



**Q1 2020  
EARNINGS PRESENTATION  
NASDAQ: HEAR**

May 7, 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. 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 including the impact of the global 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, 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

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 each of the three months ended March 31, 2020 and 2019.

# **TURTLE BEACH EARNINGS**

## **Q1 2020 SUMMARY**

Net revenue of **\$35.0M** (\$35.1M constant currency)

Gross margin of **30.8%**

Net loss of **\$3.6M**, or **\$(0.25)** per diluted share

Adjusted EBITDA of **\$(2.7)M**

Cash & cash equivalents of **\$8.7M**

Healthy balance sheet with **no 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



### TURTLE BEACH EXPANDS PARTNERSHIP WITH NRG ESPORTS

A top esports organization fielding some of the best professional teams and players across Apex Legends, Call of Duty, Fortnite, Rocket League, and more, this partnership now sees Turtle Beach as NRG's official gaming audio partner across multiple teams and players, and adds ROCCAT as the official gaming accessories partner.



### PRO FORTNITE PLAYER "MRSavage" RENEWS LONGSTANDING PARTNERSHIP WITH ROCCAT

ROCCAT continues its ongoing partnership with 2020 Dreamhack Anaheim Fortnite Champion, Martin "MrSavage" Foss Andersen. The 15-year-old phenom is already one of the most successful Fortnite players in the world. His stream reaches 1.2 million users worldwide and has over 80 million total views on his popular YouTube channel.

# WHAT'S NEW

## LATEST FROM TURTLE BEACH & ROCCAT



### ROCCAT X DR DISRESPECT NEW EXCLUSIVE PARTNER FOR PC ACCESSORIES

ROCCAT has become the exclusive keyboard, mouse, and mousepad provider for Dr Disrespect as he brings his signature irrepressible approach to gamers around the world on his widely viewed Twitch channel. Dr Disrespect was named Streamer of the Year twice (2019, 2017) by the Esports Awards and has over 4.2 million followers with over 174 million total views on his Twitch channel.



### 10 YEARS AT THE TOP

Turtle Beach has been the top console gaming headset maker for 10...years...running<sup>1</sup>. Final 2019 NPD revenue data, combined with NPD monthly revenue data since January 2010 shows Turtle Beach has sold over 40 million console gaming headsets in the United States and Canada, placing it atop the lists for both the number of units sold and the total revenue generated over the decade.

1. Source: The NPD Group/Retail Tracking Service/Video Games/Units/US/Jan 2010-Dec 2019

# WHAT'S NEW

## LATEST FROM TURTLE BEACH & ROCCAT



### BEST-SELLING RECON 70 NOW AVAILABLE IN MORE COLORS

Three new colorways – Silver, Blue Camo, and Green Camo – of Turtle Beach's best-selling<sup>1</sup> Recon 70 gaming headset now make nine total options to choose from, each one delivering the immersive sound and lightweight comfort gamers expect. High-quality audio, features, and functionality all for a MSRP of \$39.95 make the Recon 70 an easy choice for gamers looking for a new, affordable headset.



### WELCOME CHICAGO HUNTSMEN TO THE FAMILY

Owned by NRG Esports, this new partnership with the Chicago Huntsmen CDL Franchise continues the years-long collaboration between Turtle Beach and Hector "H3CZ" Rodriguez, which began with Hector's first gaming headset back in 2010 and was officially inaugurated in 2016 via partnership with OpTic Gaming, resulting in multiple world championships in Gears of War, Halo and Call of Duty.

1. Source: The NPD Group/Retail Tracking Service/Video Games/Units/US/Jan-Dec 2019 update

# QUARTERLY FINANCIAL OVERVIEW



\$ in millions (except per-share data)	2019 Q1	2020 Q1	Commentary
Revenue	\$44.8	\$35.0 (S\$35.1 constant currency)	Decline versus 2019 as expected given unusually strong Q1 2019 from battle royale & strong Q4 2018 triple-A games; slightly offset by record-setting market surge in March 2020 due to COVID-19 stay-at-home orders.
Gross Margin	33.0%	30.8%	Anticipated decline reflects impact of tariffs & reduced volume-based fixed cost leverage, partially offset by a more favorable business mix.
Operating Expenses	\$13.0	\$15.8	Inclusion of costs associated with the ROCCAT acquisition (completed May 2019).
Adjusted EBITDA <sup>1</sup>	\$4.3	\$(2.7)	Reflects above factors.
Net Income (Loss)	\$3.1	\$(3.6)	Reflects above factors.
Diluted EPS	\$0.09	\$(0.25)	Reflects above factors; 14.5M weighted average diluted shares in Q1-20 vs. 16.3M in Q1-19.
Adjusted Diluted EPS <sup>1</sup>	\$0.13	\$(0.23)	Excludes ROCCAT integration expenses in both periods & gain on financial instrument obligation in Q1-19; 14.5M weighted average diluted shares in Q1-20 vs. 16.3M in Q1-19.

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

# BALANCE SHEET



Capitalization			Balance Sheet Improvements
	At 3-31-19	At 3-31-20	
Cash & Equivalents	\$10.2M	\$8.7M	<ul style="list-style-type: none"> <li>• ROCCAT purchase price of \$12.7M funded with cash and borrowings under revolver in 2019.</li> <li>• Inventory decline driven by Q1 '20 revenue trends.</li> <li>• Repurchased 271,300 shares for \$2.5M, or average of \$9.30 per share since April 2019.</li> </ul>
Inventories	\$44.5M	\$39.3M	
Revolver (asset-based)	\$0.0M	\$0.3M	
<b>Total Debt</b>	<b>\$0.0M</b>	<b>\$0.3M</b>	
<b>Leverage Ratio<sup>1</sup></b>	<b>0.0x</b>	<b>0.5x</b>	

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

# GEN 8 CONSOLE LAUNCH INFORMATION



Gen 7 Xbox (Nov 2013)



Gen 8 Xbox (2020)



Gen 7 PlayStation (Nov 2013)



Gen 8 PlayStation (2020)

## **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 (to be confirmed, headset required)
- Project xCloud game streaming service

## **PlayStation 5/PS5** (announced April 2019)

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

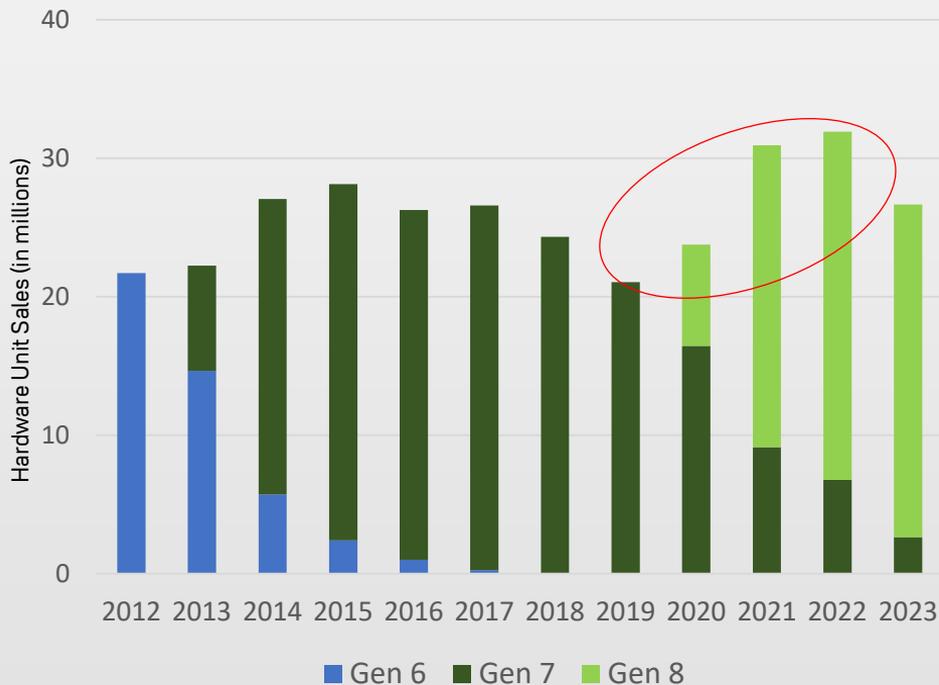
**Price:** \$499

- Backward compatibility (will be available majority of PS4 Games)
- Major power increase/faster game access/reduced load times
- Will support up to 8K resolution
- 3D Spatial Sound (headset required)
- PlayStation Now streaming/focus on AAA titles

# XBOX AND PLAYSTATION CONSOLE OUTLOOK \*



## 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.

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. The charted DFC forecasts are pre-COVID and our above commentary reflecting typical console transition market patterns could be impacted by both the current surge in gaming sales as well as the future economic outlook.

# Q2 2020 OUTLOOK<sup>1</sup>



	Q2-2020	Q2 Commentary
<b>Net Revenue</b>	\$42-\$47M	Stay-at-home orders due to COVID-19 driving strong demand into Q2.
<b>Gross Margin</b>	~30%	Air freight to meet increased Q2 '20 demand, tariff costs, higher tooling & certifications associated with new product development.
<b>Adj. EBITDA</b>	\$(2.0)-\$0	Above factors. Q2 '20 OpEx includes a full quarter of ROCCAT expenses & incremental marketing investments in PC brand & product development.
<b>Diluted Shares</b>	~14.5M	
<b>GAAP EPS</b>	\$(0.27)-\$(0.17)	Reflects above factors including growth investments.
<b>Adj. EPS</b>	\$(0.24)-\$(0.14)	Reflects above factors, excludes ROCCAT transaction & integration costs net of tax impact.

1. Guidance provided on May 7, 2020.

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



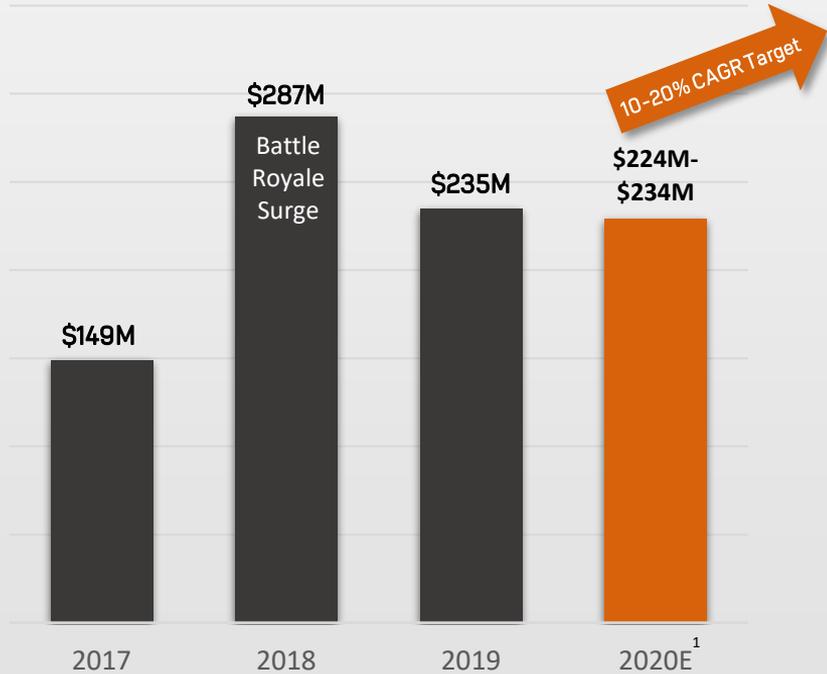
	2020 – Prior	2020 - Updated	2020 Updated Commentary
<b>Net Revenue</b>	\$214-\$224M	<b>\$224-\$234M</b>	Anticipate a decline in the overall console headset market until expected pre-holiday launch of new consoles, partially offset by increased demand resulting from stay-at-home orders.
<b>Gross Margin</b>	Low 30%s	<b>Low 30%s</b>	Increased air freight, tariff costs & impact of tooling & certification costs for new product development.
<b>Adj. EBITDA</b>	\$5M-\$10M	<b>\$9M-\$14M</b>	Includes ~\$9M investment to expand PC product portfolio, continue ROCCAT brand development & expansion into new geographies.
<b>Diluted Shares</b>	~15M	~15M	
<b>GAAP EPS</b>	\$(0.46)-\$(0.13)	<b>\$(0.22)-\$0.03</b>	Reflects above factors, also anticipates modest provision for income taxes due to various taxes in certain jurisdictions.
<b>Adj. EPS</b>	\$(0.45)-\$(0.12)	<b>\$(0.16)-\$0.09</b>	Reflects above factors, excludes ROCCAT transaction & integration costs, also anticipates modest provision for income taxes due to various taxes in certain jurisdictions.

1. Guidance updated on May 7, 2020.

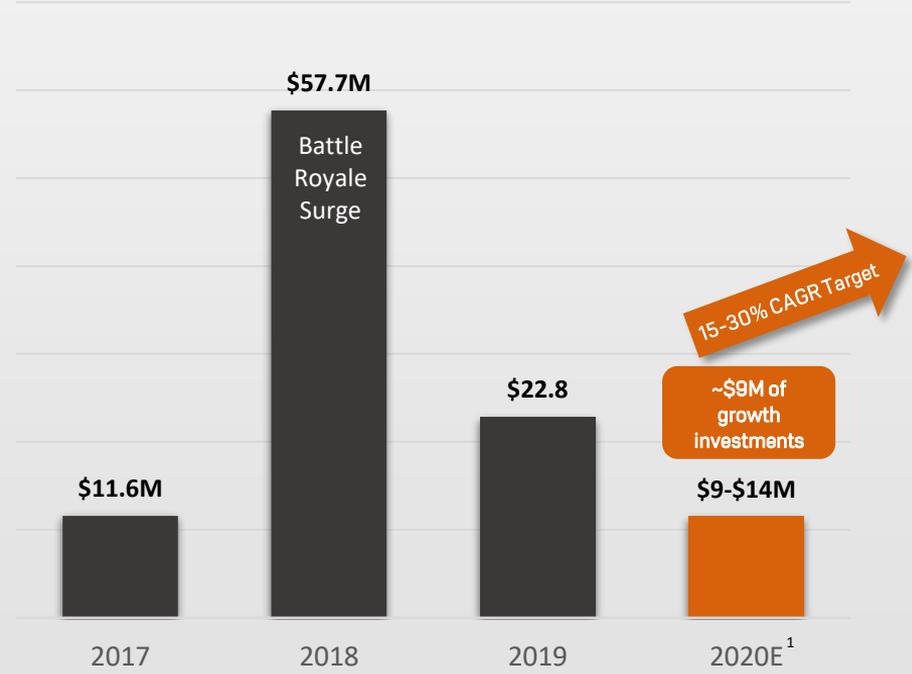
# REVENUE & ADJUSTED EBITDA PROFILE



**Company Revenues**  
Millions



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



1. Guidance updated on May 7, 2020.

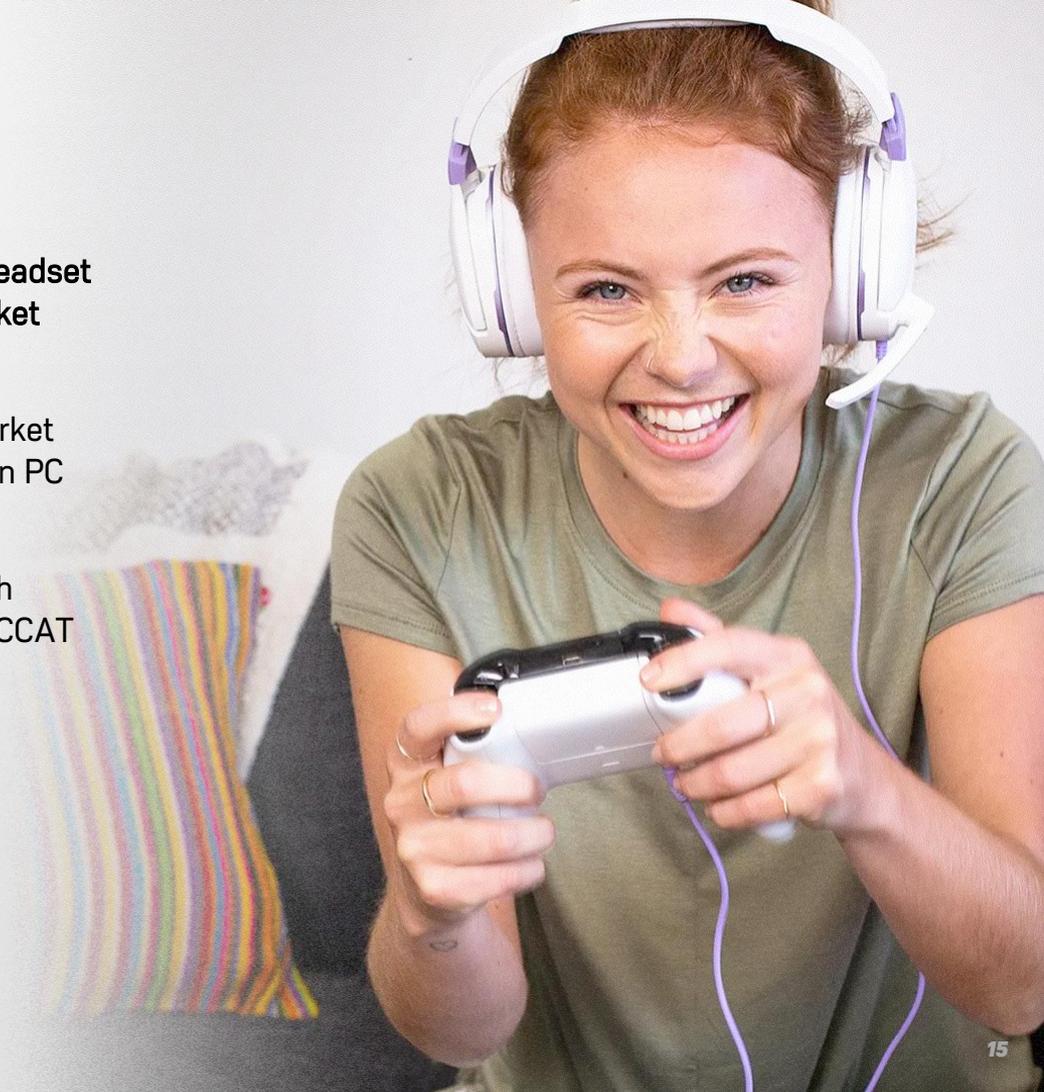
2. See appendix for a reconciliation of non-GAAP measures.

# **TURTLE BEACH EARNINGS**

## **SUMMARY KEY TAKEAWAYS**

- Continued **leadership** in the **\$1.3B<sup>1</sup> console gaming headset market** with tenth consecutive year of **over 40% market share**
- Added capability to fully pursue **growth in \$3.0B<sup>1</sup> market for PC accessories** with acquisition of leading German PC gaming accessory maker ROCCAT
- **Investing to drive future PC share** and revenue growth by expanding PC portfolio and further 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



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# ***APPENDIX***



# GAAP NET INCOME TO ADJUSTED NET INCOME RECONCILIATION

## THREE MONTHS ENDED MARCH 31<sup>ST</sup>



	Three Months Ended	
	March 31, 2020	March 31, 2019
<u>Net Income (Loss)</u>		
GAAP Net Income (Loss)	\$ (3,555)	\$ 3,055
Adjustments, net of tax:		
Gain on financial instrument obligation	—	(1,601)
Acquisition integration costs	175	721
Non-GAAP Earnings	<u>\$ (3,380)</u>	<u>\$ 2,175</u>
Diluted Earnings Per Share		
GAAP- Diluted	\$ (0.25)	\$ 0.09
Gain on financial instrument obligation	—	—
Acquisition integration costs	0.02	0.04
Non-GAAP- Diluted	<u>\$ (0.23)</u>	<u>\$ 0.13</u>

# GAAP TO ADJUSTED EBITDA RECONCILIATION

## THREE MONTHS ENDED MARCH 31, 2020



	Three Months Ended March 31, 2020					
	As Reported	Adj Depreciation	Adj Amortization	Adj Stock Compensation	Other <sup>(1)</sup>	Adj EBITDA
Net revenue	\$ 35,007	\$ -	\$ -	\$ -	\$ -	\$ 35,007
Cost of revenue	24,222	(590)	-	(58)	-	23,574
<b>Gross Profit</b>	<b>10,785</b>	<b>590</b>	<b>-</b>	<b>58</b>	<b>-</b>	<b>11,433</b>
Operating expenses	15,798	(443)	(222)	(941)	(281)	13,911
<b>Operating income (loss)</b>	<b>(5,013)</b>	<b>1,033</b>	<b>222</b>	<b>999</b>	<b>281</b>	<b>(2,478)</b>
Interest expense	169					
Other non-operating expense (income), net	197				(21)	176
Income (loss) before income tax	(5,379)					
Income tax benefit	(1,824)					
<b>Net loss</b>	<b>\$ (3,555)</b>					<b>Adjusted EBITDA \$ (2,654)</b>

1. Other includes certain business acquisition costs and change in fair value of contingent consideration.

# GAAP TO ADJUSTED EBITDA RECONCILIATION

## THREE MONTHS ENDED MARCH 31, 2019



Three Months Ended  
March 31, 2019

	As Reported	Adj Depreciation	Adj Amortization	Adj Stock Compensation	Other <sup>(1)</sup>	Adj EBITDA
Net revenue	\$ 44,846	\$ -	\$ -	\$ -	\$ -	\$ 44,846
Cost of revenue	<u>30,059</u>	<u>(352)</u>	<u>-</u>	<u>125</u>	<u>-</u>	<u>29,832</u>
<b>Gross Profit</b>	<b>14,787</b>	<b>352</b>	<b>-</b>	<b>(125)</b>	<b>-</b>	<b>15,014</b>
Operating expenses	<u>12,986</u>	<u>(688)</u>	<u>(62)</u>	<u>(647)</u>	<u>(780)</u>	<u>10,809</u>
<b>Operating income</b>	<b>1,801</b>	<b>1,040</b>	<b>62</b>	<b>522</b>	<b>780</b>	<b>4,205</b>
Interest expense	244					
Other non-operating expense (income), net	<u>(1,662)</u>				1,601	<u>(61)</u>
Income before income tax	3,219					
Income tax expense	<u>164</u>					
<b>Net income</b>	<b><u>\$ 3,055</u></b>				<b>Adjusted EBITDA</b>	<b><u>\$ 4,266</u></b>

1. Other includes certain business acquisition costs and a gain (loss) on financial instrument obligation.

# 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>