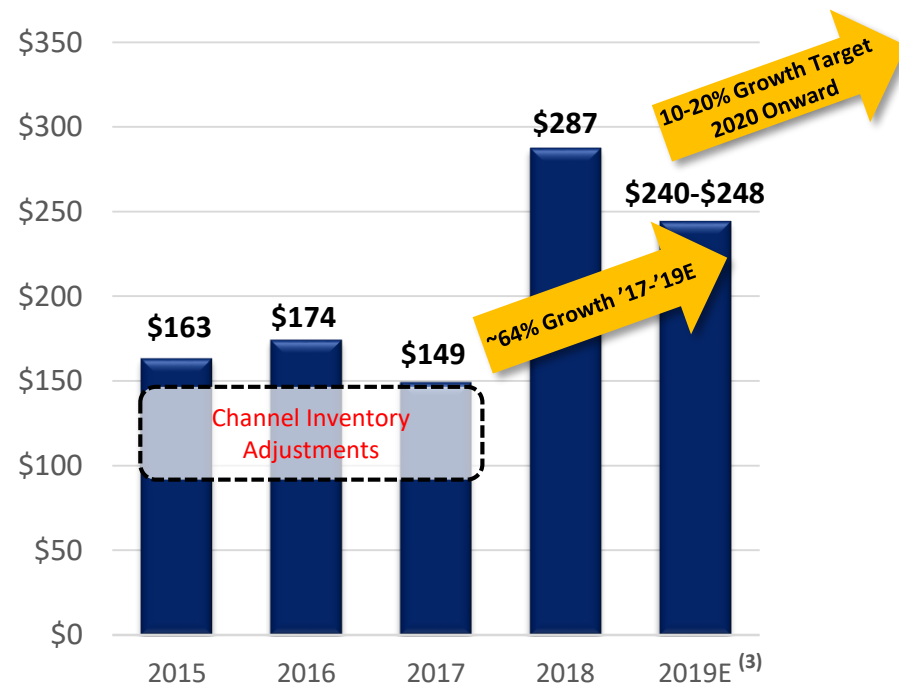
1. Guidance effective on August 8, 2019.

2. Include \$1.2M in costs for purchase accounting step-ups on acquired ROCCAT inventory.

REVENUE PROFILE

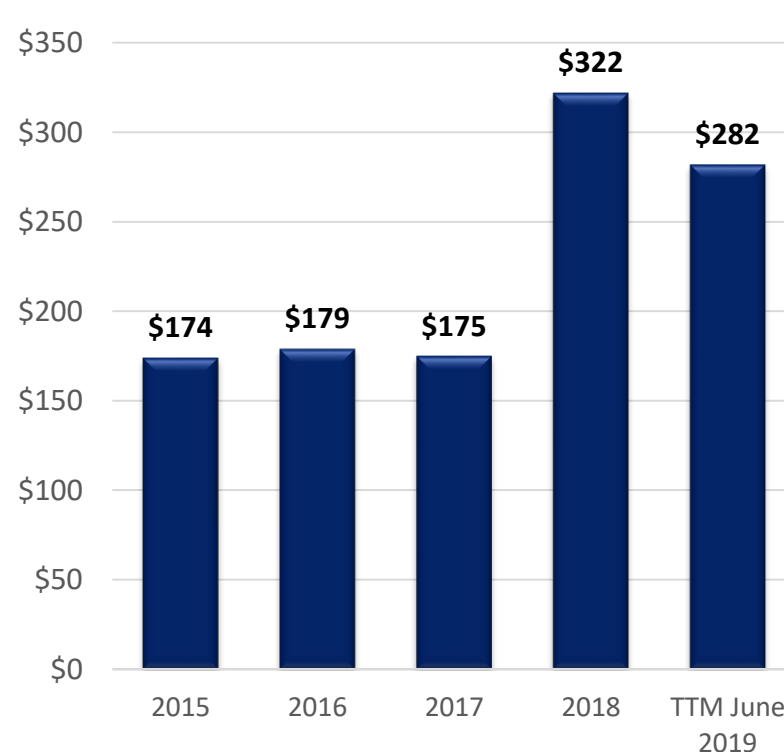
Company Revenues ⁽¹⁾

Millions



Company Product Retail Sell-Through in US & Canada Markets ⁽²⁾

Millions



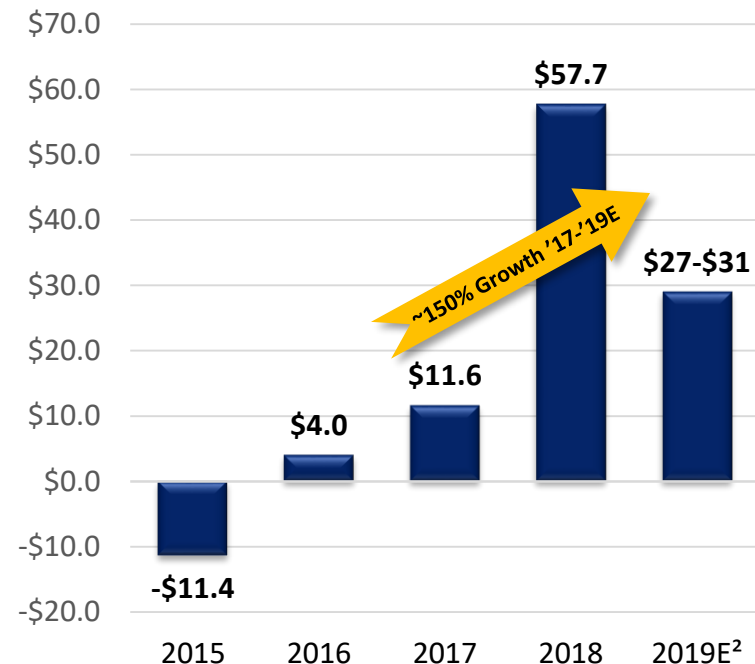
1. Company net revenues = wholesale revenues so not directly comparable to retail revenues in the chart on the right – shown just for perspective given channel inventory impacts on company net revenues.

2. The NPD Group/Retail Tracking Service/Video Games/Dollars/U.S. & Canada/CY2015, CY2016, CY2017, CY2018, and Trailing Twelve Months July 2018-June 2019.

3. Guidance effective only as of August 8, 2019.

Adjusted EBITDA¹

Millions



2016:

Returned headset business to profitability. Converted HyperSound to licensing model. Entered esports, VR, streaming mic categories.

2017:

Focused on core headset business and continued profitability improvements. Positioned the Company for improved balance sheet and loan terms. Laid groundwork for 2018+ growth initiatives.

2018:

Continued to deliver increased profitability. Lowered cost and paid off debt. Made select investments to drive future growth.

2019 & Beyond:

Hold position in console headsets. Accelerate PC headset growth in our core markets. Enter PC headsets in Asia. Add keyboards and mice. Add software and services differentiation across hardware.

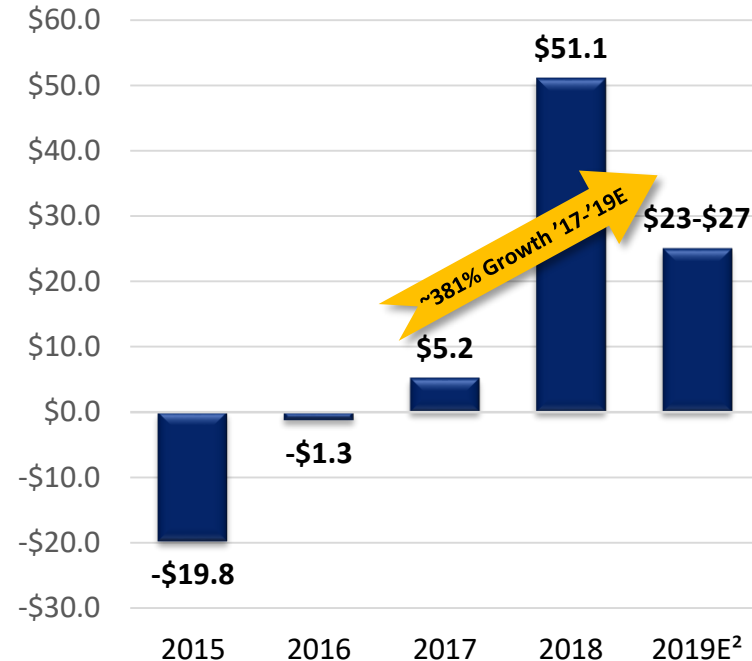
1. See appendix for a reconciliation of non-GAAP measures.

2. Guidance effective only as of August 8, 2019.

STRONG FREE CASH FLOW GROWTH

Free Cash Flow¹

Millions



Strong free cash flow generation:

- Allowed the Company to pay down all long-term debt
- Expected to enable continued growth investments
- Allowed for April '19 announcement of a share buyback of up to \$15M over the next two years
 - Repurchased ~156,000 shares for \$1.5M (average of \$9.62 per share) in Q2-19
- Acquired ROCCAT for \$12.7M at closing with operating cash and borrowings under revolving credit facility

1. Free cash flow defined as consolidated adjusted EBITDA less capital expenditures, less cash interest.

2. Estimated based on guidance effective only as of August 8, 2019.

KEY TAKEAWAYS

- Strong Q2 driven by increased base of gaming headset users now part of the core market
- More than doubled our TAM to \$3.9B* with acquisition of leading German PC gaming accessory maker ROCCAT
- Healthy balance sheet with long-term debt paid off
- Unchanged 2019 outlook anticipates strong sales & free cash flow
- Authorization of up to \$15M share repurchase signals continued confidence in our business



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www.turtlebeach.com

www.roccat.org

The logo is a large, light gray inverted triangle. Inside the triangle, the words "TURTLE BEACH" are written in a bold, sans-serif font. Below the text is a silhouette of a palm tree. A registered trademark symbol (®) is located to the upper right of the triangle. Two horizontal orange lines are positioned on either side of the word "APPENDIX".

TURTLE
BEACH

APPENDIX

Weighted average diluted shares outstanding – Q2 2018	13,401
Weighted average common shares issued in exchange for Series B preferred stock	330
Weighted average common shares issued upon exercise of stock options and warrants	899
Weighted average common shares repurchased	(44)
Weighted average diluted shares outstanding – Q2 2019	14,586
Estimated weighted average diluted shares outstanding – 2019	15,700

GAAP TO ADJUSTED EBITDA RECONCILIATION – THREE MONTHS ENDED JUNE 30, 2019



Three Months Ended June 30, 2019						
	As Reported	Adj Depreciation	Adj Amortization	Adj Stock Compensation	Other ⁽¹⁾	Adj EBITDA
Net revenue	\$ 41,330	\$ -	\$ -	\$ -	\$ -	\$ 41,330
Cost of revenue	28,159	(427)	-	(93)	-	27,639
Gross Profit	13,171	427	-	93	-	13,691
Operating expenses	15,478	(713)	(159)	(910)	(1,563)	12,133
Operating income (loss)	(2,307)	1,140	159	1,003	1,563	1,558
Interest expense	111					
Other non-operating income, net	(70)					(70)
Income (loss) before income tax	(2,348)					
Income tax expense	25					
Net loss	\$ (2,373)					
					Adjusted EBITDA	\$ 1,628

(1) Other includes certain business acquisition costs.

GAAP TO ADJUSTED EBITDA RECONCILIATION – THREE MONTHS ENDED JUNE 30, 2018



Three Months Ended June 30, 2018

	As Reported	Adj Depreciation	Adj Amortization	Adj Stock Compensation	Other ⁽¹⁾	Adj EBITDA
Net revenue	\$ 60,805	\$ -	\$ -	\$ -	\$ -	\$ 60,805
Cost of revenue	40,528	(110)	-	(313)	-	40,105
Gross Profit	20,277	110	-	313	-	20,700
Operating expenses	12,008	(1,146)	(77)	(286)	-	10,499
Operating income	8,269	1,256	77	599	-	10,201
Interest expense	1,258					
Other non-operating income, net	9,029				(8,619)	410
Income (loss) before income tax	(2,018)					
Income tax expense	300					
Net loss	\$ (2,318)					
					Adjusted EBITDA	\$ 9,791

(1) Other includes unrealized gain (loss) on financial instrument obligation.

GAAP TO ADJUSTED DILUTED EPS RECONCILIATION – THREE MONTHS ENDED JUNE 30TH



	Three Months Ended	
	June 30, 2019	June 30, 2018
<u>Net Income (Loss)</u>		
GAAP Net Income (Loss)	\$ (2,373)	\$ (2,318)
Adjustments, net of tax:		
Loss (gain) on financial instrument obligation	-	8,619
Acquisition integration costs	1,477	-
Non-GAAP Earnings	<u>\$ (896)</u>	<u>\$ 6,301</u>
Diluted Earnings Per Share		
GAAP- Diluted	\$ (0.16)	\$ (0.17)
Gain on financial instrument obligation	-	0.57
Acquisition integration costs	0.10	-
Non-GAAP- Diluted	<u>\$ (0.06)</u>	<u>\$ 0.40</u>

GAAP TO ADJUSTED EBITDA RECONCILIATION – FULL YEARS



	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015
Consolidated				
Net Income (Loss)	39,190	(3,248)	(87,182)	(82,907)
Depreciation	3,954	4,075	5,066	5,901
Amortization of intangibles	303	349	4,128	2,015
Interest	5,335	7,916	7,447	5,099
Taxes	1,737	593	(387)	2,393
Stock Compensation	1,877	1,430	3,960	5,897
Restructuring Expense	-	533	664	399
Goodwill Impairment	-	-	63,236	49,822
Business Transaction Expense	-	(79)	7,079	-
Unrealized loss on financial instrument obligation	5,291	-	-	-
Adj EBITDA	57,687	11,567	4,011	(11,381)