



Turtle Beach 4Q14 Business and Earnings Report



March 16, 2015



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This presentation includes “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, for example, statements regarding benefits of the recently completed merger, integration plans, expected synergies, market opportunities, future products and anticipated future financial and operating performance and results, including estimates for growth. There are a number of risks and uncertainties that could cause actual results to differ materially from the forward-looking statements made herein. A discussion of some of these risks and uncertainties that could cause Turtle Beach Corporation’s results to differ materially from those described in the forward-looking statements can be found in the section entitled “Risk Factors” in Turtle Beach’s most recent Quarterly Report on Form 10-Q and other periodic reports filed with the SEC and available on the SEC’s website, 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. Turtle Beach Corporation undertakes no obligation to publicly release any revision to its forward-looking statements to reflect events or circumstances after the date of this presentation. This presentation also contains trademarks and trade names that are property of their respective owners.

Business Highlights & Developments



- Increased fourth quarter net revenue over 2013 by 7% to \$92.3 million.
- Increased full year 2014 net revenue over 2013 by 4% to \$186.2 million.
- Grew full year 2014 European revenues by 19%.
- Produced eight of the top 10 gaming headsets when measured by dollar share in the U.S. during the fourth quarter.
- Produced four of the top five Xbox One headsets when measured by unit share in the U.S. during the fourth quarter.
- Decreased net debt by 37% year-over-year to \$36.7 million at December 31, 2014.
- Replaced subordinated debt with lower cost financing.
- Further increased intellectual property asset base to 35 patents issued and 86 patents pending.

Financial Summary: P&L



Revenue

- Q4 revenue increased 7.1% year-over-year to \$92.3 million driven by strong consumer demand in the U.S. and Europe for our portfolio of Xbox One and PlayStation 4 compatible headsets.
- Full year 2014 revenue increased 4.3% to \$186.2 million driven by strong consumer demand in the U.S. and Europe for our portfolio of Xbox One and PlayStation 4 compatible headsets, partially offset by declines in previous generation headsets as the user bases for Xbox 360 and PlayStation 3 have fallen off more rapidly than predicted.

Gross Margin

- Q4 gross margin rate was 28.0% compared to 31.0% last year. Excluding ~\$1.5 million in incremental shipping costs due to West Coast port delays and a \$1.5 million write-off of some legacy contracts, gross margin for Q4 was roughly flat to 2013.
- Full year 2014 gross margin rate was 27.2% compared to 28.2% in 2013. Excluding non-recurring Microsoft adapter expenses of ~\$2.5 million, ~\$1.5 million in port delay related shipping costs and, \$1.5 million legacy contract write-off, gross margin improved 300 basis points to just over 30%.

Financial Summary: P&L - continued



Net Income (Loss)

- Consolidated Q4 Net income was \$2.4 million compared to net income of \$0.9 million in the same period a year ago. Excluding restructuring charges of \$0.7 million, fourth quarter 2014 net income was \$3.1 million.
- Consolidated Net loss for 2014 was (\$15.5) million compared to (\$6.2) million in fiscal 2013. Excluding restructuring charges and business transaction costs, 2014 net loss was (\$11.0) million.

Adjusted EBITDA

- Q4 adjusted EBITDA for the headset business was approximately \$13.5 million compared to \$15.1 million in the same period a year ago.
- Full year 2014 adjusted EBITDA for the headset business was \$12 million compared to \$13.9 million in 2013.
- The above declines were driven by the unusual adapter and shipping costs as discussed, partially offset by higher margins in the headset business.

Financial Summary: Balance Sheet



	As of 12/31/13 ⁽¹⁾		As of 12/31/14
Liquidity			
Cash & Equivalents	\$6.5mm	➔	\$7.9mm
Borrowings Available	\$0.0		\$15.0mm
Debt	\$64.6mm	➔	\$44.6mm
Revolver	\$39.7M	➔	\$36.9mm
Term Loan	\$14.5M	➔	\$7.7mm
Subordinated Notes	\$10.3M	➔	\$0.0

Highlights:

- Signed new global \$60M working capital line with Bank of America on March 31, 2014
- Raised net proceeds of \$35.6 million through common stock offering in April 2014
- Replaced remaining ~\$7.5 million of subordinated notes with lower cost financing in December 2014
- Cash, cash equivalents and available borrowings increased \$12.9 million to \$22.9 million at 12/31/14
- Outstanding debt decreased 31% or \$20.0 million to \$44.6 million at 12/31/14

(1) Reflects Turtle Beach standalone balance sheet as of December 31, 2013.

Performance Against Established Milestones



2014

- ✓ Launch broad portfolio of innovative next generation console headsets
- ✓ Strengthen retail relationships and improve in-store experience
- ✓ Improve PC gaming headset offering and introduce accessories
- ✓ Grow market share in non-core markets
- ✓ Achieve large scale retail deployment of HyperSound® commercial product
- ✓ Complete transition to a public company

2015

- Expand new generation console headset portfolio
- Improve operating efficiency to drive higher headset net margins
- Increase share of PC gaming headsets
- Grow newly established China market
- Launch HyperSound® healthcare products
- Expand HyperSound® Commercial business

2016

- Continue growth of console and PC gaming headsets
- Accelerate growth of HyperSound® healthcare and commercial businesses
- Develop HyperSound® consumer products
- Strategic Acquisitions

Dominant Gaming Audio Provider

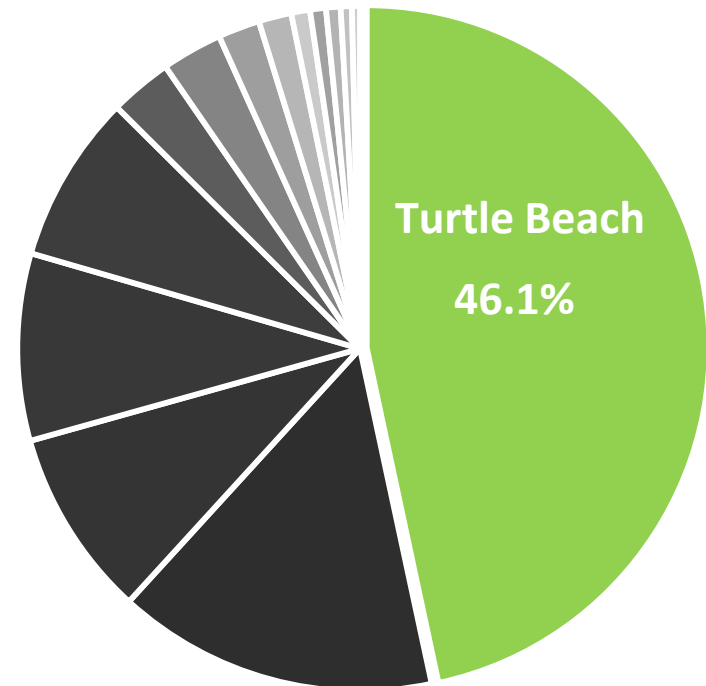


Overview

- **#1** gaming headset in 2014 by dollar share
 - 46%** of U.S. market
 - 52%** of U.K. market
- Broad portfolio of console headsets for **Xbox** and **PlayStation** platforms as well as growing offering of **PC** gaming headsets
- Headsets in **27k storefronts** in **44 countries** at year-end 2014
- **Brand on the rise**, with awareness among Xbox and PlayStation console gamers **increasing 40%** from 2012 to 2014
- Turtle Beach accounted for **6 of the top 10 headsets sold in the U.S.** during 2014

Leading Market Share

2014 U.S. Gaming Headset Dollar Market Share



Leading Products for Both New Platforms



PS4™

Red = First and Only Innovations

XBOX ONE



- Elite 800**
Flagship Wireless Surround
- Active Noise Cancellation
 - DTS 7.1 Headphone:X
 - Charging Stand & TX
 - Introduced October 2014



- Stealth 500P**
Wireless Surround
- DTS 7.1 Headphone:X
 - DTS Surround Modes
 - EQ Presets
 - Introduced October 2014



- Stealth 400**
Wireless Stereo
- Digital Stereo Sound
 - Universal PS4 Compatibility
 - EQ Presets
 - Introduced October 2014



- P12**
Wired Stereo
- Single USB Connection
 - In-Line Amplifier
 - Mic Monitoring
 - Introduced July 2014



- Elite 800X**
Flagship Wireless Surround
- Active Noise Cancellation
 - Bluetooth Equipped
 - DTS 7.1 Headphone:X
 - Charging Stand & TX
 - Coming Spring 2015



- Stealth 500X**
Wireless Surround
- First true wireless XB1
 - DTS 7.1 Headphone:X
 - Genre-Specific Presets
 - Introduced October 2014



- XO SEVEN Pro**
Wired to Controller
- Superhuman Hearing™
 - Mic Monitoring
 - Game/Mic Presets
 - Introduced Dec. 2014



- XO FOUR Stealth**
Wired to Controller
- Mic Monitoring
 - Variable Bass Boost
 - Introduced Dec. 2014

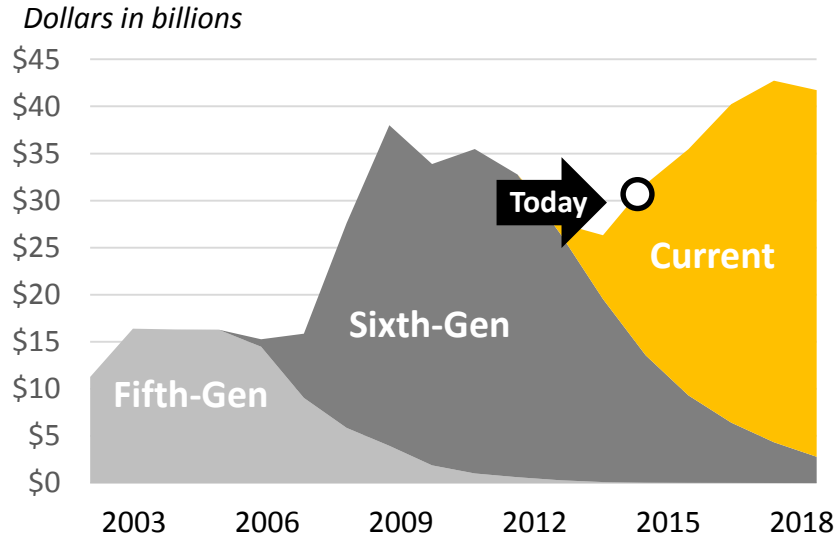


- XO One**
Wired to Controller
- Mic Monitoring
 - Variable Bass Boost
 - Introduced October 2014

Console Transition Expected To Drive Growth



Global Console Hardware and Software Sales



- In each past transition, total industry revenue reached new highs within three years
- Console hardware and software sales are forecasted to increase 58% to \$42 billion from 2013 to 2018

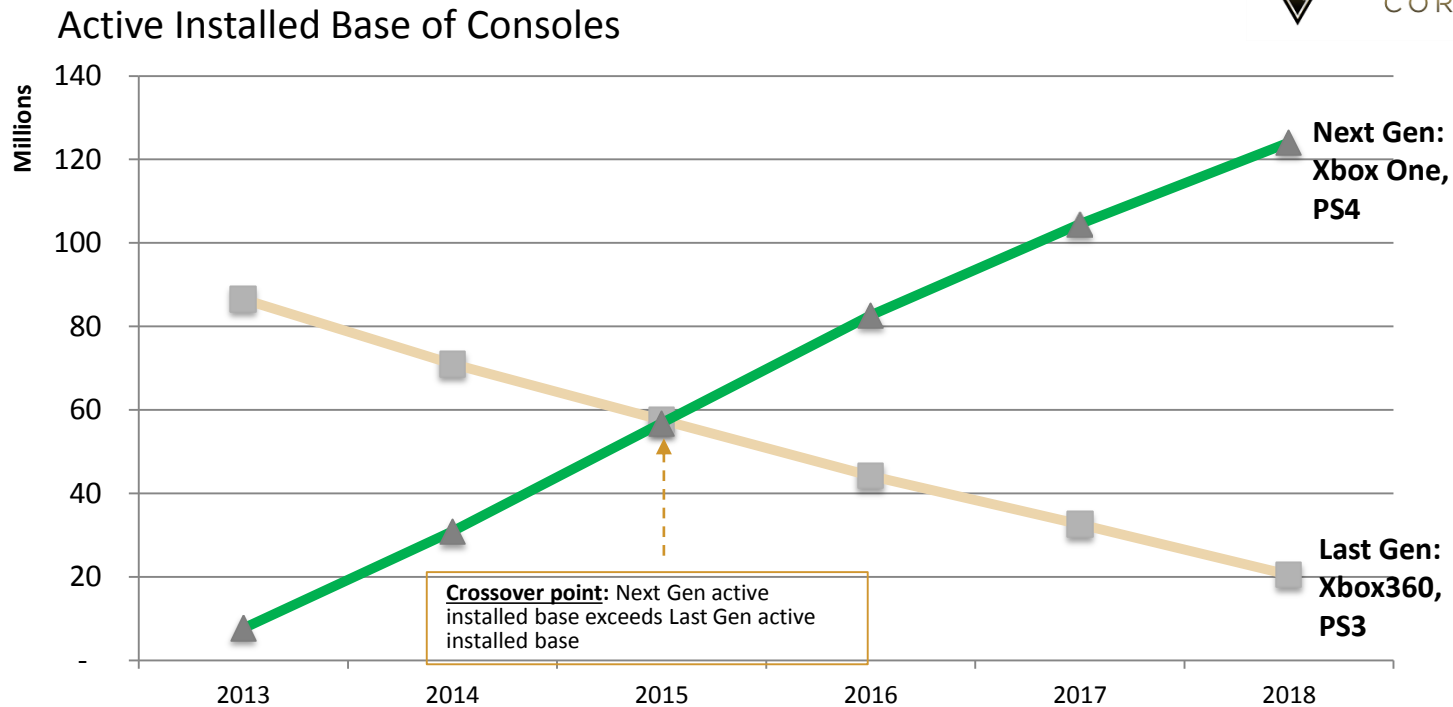
New Generation Console Sales



- Current cycle is off to a strong start with new platform sales more than 70% higher than same period in prior cycle
- Cycle is less than 20% completed to date with 80% of expected installed base growth yet to come

* Percentage of total cumulative expected Xbox One and PS4 unit sales through 2018
Source: DFC Intelligence Forecasts: Worldwide Console Forecast, October 2014

2015 Marks Expected Crossover Point



Source: DFC October 2014

PROJECTED IMPACT OF CONSOLE TRANSITION ON HEADSETS

2013:

- Last Gen headset sales begin to slow
- Last Gen headset portfolio is reduced (fewer models)
- Next Gen console specs become available
- Specs timing limits Next Gen headset portfolio

2014:

- Last Gen headset sales continue to decline
- Sales of first models of Next Gen headsets ramp up
- Last Gen product portfolio further narrowed
- Next Gen headset portfolio increases (more models)

2015:

- Next Gen ramp begins to offset Last Gen decline
- Next Gen headset portfolio largely complete

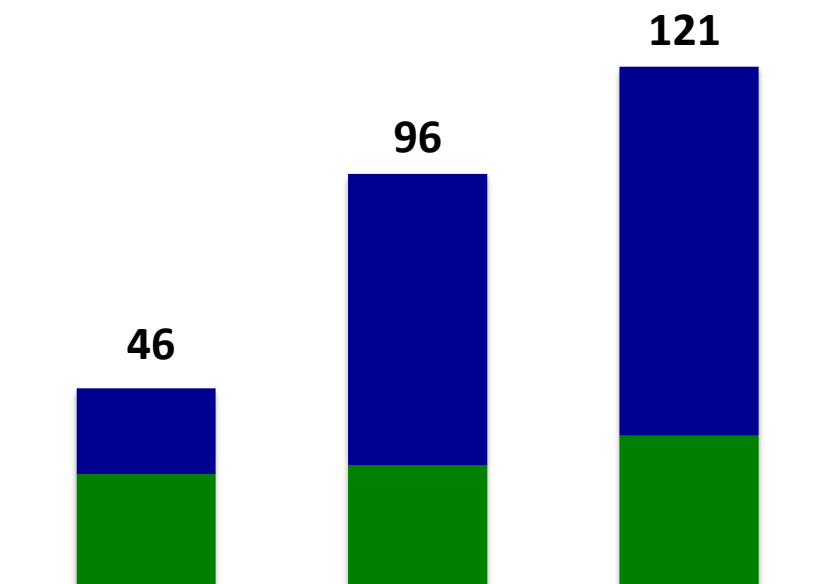
2016-2017:

- Next Gen headset sales exceed Last Gen sales
- 2nd round of Next Gen Headsets launched, increasing expected sales

2018:

- Next Gen installed base peaks after rapid growth
- Normal industry growth trend expected after 2018

Strong and Rapidly Growing Portfolio of Patents



	1/1/13	1/1/14	1/1/15
■ Pending	20	68	86
■ Issued	26	28	35

Headset innovations on:

- Audio processing
- Gaming specific features

HyperSound innovations on:

- Emitter construction
- Ultrasound and emitter electronics
- Digital signal processing techniques
- Market uses of ultrasound audio

Significant Hearing Health Opportunity



BENEFIT

HyperSound provides significant improvement in listening experience for individuals with hearing loss

MARKET OPPORTUNITY

- Targeting living room TV / audio solution to improve speech comprehension, intelligibility and enhance listening experience
- Large, addressable markets
 - 360M worldwide and 48M in the U.S. with hearing loss¹
 - 35% to 40% of population over 65 suffer from hearing loss¹
 - \$6B Global hearing-aid market, with ~13M units sold annually

STATUS

- Received FDA clearance for HyperSound Audio System in February 2014
- Hired hearing aid industry veteran Rodney Schutt as SVP and General Manager of HyperSound in 2014
- Products in development and expected to ship in 2015



HyperSound Commercial Sales Activity



In November 2014 achieved first wide-scale deployment of HyperSound® virtual reality audio zones in Activision Call of Duty®: Advanced Warfare retail displays in approximately 1,000 Best Buy locations in North America



2015 Headset Guidance Summary



Revenue: projected to be approximately flat compared to 2014 with a range around that projection driven by:

- Growth and share of next generation headsets in relation to rate of decline in old generation headsets.
- Strong U.S. dollar impact on international sales (over 35% of sales are from international).

Gross margins: projected to be in the low 30% range driven by higher product margins from cost savings initiatives.

Adjusted EBITDA margins: projected to improve ~200 basis points based on the mid point of our guidance range of 8% to 9%.

Q1 Headset Guidance Summary



Revenue: projected to be in the range of \$18 to \$20 million.

- Represents approximately 10% to 12% of projected annual revenue, consistent with historical results.
- Q1 2014 revenue abnormally strong due to initial launch of Xbox One headsets.

Gross margin: projected to be in the range of 26% to 28% driven by fixed cost deleverage on lower revenue.

Net loss: projected to be in the range of (\$9.5) to (\$7.5) million.

Adjusted EBITDA: projected to be in the range of (\$9.0) to (\$7.0) million.

Investment Summary



MARKET LEADER IN GROWING CATEGORY

- Established leader in gaming headsets with dominant market share in the U.S. and U.K. and broadest portfolio of Xbox One and PlayStation4 compatible headsets featuring first-and-only innovations.
- In the early stages of a multi-year growth cycle in console gaming
- Double-digit growth in expanding international markets

BREAKTHROUGH AUDIO TECHNOLOGY WITH DISRUPTIVE POTENTIAL

- On schedule to roll out HyperSound hearing health product in 2015
- Strong patent portfolio offers multiple consumer application opportunities

ATTRACTIVE INVESTMENT PROFILE

- The company has near, mid and long-term growth potential driven by the console transition and mid to long-term growth prospects from HyperSound
- Solid EBITDA margins with opportunity for meaningful expansion

Appendix

GAAP to Adjusted EBITDA Reconciliation



Three Months Ended
December 31, 2014

	As Reported	Adj Depreciation	Adj Amortization	Adj Stock Compensation	Other(1)	Adj EBITDA
Net Revenue	\$ 92,267	\$ —	\$ —	\$ —	\$ —	\$ 92,267
Cost of Revenue	66,456	(72)	(24)	(91)	—	66,269
Gross Profit	25,811	72	24	91	—	25,998
Operating Expense	18,640	(1,389)	(234)	(1,187)	(747)	15,083
Operating income	7,171	1,461	258	1,278	747	10,915
Interest expense	1,048					
Other non-operating expense, net	485					485
Earnings before income tax benefit	5,638					
Income tax expense	3,278					
Net income	\$ 2,360					
					Adjusted EBITDA	\$ 10,430

(1) Other includes Business transaction costs of \$3,744 and Restructuring charges of \$747

GAAP to Adjusted EBITDA Reconciliation



Year Ended
December 31, 2014

	As Reported	Adj Depreciation	Adj Amortization	Adj Stock Compensation	Other (1)	Adj EBITDA
Net Revenue	\$ 186,176	\$ —	\$ —	\$ —	\$ —	\$ 186,176
Cost of Revenue	135,509	(227)	(104)	(310)	—	134,868
Gross Profit	50,667	227	104	310	—	51,308
Operating Expense	64,492	(5,573)	(962)	(4,884)	(4,491)	48,582
Operating income (loss)	(13,825)	5,800	1,066	5,194	4,491	2,726
Interest expense	7,209					
Other non-operating expense, net	724					724
Loss before income tax benefit	(21,758)					
Income tax benefit	(6,272)					
Net loss	\$ (15,486)					
					Adjusted EBITDA	\$ 2,002

(1) Other includes Business transaction costs of \$3,744 and Restructuring charges of \$747

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