



Team: **Kicking Assets**

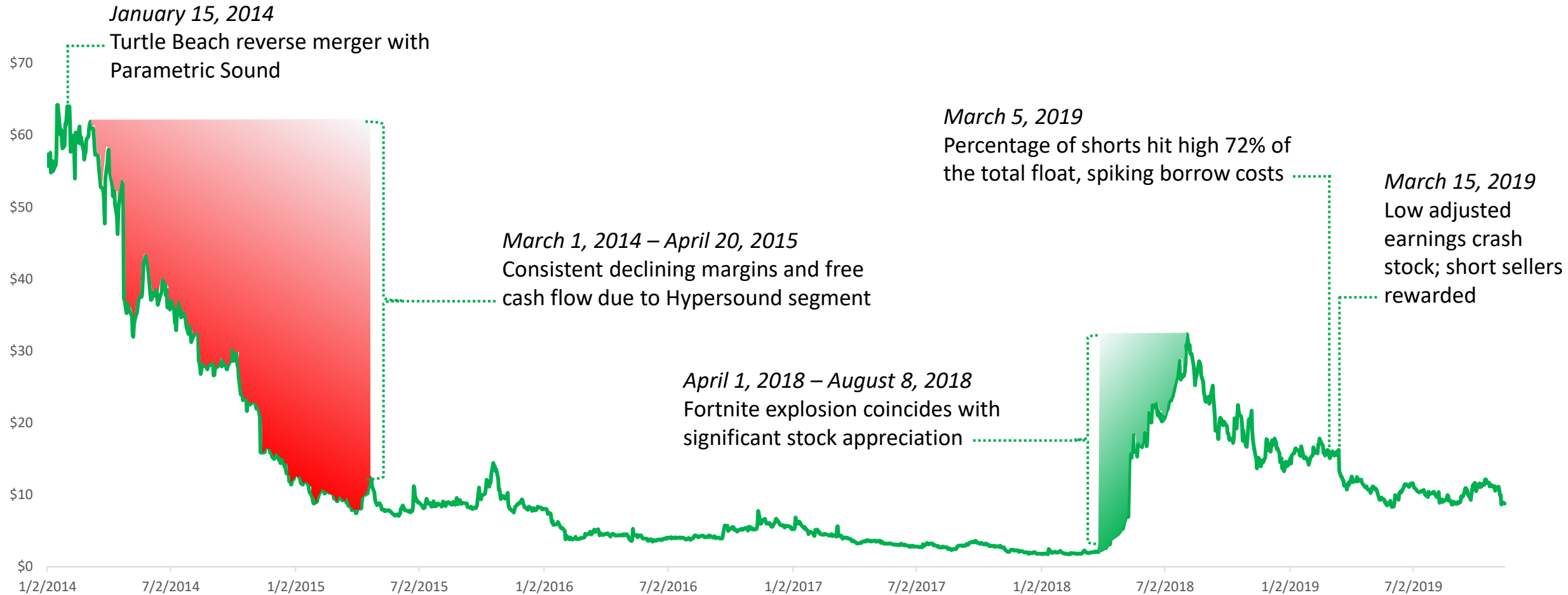


Sunny Shi, Andrew Florendo, Kejal Doshi, Hershy Kulkarni, Rich Stureborg

COMPANY DESCRIPTION

- **HEAR OldCo:** headsets for console, PC
- **HEAR + ROCCAT:** headsets for console, PC + mice & keyboard for PC
- Over 40% market share of console headset sales
- TAM of \$4.65bn across console, PC, and mobile gaming spaces
- #1 highest selling brand for Xbox and Playstation since last-gen
- Higher revenue share than next 4 competitors combined

HISTORICAL STOCK PERFORMANCE



- Turtle Beach products are mainly targeted to console gaming (>80% of product offerings)
- ROCCAT products are mainly keyboard and mice for PC gaming
- **Entry-level gamers** <4 hrs
- **Casual gamers** 4-6 hrs
- **Enthusiastic gamers** 7-15 hrs
- **Core & professional gamers** 16+ hrs



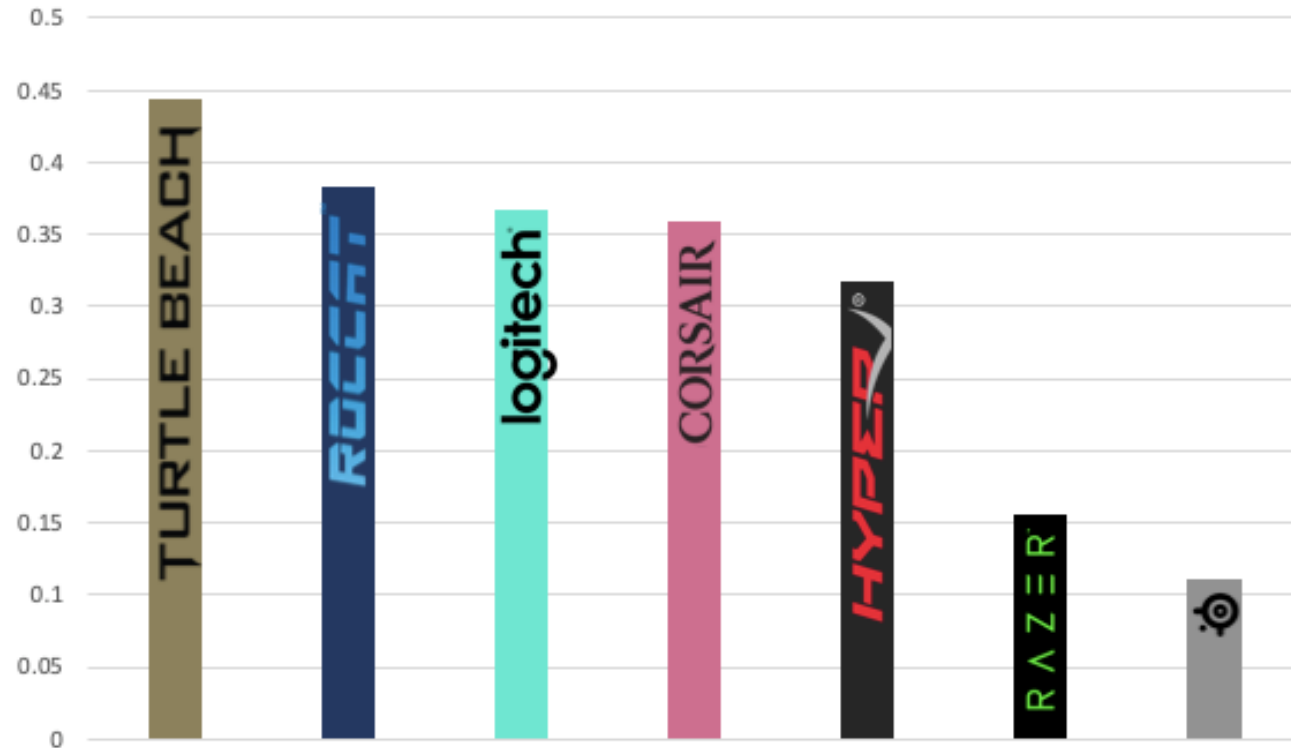
500k comments



r/Games
r/FortniteBR
r/Fallout
r/twitch
r/pcgaming
r/PS4

...

Mean Sentiment Score





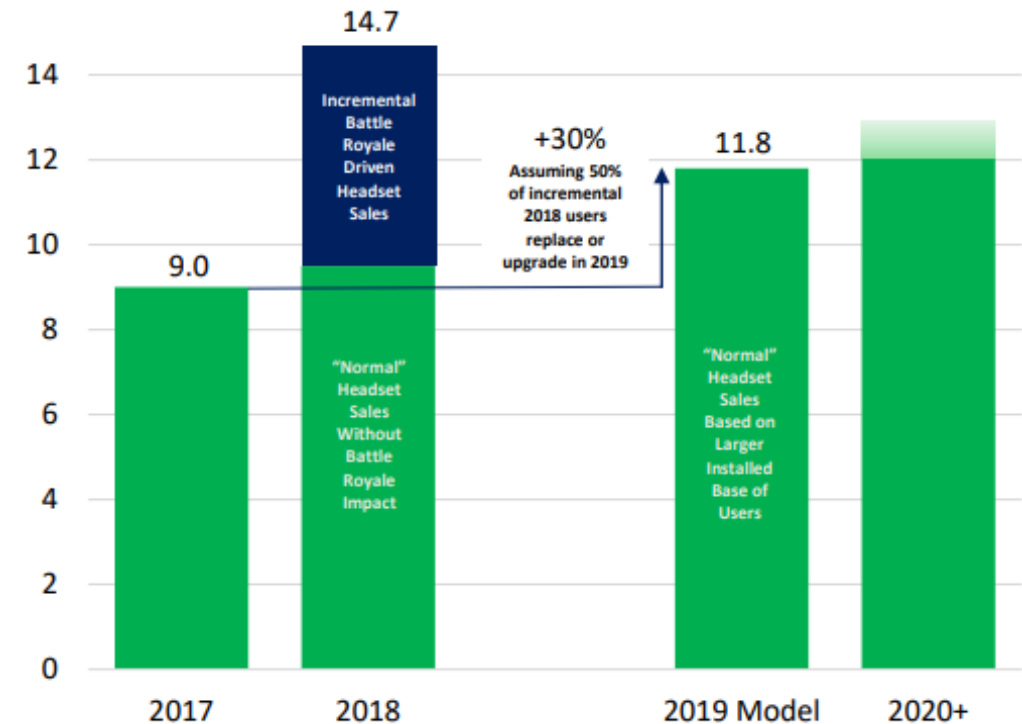
FORTNITE
BATTLE
Growth

#1 Victory Royale!

- Many viewed Fortnite as isolated, one-time tailwind with temporary effects
 - Nearly impossible to sustain 2018 levels
- Hidden Implications
 - Larger installed user base
 - Creation of Battle Royale trend
 - Compounding in Anticipation of Next Generation Consoles



- Installed base of console headset users grew significantly
- Turtle Beach sold 14.7 million headsets in 2018 compared to 9.0 million in 2017
 - Significantly larger console gaming headset market versus 2017, but a drop from 2018 (Turtle Beach has a leading 46.1% North America market share)
- Similar Battle Royale Games (PUBG, Apex Legends, CoD) are keeping these headset users on console
 - Different from Guitar Hero



Replacement Cycles

285 | 300 | 330 | 345 | 357
NW | N | NE
15 | 30

92 FPS



0:46 | 28 | 1



You eliminated 12-24 months

30 | 60

100 | 100
 86 | 100

M
 I
 254 98 29

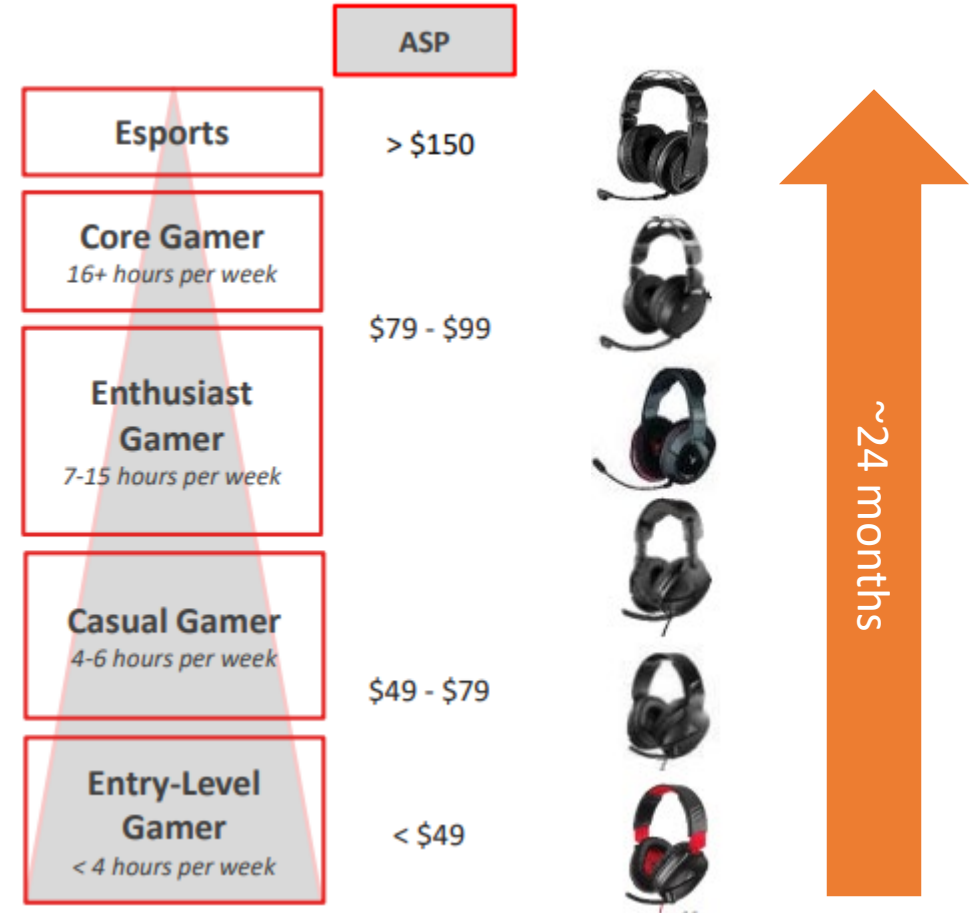
F1 F2 F3 F4 F5
 Q

1 2 55 90 13 11 10 2

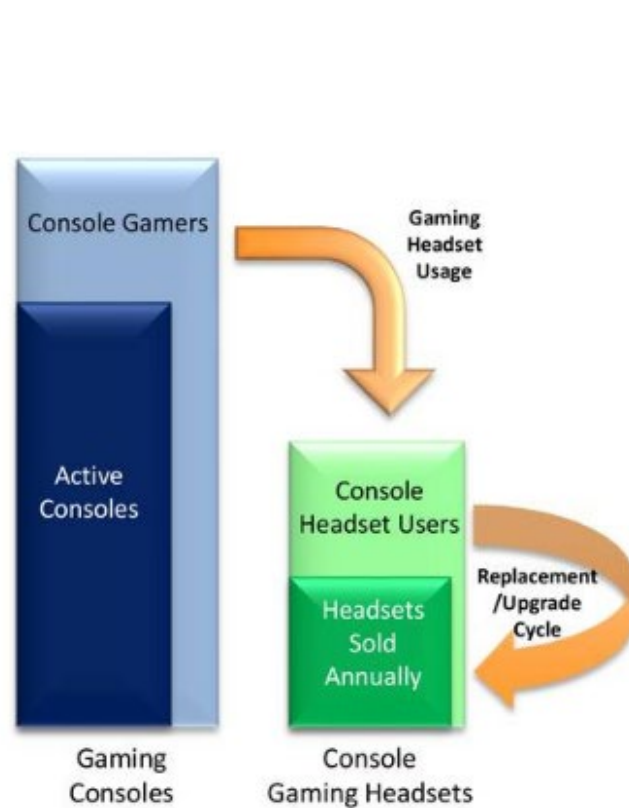
12-24 Month Headset Replacement Cycle



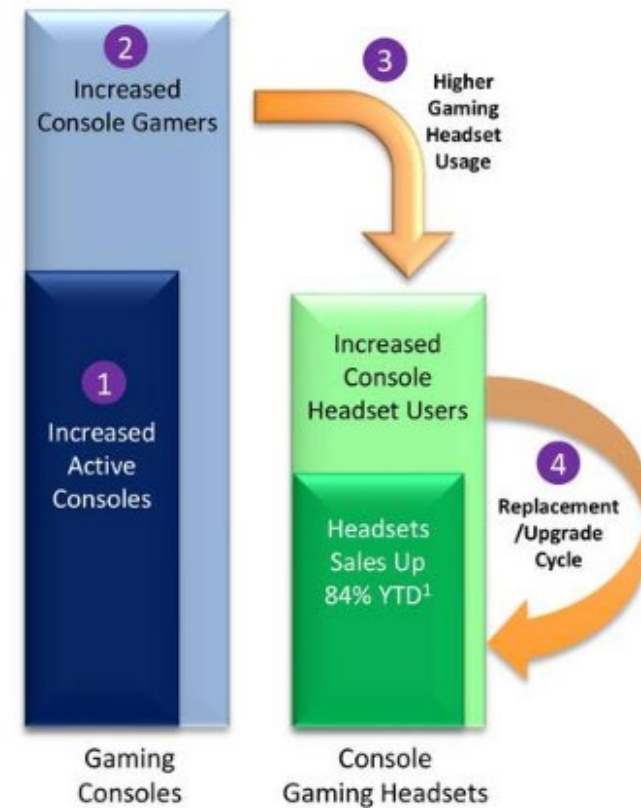
- Fortnite-injected headset users now enter the replacement cycle
 - Survey of 4,000 gamers revealed the intent to upgrade sooner than the traditional 24-month average
- If 50% convert into recurring users, adds 3 million headset units to the pre-Fortnite core of 9 million in 2017
 - Highly likely – Newzoo reported 41% of US gamers are continuing to play Battle Royale games with 71% doing so on console
- 75% of sales come from upgrades



Pre-Battle Royale Impact

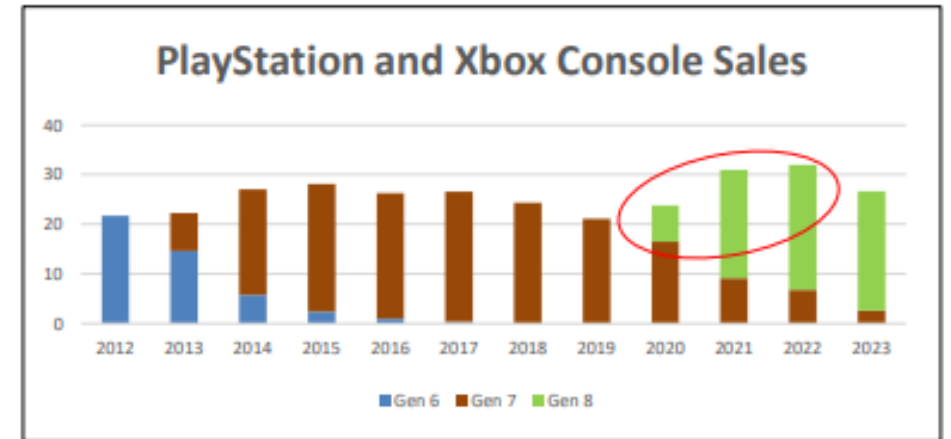


Battle Royale Impact

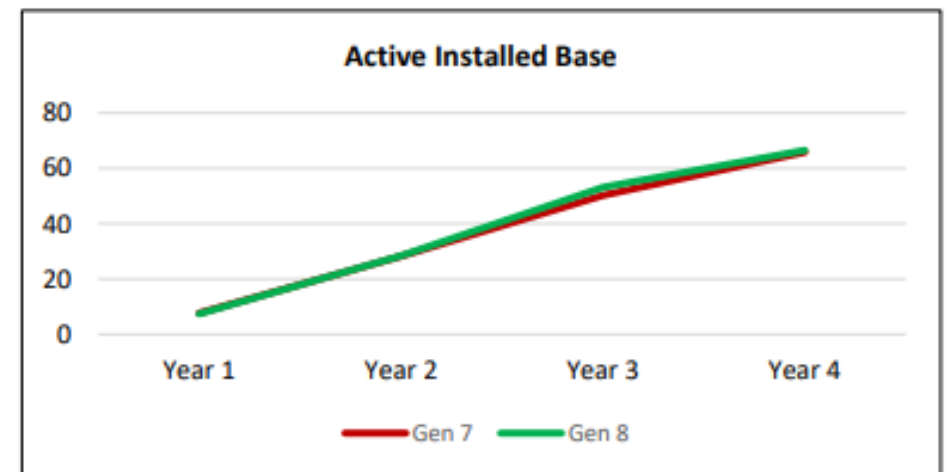


1) US and Canada NPD Console Gaming Headset sell through data, January through September 2018.

- PlayStation 5 and Xbox Scarlett, set for Holiday 2020
 - Potential last push for existing consoles
- Last 7 console releases:
 - 1. Slowdown pre-release as users wait
 - 2. Console spending surges on launch
 - 3. Accessories spending surge with ~1 month delay
- DFC - combined hardware unit sales for Gen 7/8 will be higher than the combined sale of Gen 6/7 in the first 3 years



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



NEXT GENERATION CONSOLES



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
- Custom Zen 2 AMD chip

Gen 7 PlayStation (Nov 2013)



Gen 8 PlayStation (2020)



PlayStation 5/PS5 (announced in April 2019)

Release: Holiday 2020 (expected November)

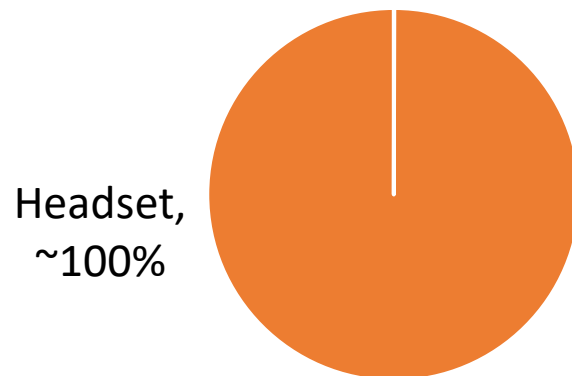
Price: \$499 (unconfirmed)

- 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
- AMD 8-core chip based on third generation Ryzen line with 7nm Zen 2

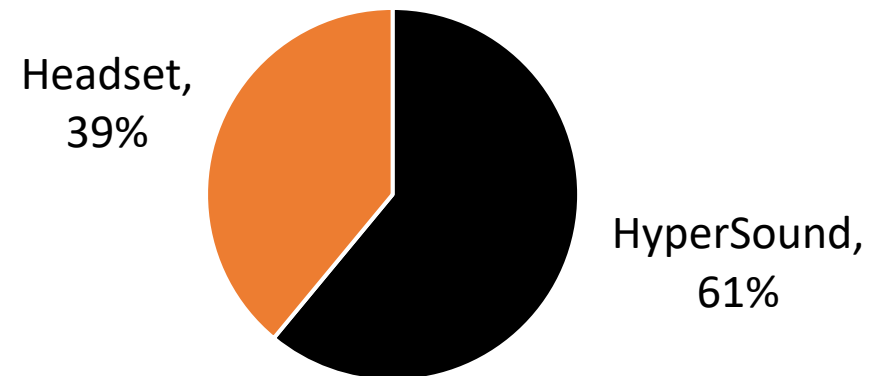
HYPERSOUND RESTRUCTURING

- Turtle Beach acquired HyperSound through a reverse merger in 2014
 - HyperSound: directed audio technology for the hearing healthcare industry
 - Draining ~\$9 - \$12 million in EBITDA each year
 - Management spend \$900 million trying to commercialize the product
 - Isolated, the headset segment has positive earnings 2016 - 2017

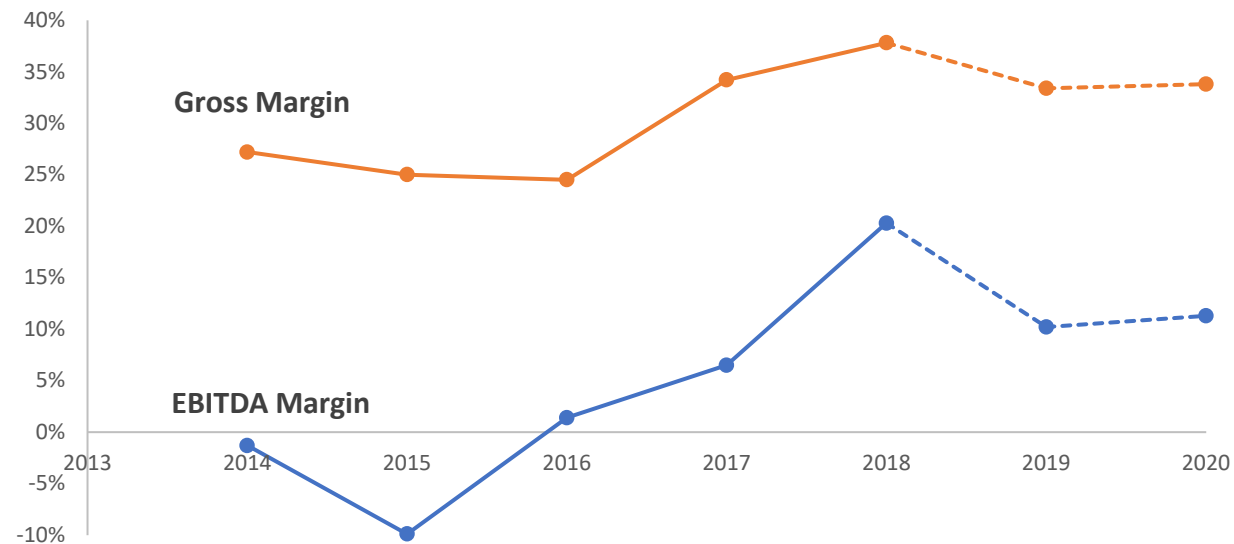
Revenue (2016)



OpEx (2016)



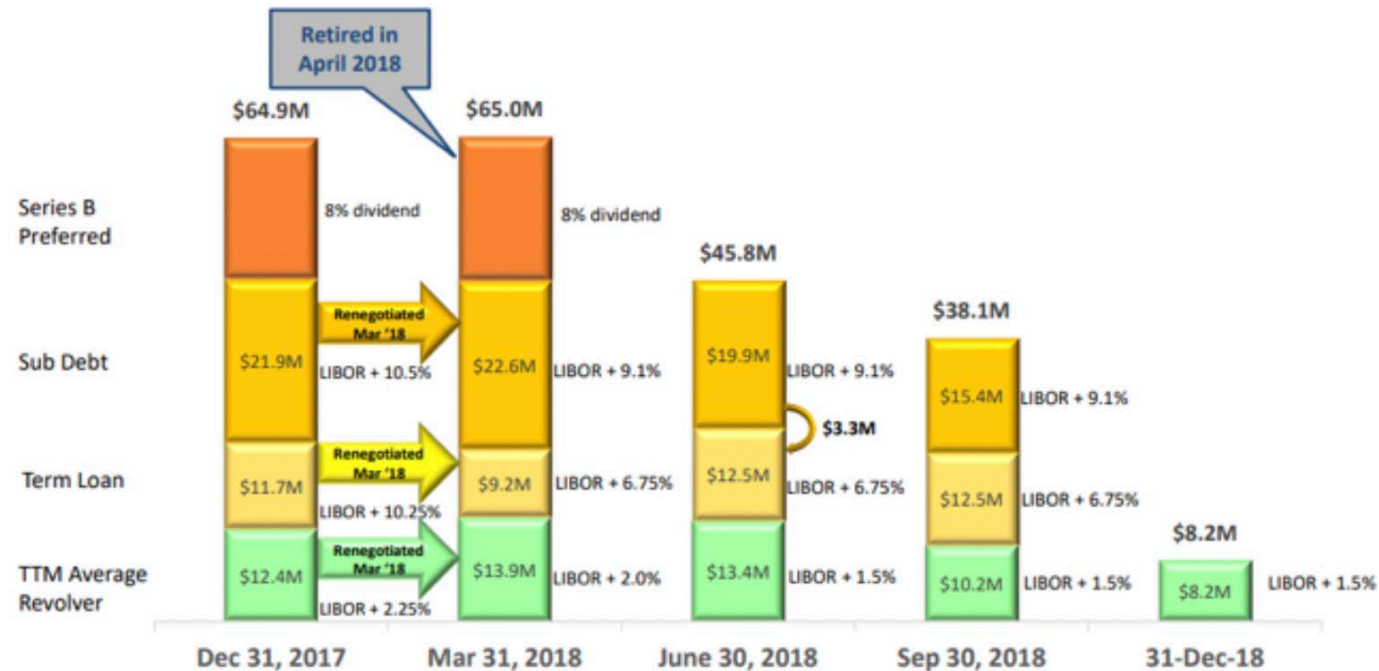
- In 2017, management turned HyperSound into a licensing model
 - Wrote down the business on balance sheet to only \$0.7 million in assets
- 2017 had a positive operating income, for the first time since 2012



DEBT PAYDOWN



- With the increase in cash flow, management has paid down all of their long-term debt
- High cost of debt from struggling unit sales and negative earnings (HyperSound related)



- Closed in Q2 2019 for USD 19.2 million
- **Rationale:**
 - Access to new markets
 - Europe, Asia (Korea, Japan, Singapore)
 - Access to new products
 - PC keyboards, mice
 - Access to new customer demographic
 - Higher-end brand, caters to serious gamers
- **Goal:** create incremental 100-million-dollar and 2% market share business
 - 2019: ~\$16m revenue
- **Implication:** Help capture larger share of return buyers



STORY & CATALYSTS



2019 – ROCCAT acquisition almost doubles the TAM and unlocks new markets

2020 – CATALYST: New doubled replacement base bidding peripherals purchases for next-gen consoles + new peripherals entrants

2018 - Record Margins, Debt Paydown, Marginalized Hypersound

2018 – Fortnite leads to 90%+ jump in sales and profitability – “saves the company” .

- Increases the buying base by 70%+

2014-2017 - Hypersound 9-12 EBITDA drain, Operating at Loss, Negative FCF

2014 - Parametric Reverse Merger



VALUATION

Turtle Beach Corporation (HEAR)

(000s) except per share data



	2013 FY	2014 FY	2015 FY	2016 FY	2017 FY	2018 FY	Pro Forma				
							2019 FY	2020 FY	2021 FY	2022 FY	2023 FY
Total Net Revenue		186,176	162,747	173,978	149,135	287,437	235,207	228,646	229,717	230,787	231,858
Net Revenue from PC Accessories							16,000	\$ 54,000	\$ 54,000	\$ 54,000	\$ 54,000
Net Revenue from Console Headsets							\$ 219,207	\$ 174,646	\$ 175,717	\$ 176,787	\$ 177,858
Total Addressable Markets											
PC Accessories TAM							2,900,000	2,700,000	\$ 2,700,000	\$ 2,700,000	\$ 2,700,000
% change yoy							-7%	0%	0%	0%	0%
Console Headsets TAM					1,058,824		1,800,000	1,400,000	\$ 1,190,000	\$ 1,190,000	\$ 1,190,000
% change yoy							70%	-22%	-15%	0%	0%
Regional TAM (Adjusted for retail markup)											
Console Headsets NA TAM	514,076	592,578	548,674	608,641	477,058	917,022	713,239	606,253	606,253	606,253	606,253
% change yoy	-14%	15%	-7%	11%	-22%	92%	-22%	-15%	0%	0%	0%
% of TAM						51%					
Console Headsets UK TAM	-	-	-	-	79,919	135,873	105,679	89,827	89,827	89,827	89,827
% change yoy						70%	-22%	-15%	0%	0%	0%
% of TAM						8%					
Console Headsets Europe, Asia & Other TAM					501,847	747,105	581,082	493,920	493,920	493,920	493,920
% change yoy						49%	-22%	-15%	0%	0%	0%
% of TAM						42%					
HEAR Servicable Addressable Market (Gross Revenue)											
Console Headsets NA	308,446	355,547	329,204	365,185	286,235	550,213	427,944	363,752	363,752	363,752	363,752
Console Headsets UK					47,951	81,524	63,407	53,896	53,896	53,896	53,896
Console Headsets Europe, Asia & Other					301,108	448,263	348,649	296,352	296,352	296,352	296,352
Market Share											
HEAR PC Accessories Market Share								2.0%	2.0%	2.0%	2.0%
HEAR Console Headset Market Share (NA)	47.0%	41.0%	42.0%	42.0%	42.4%	46.1%	46.1%	41.9%	41.9%	41.9%	41.9%
HEAR Console Accessories Market Share (UK)					51.8%	49.8%	49.8%	50.8%	50.8%	50.8%	50.8%
HEAR Console Europe & Other Market Share					8.3%	8.3%	8.3%	8.7%	9.2%	9.6%	10.0%
Net Revenue by Geographic Location:											
North America	123,224	123,908	117,526	130,371	103,159	215,601	167,690	129,396	129,396	129,396	129,396
United Kingdom	26,439	29,425	20,881	21,887	21,113	34,509	26,840	23,272	23,272	23,272	23,272
Europe	18,565	24,082	17,329	15,729	20,277	30,244	24,677	21,978	23,049	24,119	25,190
Other	10,242	8,761	7,011	6,100	4,586	7,083					

Base Case

Perpetuity						
LTG						
		1.50%	1.75%	2.00%	2.25%	2.50%
WACC	11.39%	11.26	11.44	11.62	11.81	12.02
	11.14%	11.50	11.68	11.88	12.08	12.30
	10.89%	11.75	11.95	12.15	12.37	12.61
	10.64%	12.01	12.22	12.44	12.68	12.93
	10.39%	12.29	12.51	12.75	13.00	13.27

Upside: 40.2%

Multiple						
Exit Multiple						
		5.0x	6.5x	8.0x	9.5x	11.0x
WACC	11.39%	9.95	11.39	12.83	14.28	15.72
	11.14%	10.01	11.47	12.93	14.38	15.84
	10.89%	10.08	11.55	13.02	14.49	15.96
	10.64%	10.14	11.63	13.11	14.60	16.08
	10.39%	10.21	11.71	13.21	14.71	16.21

Upside: 50.2%

Expected

Perpetuity						
LTG						
		1.50%	1.75%	2.00%	2.25%	2.50%
WACC	11.39%	13.21	13.44	13.68	13.94	14.21
	11.14%	13.52	13.76	14.02	14.29	14.58
	10.89%	13.84	14.10	14.38	14.67	14.97
	10.64%	14.19	14.46	14.75	15.06	15.39
	10.39%	14.55	14.84	15.15	15.48	15.83

Upside: 65.8%

Multiple						
Exit Multiple						
		5.0x	6.5x	8.0x	9.5x	11.0x
WACC	11.39%	13.24	15.66	18.09	20.51	22.94
	11.14%	13.34	15.79	18.23	20.68	23.13
	10.89%	13.43	15.91	18.38	20.85	23.32
	10.64%	13.53	16.03	18.53	21.02	23.52
	10.39%	13.63	16.15	18.67	21.19	23.71

Upside: 112%

COMPARABLES



	Company Information		Market Valuation				Valuation Metrics						Beta Calculation			
	Ticker	Firm	Share Price	Shares Out	Market Cap	Net Debt	Enterprise Value	EV/EBITDA	EV/EBIT	EV/Sales	P/E	P/FCF	P/B	Raw Beta	Tax rate	Unlevered Beta
HEAR US EQUITY	HEAR	Turtle Beach Corp	\$8.67	14,517.2	\$125.9	\$30.3	\$148.4	6.1x	11.9x	0.6x	13.4x	5.7x	3.1x	1.96	4.24%	1.59
LOGI US EQUITY	LOGI	Logitech International SA	\$43.02	\$173,106.60	\$7,447.05	-\$604.52	\$6,908.52	15.4x	16.8x	2.3x	19.8x	22.7x	5.9x	1.35	5.00%	1.47
DLB US EQUITY	DLB	Dolby Laboratories Inc	\$69.36	\$64,493.98	\$4,473.30	-\$916.36	\$6,078.76	11.9x	13.8x	4.4x	19.6x	30.3x	2.9x	0.90	9.49%	1.11
UEIC US EQUITY	UEIC	Universal Electronics Inc	\$56.94	\$13,928.19	\$793.07	\$48.29	\$841.92	8.0x	16.2x	1.1x	15.2x	20.7x	3.1x	1.35	54.43%	1.31
Top Quartile					\$3,553.2		\$4,769.5	11.0x	15.6x	3.6x	18.5x	27.9x	3.1x	1.24		1.26
Mean					\$2,633.2		\$3,460.3	10.0x	15.0x	2.8x	17.4x	25.5x	3.0x	1.13		1.21
Median					\$2,633.2		\$3,460.3	10.0x	15.0x	2.8x	17.4x	25.5x	3.0x	1.13		1.21
Bottom Quartile					\$1,713.1		\$2,151.1	9.0x	14.4x	1.9x	16.3x	23.1x	3.0x	1.02		1.16

BENCHMARKING



Company Information		General				Margins				Returns			Working Capital			
Ticker	Firm	1-Year Rev Growth	3-Year Rev Growth	5-Year Rev CAGR	Debt/Equity	Gross Margin	EBITDA Margin	Operating Margin	Profit Margin	ROE	ROA	ROIC	DSO	DIO	DPO	CCC
HEAR US EQUITY	HEAR Turtle Beach Corp	92.7%	28.5%	248.0%	0.00	37.8%	20.3%	18.8%	13.6%	68.2%	17.7%	38.6%	0.4 Days	1.6 Days	1.0 Days	1.2 Days
LOGI US EQUITY	LOGI Logitech International SA	8.6%	11.4%	5.5%	0.00	37.2%	11.9%	9.4%	9.2%	25.1%	13.1%	22.8%	0.6 Days	0.7 Days	0.9 Days	0.4 Days
DLB US EQUITY	DLB Dolby Laboratories Inc	5.9%	6.6%	5.3%	0.00	87.0%	27.6%	20.7%	20.5%	10.9%	9.0%	10.0%	0.5 Days	0.7 Days	0.4 Days	0.8 Days
UEIC US EQUITY	UEIC Universal Electronics Inc	-2.2%	4.2%	5.1%	0.39	20.8%	4.7%	-0.2%	1.8%	-5.4%	-2.6%	-8.9%	0.7 Days	0.8 Days	0.7 Days	1.0 Days
Top Quartile		3.9%	6.0%	5.2%	28.9%	70.5%	21.8%	15.5%	15.9%	6.8%	6.1%	5.3%	0.7 days	0.8 days	0.6 days	0.9 days
Mean		1.9%	5.4%	5.2%	19.3%	53.9%	16.1%	10.2%	11.2%	2.7%	3.2%	0.5%	0.6 days	0.8 days	0.5 days	0.9 days
Median		1.9%	5.4%	5.2%	19.3%	53.9%	16.1%	10.2%	11.2%	2.7%	3.2%	0.5%	0.6 days	0.8 days	0.5 days	0.9 days
Bottom Quartile		-0.2%	4.8%	5.2%	9.6%	37.4%	10.4%	5.0%	6.5%	-1.3%	0.3%	-4.2%	0.6 days	0.7 days	0.5 days	0.8 days

FOOTBALL FIELD



Valuation Metric	Weight	Per-share Value	Weighted Contribution
DCF - EV/EBITDA	60%	\$15.70	\$9.42
DCF - Perpetuity	10%	\$13.27	\$1.33
Comparables - EV/EBITDA	10%	\$12.91	\$1.29
Comparables - P/E	10%	\$27.62	\$2.76
Precedents	10%	\$25.86	\$2.59

Target Price: \$17.39

LAST WORD...



Do you understand the business?



Is it cheap?



Is it overlooked?



Is it safe?



Is it good?

Firm	Analyst	Recommendation	Target Price	Upside
DA Davidson	Tom Forte	Buy	\$20	131%
Wedbush	Michael Pachter	Outperform	\$14	61%
Oppenheimer	Andrew Uerkwitz	Outperform	\$18	108%
Maxim Group	Nehal Chokshi	Buy	\$22	154%
Lake Street Capital	Mark Argento	Buy	\$17	96%

Trade Date	Participant	Net Sell (Shares)	Net Buy (Shares)	Close Price
11/13/2019	Ballard L		10,000	8.78
8/28/2019	Doornink Ronald			8.79
8/19/2019	Thompson Kelly		5,394	9.27
8/16/2019	Hanson John		1,854	9.16
8/15/2019	Stark Juergen	-6,204		9.15
6/14/2019	Doornink Ronald		5,000	10.32
6/13/2019	Doornink Ronald		4,938	10.50
6/12/2019	Doornink Ronald		2,305	10.19
6/11/2019	Hanson John		4,900	10.24
6/10/2019	Doornink Ronald, Stark Juergen		26,441	9.30
6/7/2019	Wolfe Andrew L		10,000	9.67

Questions?



- Entry Level Headsets Commoditized?
 - Price sensitive customers
 - *Counter*: influencers + sponsorships boosting brand awareness
 - *Counter*: ROCCAT -> premium connotation
- "Amazon Effect" of product sales
 - In-store displays
 - Online sales
 - Turtle Beach not as clear of a leader

