



**Q2 2018**  
**Earnings Presentation**

August 6, 2018

## 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”, “would”, “should”, “believe”, “expect”, “anticipate”, “plan”, “estimate”, “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 Company’s liquidity, 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, 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 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. The Adjusted EBITDA outlook for the third quarter and full year of 2018 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.

## Q2 SUMMARY

*Comparisons to prior year quarter, where applicable*

- Q2 net revenue, EPS, adj. EBITDA **significantly exceed outlook and set record** for Q2 since becoming public in 2014
- Net revenue **increased 218%** to \$60.8M from \$19.1M
- Gross margin **increased 30** basis points to 33.3% from 33.0%
- Net income up significantly to **\$6.3M** from net loss of \$7.1M
- EPS up significantly to \$0.40 per diluted share versus loss of \$0.57 per share
- Adj. EBITDA **increased \$12.6M** to \$9.8M vs. \$(2.8)M
- Leverage ratio<sup>1</sup> **improved to 0.7x** vs. 6.8x one year ago



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

# BATTLE ROYALE GAMES DRIVING HEADSET USAGE

- Fun, new, highly social game play format attracting millions of players
- Social aspect and survival advantage driving headset usage
- Fortnite® also attracting younger players and more female gamers



- Console headset sell-through up ~86% through June vs. 2017 (TB up ~112%)<sup>1</sup>
- New players increase installed base of headset users
- Other franchises likely to add Battle Royale format

Fortnite® Game Image

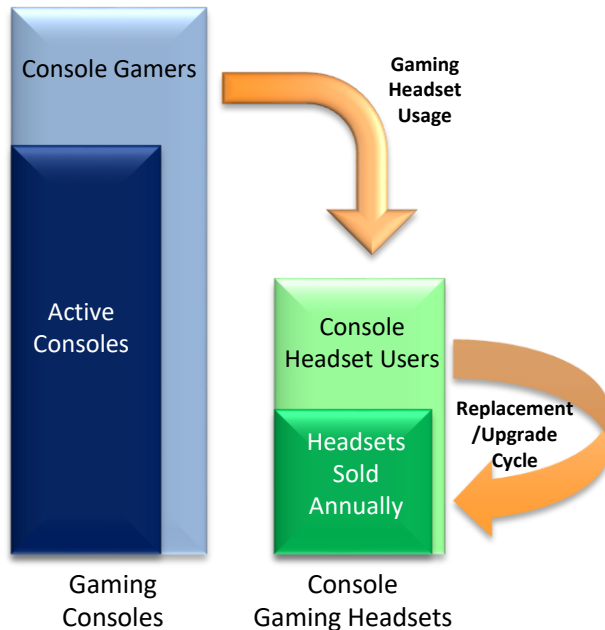


1) The NPD Group/Retail Tracking Service/Video Games/Dollars/U.S. & Canada/January-June 2018  
Fortnite is a registered Trademark of Epic Games, Inc.

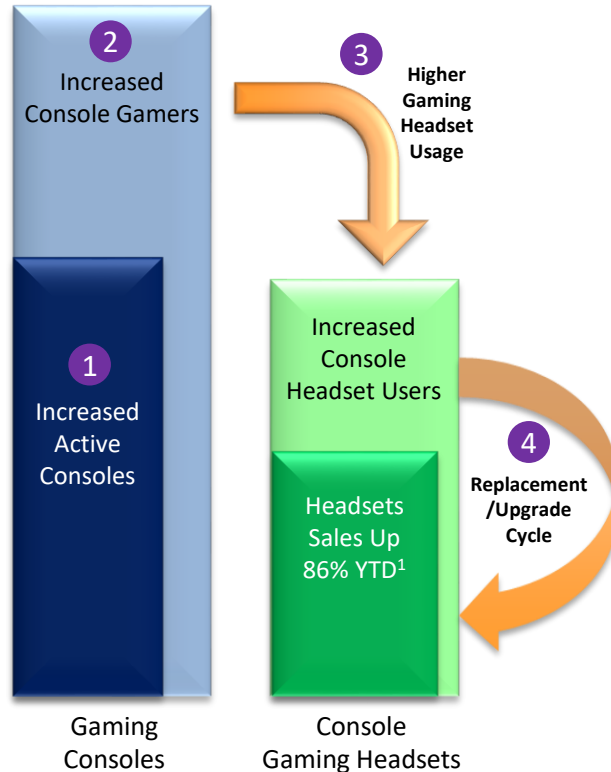
# BATTLE ROYAL IMPACT ON GAMING HEADSETS – VISUAL MODEL



## Pre-Battle Royale Impact



## Battle Royale Impact



- 1 Larger, growing installed base of consoles including Switch with new Fortnite-enabled chat
- 2 Significantly more console gamers have been added with increased average gamers per console as well
- 3 Current ~80% headset usage rate for Battle Royal is increasing overall rate
- 4 Survey data also suggests upgrades/replacements may happen sooner and/or more frequently

More gamers, using headsets at a much higher rate, are driving 86% increase in headset sales YTD¹

As long as the new gamers keep using headsets, market expected to be larger from replace/upgrade

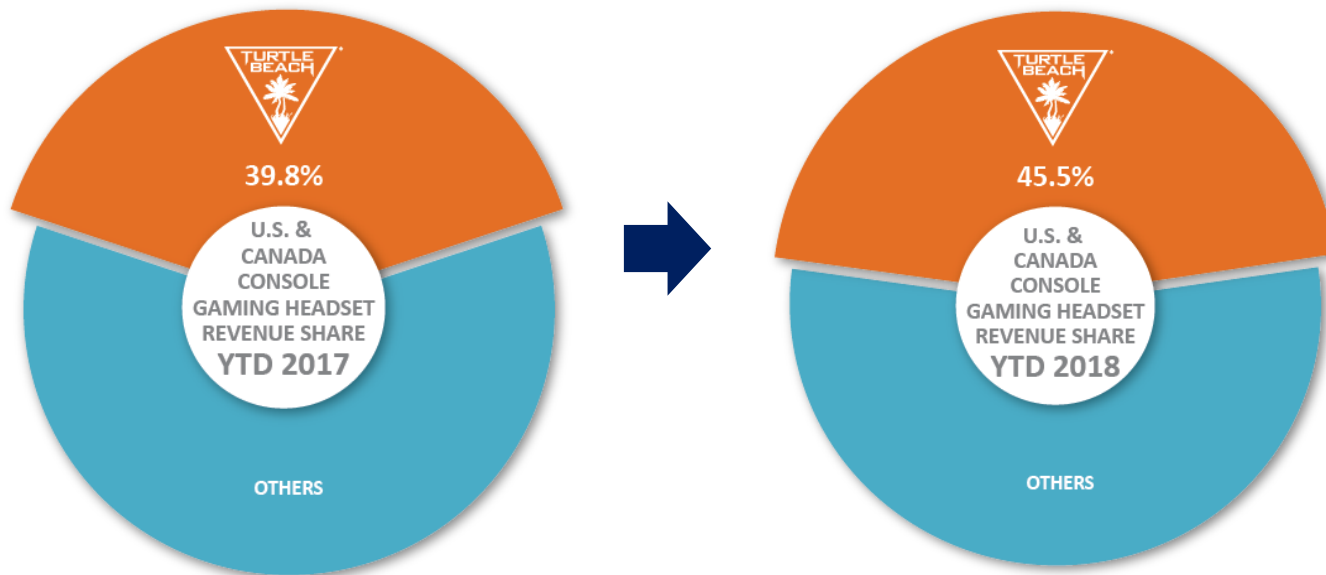
New platforms using chat, like Switch and mobile, could drive further increase over time

1) US and Canada NPD Console Gaming Headset sell through data, January through June 2018.

# CONSOLE GAMING HEADSET REVENUE SHARE



US and Canada NPD Retail Sales Revenue – January to June 2017 vs. January to June 2018



**Turtle Beach  
revenue  
share up to  
45.5% from  
39.8%**

**Turtle Beach  
YTD 2018  
share more  
than the next  
4 competitors  
combined**



# FULL LINE OF PRODUCTS...WITH COMPELLING RECENT LAUNCHES

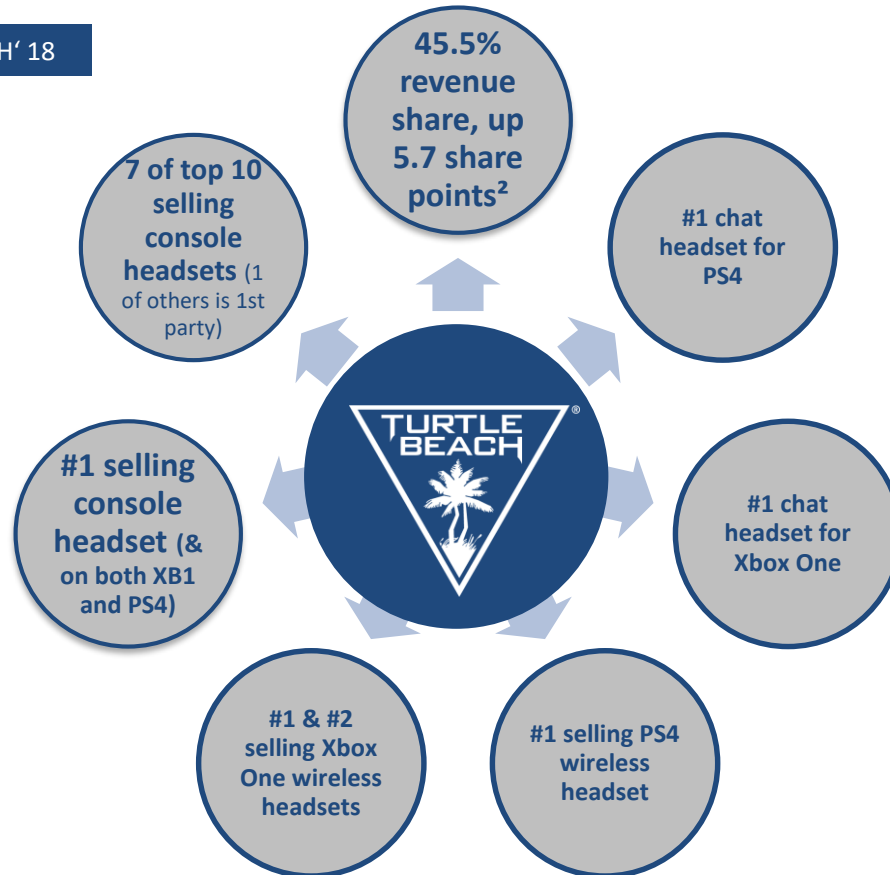


	ASP	Sample Products	TB Key Features	
<b>Esports</b>	Varies		<p>Launched July &amp; Oct. 2017</p> <ul style="list-style-type: none"> <li>Tournament-grade game &amp; chat audio</li> <li>Unmatched comfort with glasses friendly design &amp; cooling gel-infused ear cushions</li> <li>Powerful amplified audio w/DTS® Headphone:X® 7.1 surround sound and Superhuman Hearing™ (PC Edition)</li> </ul>	
<b>Core Gamer</b> 16+ hours per week	> \$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> 7-15 hours per week	\$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>ProSpecs™ glasses friendly design</li> <li>Superhuman Hearing™</li> </ul>	
<b>Casual Gamer</b> 4-6 hours per week	\$50 - \$100		<p>Stealth 300 Launched July '18</p> <p>Recon 200 Launches Sept. '18</p> <ul style="list-style-type: none"> <li>Powerful amplified audio and mic-monitoring</li> <li>Improved build quality with metal-reinforced headbands</li> <li>Memory foam ear cushions</li> <li>ProSpecs™ glasses friendly design (Stealth 300 only)</li> <li>40+ hour rechargeable battery (Stealth 300 only)</li> </ul>	
<b>Entry-Level Gamer</b> < 4 hours per week	< \$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>SpecsFit™ glasses friendly design</li> </ul>	

# PERFORMANCE OF CURRENT PORTFOLIO<sup>1</sup> - FIRST HALF 2018



US and Canada NPD Sell-Through 1H' 18



## Additional wins

- All Top 5 selling headsets were Turtle Beach
- TB total rev is bigger than next 4 competitors combined
- TB total rev is greater than all other 3rd parties combined

1) The NPD Group/Retail Tracking Service/Video Games/Dollars/U.S. & Canada/Jan -June 2018

2) The NPD Group/Retail Tracking Service/Video Games/Dollars/U.S. & Canada/Jan -June 2018 vs. Jan-June 2017



# KEY ESPORTS PARTNERSHIPS



We partner with top esports organizations around the world, including multiple world and major championship winning teams...



...and work with some of the biggest names in gaming to deliver cutting-edge performance to gamers, top athletes and rising esports stars:



GG Esports  
Academy

Turtle Beach  
Elite Performance Division

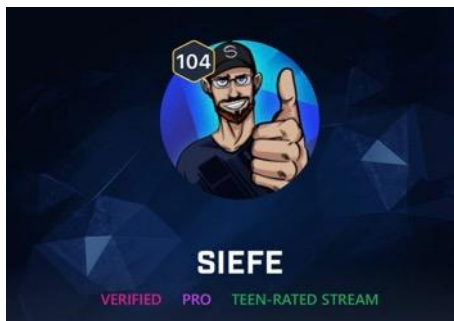


# TOP INFLUENCERS ACROSS POPULAR PLATFORMS

We also partner with a hand picked group of top streamers and gaming influencers in the world, including:



**YouTube** Ali-A (14+ Million Subs)



**mixer** Siefe (#1 on Mixer)



**twitch** Dr DisRespect (Face of Twitch)



**twitch** Castro\_1021 (#1 FIFA Streamer)



**YouTube** OpTic Pamaj (3+ Million Subs)



**mixer** Archonaut (Top 5 on Mixer)

# QUARTERLY FINANCIAL OVERVIEW

	2017	2018	YOY Δ	Commentary
\$ in millions (except per share data)	Q2	Q2		
<b>Revenue</b>	<b>\$19.1</b>	<b>\$60.8</b>	<b>218%</b>	Fortnite & PUBG driving strong market growth plus Turtle Beach market share gains YoY
<b>Gross Margin</b>	<b>33.0%</b>	<b>33.3%</b>	<b>30bps</b>	Includes ~\$4M in expedited air freight (~\$2.8M incremental shipping) to meet demand
Operating Expenses	\$11.3	\$12.0	7%	Increases in revenue-driven sales expenses and marketing spend
Operating Income (Loss)	\$(5.0)	\$8.3	\$13.3M	
GAAP Net Income (Loss)	\$(7.1)	\$6.3	\$13.4M	
<b>GAAP EPS Diluted</b>	<b>\$(0.57)</b>	<b>\$0.40</b>	<b>\$0.97</b>	Revenue & margin drivers noted above
<b>Adj. EBITDA<sup>1</sup></b>	<b>\$(2.8)</b>	<b>\$9.8</b>	<b>\$12.6M</b>	Revenue & margin drivers noted above

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

## Lending Agreements

- Amended lending agreements on March 5, 2018
- Improved terms include:
  - Extension of the loans' maturity to 2023
  - Reduction in the interest rate and greater availability on revolving credit line
  - Significant reduction in the interest rates on term loans (rate reduced by 3.5%)
  - Reduction in the interest rate on sub debt with Stripes (majority reduced by 1.4%)
  - Ability to use funds from additional borrowing under the term loan to reduce sub debt
  - Streamlining of reporting requirements and elimination of certain financial covenants
- **Interest savings of at least \$3.5M expected over the next five years**

## Series B Preferred Stock

- On Apr 27, 2018, all outstanding 8% Series B Preferred Stock, with redemption value of ~\$19.3M at 3/31/18, was retired
  - Retired a liability growing 8% at a discount >50% relative to redemption value
  - Represented ~41% of Turtle Beach long-term debt and preferred stock
- The Special Situations Funds and 180 Degree Capital Corp purchased the Series B Preferred Stock and subsequently exchanged for ~1.3M newly issued shares of common stock and pre-funded warrants exercisable for 550,000 shares of common stock
- Expected to result in a significant reduction in non-cash interest expense going forward

## Debt Paydown Subsequent to Q2

- **Turtle Beach paid down \$5M of its subordinated notes on 8/3/18 using cash on hand**

## Capitalization – End of Q2

	At 6-30-17	At 6-30-18
<b>Cash &amp; Equivalents</b>	<b>\$1.2M</b>	<b>\$9.1M</b>
Debt		
Revolver (asset-based)	\$5.2M	–
Term Loans	\$12.9M	\$11.8M
Subordinated Notes	\$19.3M	\$19.1M
<b>Total Debt</b>	<b>\$37.4M</b>	<b>\$30.9M</b>
Series B Preferred Stock <sup>1</sup>	\$18.2M	–
<b>Leverage Ratio<sup>2</sup></b>	<b>6.8x</b>	<b>0.7x</b>

## Balance Sheet Highlights

- \$13.1M increase YoY in net cash and revolver
- Renegotiated term loans and sub-debt in March, reducing interest rates and eliminating certain covenants
- Extended maturity of term loans, sub-debt, and working capital line to 2023 in March
- Retired Series B Preferred Stock in April in exchange for shares/warrants at >50% discount
- Subsequent to Q2-2018, paid down \$5M in subordinated notes from in August

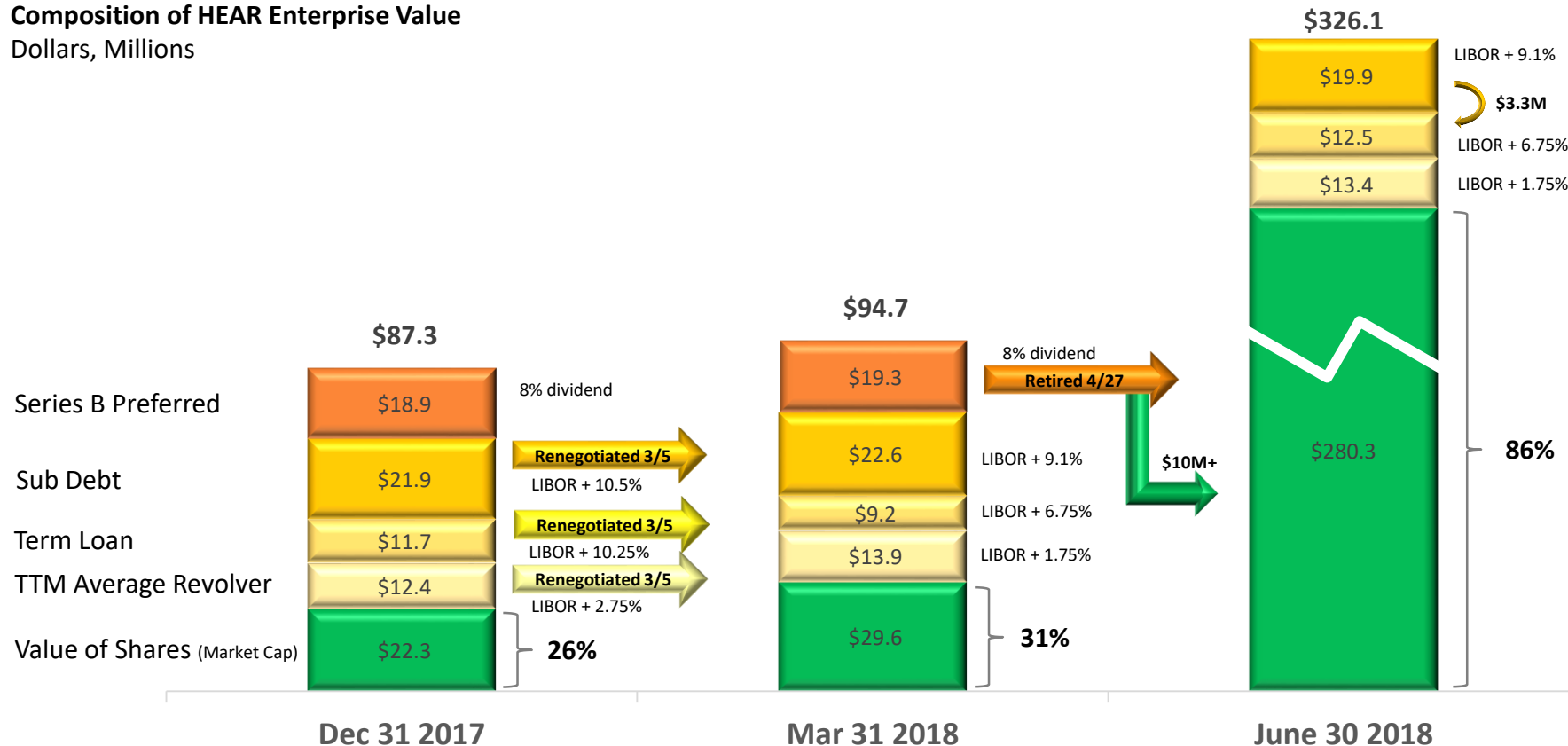
1) Retired in April 2018. See slide 12.

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

# EVOLUTION OF ENTERPRISE VALUE

## Composition of HEAR Enterprise Value

Dollars, Millions





	Q3-17	Q3-18 <sup>1</sup>	YoY Δ	Year-Over-Year Commentary & Assumptions
<b>Revenue</b>	\$36M	~\$65M	81%	Market share gains and continued consumer demand
<b>EPS</b>	\$(0.04)	~\$0.44	+\$0.48	Revenue drivers result in significant expected YoY increase
<b>Adj. EBITDA</b>	\$3.3M	~\$11M	+\$7.7M	Revenue drivers result in significant expected YoY increase

# INCREASED 2018 OUTLOOK

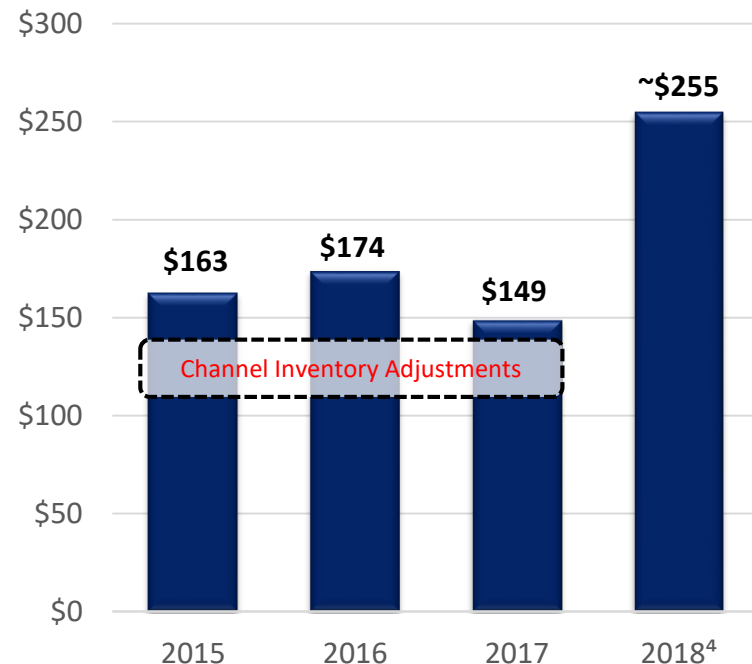
	2017	2018 Prior <sup>1</sup>	2018 <sup>2</sup>	YoY Δ	Year-Over-Year Commentary & Assumptions
<b>Total Revenue</b>	\$149.1M	~\$205M	~\$255M	71%	Continued market growth driven by Battle Royale format
<b>Gross Margin</b>	34.2%	~34.2%	~35%	~80 bps	Fixed cost leverage due to higher sales partially offset by incremental expedited freight costs
<b>EPS</b>	\$(0.26)	~\$0.95	\$1.95	+2.21	Driven by healthy overall market and market share growth
<b>Adj. EBITDA</b>	\$11.6M	~\$26M	~\$45M	288%	Includes several million dollars of anticipated investments to drive future growth

1) Prior guidance as of May 9, 2018.

2) Revised guidance effective on August 6, 2018.

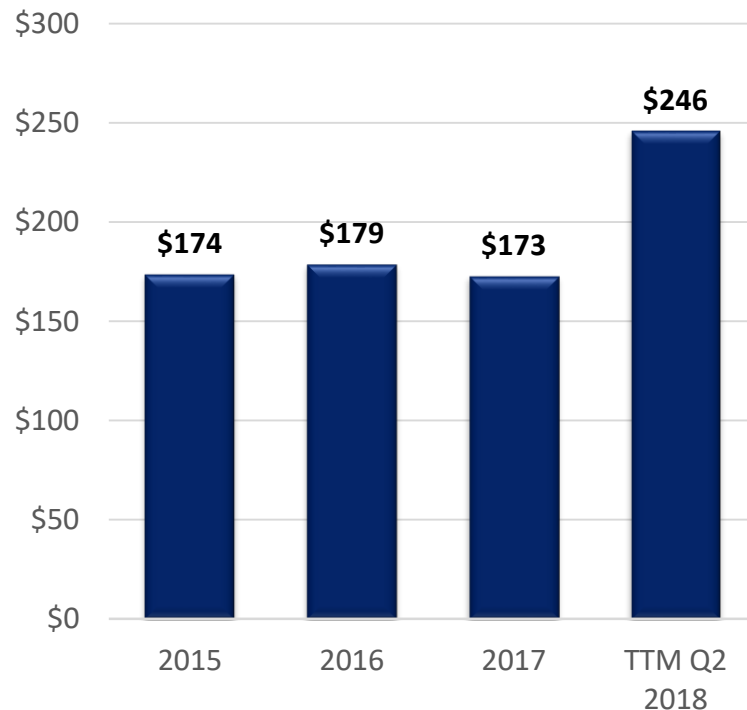
## Company Revenues <sup>(1)</sup>

Millions



## Company Product Retail Sell-Through in US & Canada Markets <sup>(2)</sup>

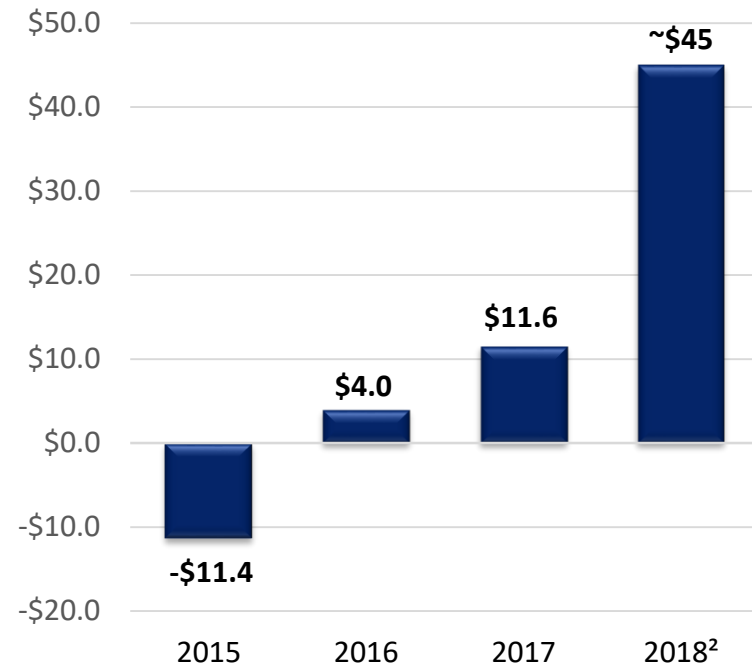
Millions



- 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 and Trailing Twelve Months July 2017-June 2018.
- 3) Guidance effective on August 6, 2018.

## Adjusted EBITDA <sup>(1)</sup>

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 company for improved balance sheet and loan terms. Laid groundwork for 2018+ growth initiatives.

### 2018:

Continue to deliver increased profitability in headset business. Lower cost of debt. Make select investments to drive future growth.

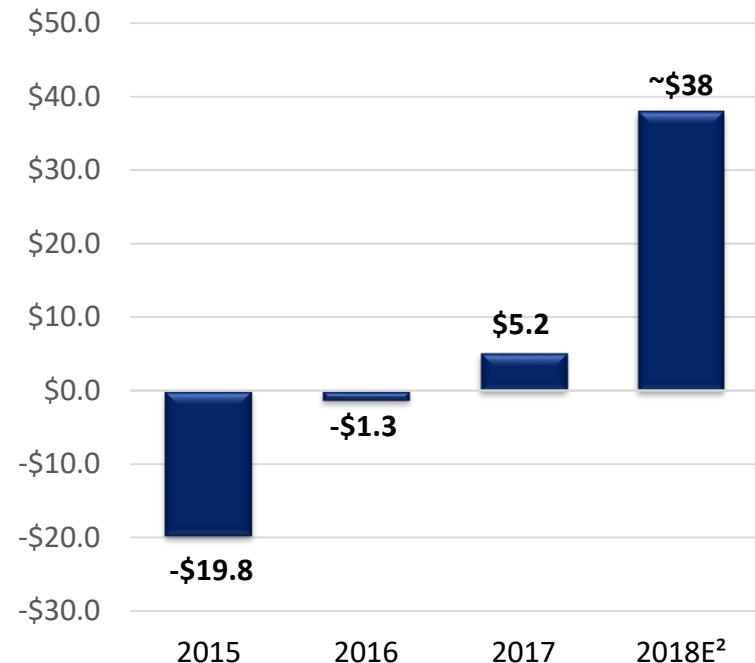
1) See appendix for a reconciliation of non-GAAP measures.

2) Guidance effective on August 6, 2018.

# STRONG FREE CASH FLOW GROWTH

## Free Cash Flow<sup>1</sup>

Millions



## Strong free cash flow generation...

- Positioned the company to amend and improve debt agreements March 2018
- Expected to allow growth investments and debt reductions

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

2) Guidance effective on August 6, 2018.

## KEY TAKEAWAYS

- Record Q2 results, significantly exceeded outlook
- Strong market share gains in a healthy overall market
- Competing in the largest portion (~50%) of a >\$2B global market in gaming peripherals
- Substantial balance sheet improvements expected to result in material interest expense reductions
- Leveraging our leadership position and strong 2018 outlook to invest in growth opportunities like eSports and PC gaming
- Significant increase to full-year outlook





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## COMPANY WEBSITES

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

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

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



TURTLE  
BEACH

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## APPENDIX

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# 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	Adj EBITDA
Net revenue	\$ 60,805	\$ —	\$ —	\$ —	\$ 60,805
Cost of revenue	40,528	(110)	—	(313)	40,105
<b>Gross profit</b>	<b>20,277</b>	<b>110</b>	<b>—</b>	<b>313</b>	<b>20,700</b>
Operating expense	12,008	(1,146)	(77)	(286)	10,499
<b>Operating income (loss)</b>	<b>8,269</b>	<b>1,256</b>	<b>77</b>	<b>599</b>	<b>10,201</b>
Interest expense	1,258				
Other non-operating expense, net	410				410
Income (loss) before income tax	6,601				
Income tax expense	300				
<b>Net income (loss)</b>	<b>\$ 6,301</b>			<b>Adjusted EBITDA</b>	<b>\$ 9,791</b>

# GAAP TO ADJUSTED EBITDA RECONCILIATION – THREE MONTHS ENDED JUNE 30, 2017



	Three Months Ended					
	June 30, 2017					
	As Reported	Adj Depreciation	Adj Amortization	Adj Stock Compensation	Other (1)	Adj EBITDA
Net revenue	\$ 19,112	\$ —	\$ —	\$ —	\$ —	\$ 19,112
Cost of revenue	12,811	(193)	—	1	—	12,619
<b>Gross profit</b>	<b>6,301</b>	<b>193</b>	<b>—</b>	<b>(1)</b>	<b>—</b>	<b>6,493</b>
Operating expense	11,266	(1,251)	(86)	(432)	30	9,527
<b>Operating income (loss)</b>	<b>(4,965)</b>	<b>1,444</b>	<b>86</b>	<b>431</b>	<b>(30)</b>	<b>(3,034)</b>
Interest expense	1,835					
Other non-operating income, net	(214)					(214)
Income (loss) before income tax	(6,586)					
Income tax expense	475					
<b>Net income (loss)</b>	<b>\$ (7,061)</b>					
				<b>Adjusted EBITDA</b>	<b>\$ (2,820)</b>	

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