



Turtle Beach Research

Ticker: HEAR

Price: \$17.65

Market Cap: \$260M

Their most recent quarter was actually a really one good as they beat their updated guidance and gave a really solid Q4 guidance. The company expects 2018 to wrap up with \$270M, up 81% Y/Y, and EPS of \$2.55 vs. a loss of \$0.26 last year.

To make matters even better gross margins are improving and the company has also said that they've grown their market share from 30.4% last year to 34.2% this year.

Our bad for not responding immediately but there was a reason. GameStop (GME) reported their earnings and we wanted to see what they had to say. Aside from their guidance being absolute crap they did say that accessories sales increased 32.6% on the strength of headset and controller sales. There's a very good possibility that was due to Turtle Beach's being sold. Also, NPD released their monthly stats and video game sales popped 73% to an October record, marking the seventh straight month of Y/Y gains for the sales numbers. Overall sales came in at

\$1.545B - the highest October spend recorded since NPD began tracking in 1995, surpassing the \$1.36B in October 2008.

With the stock at \$17.65 right now, up from \$14's earlier this week, we think it might pull back to mid \$16's (\$16.50-\$16.70) as it hit some overbought levels short-term. If it doesn't hold there it may test the 200 day moving average of \$15.95. If it does hold it should move higher afterwards. (Any positive news on China this weekend and there's a solid chance it sees \$20s again).

There's a lot of money to be made trading this due to its volatility but if you're looking to go long our whole thing is whether these earnings are sustainable. Fortnite just hit 200M users which is incredible and Turtle Beach has a wide array of headsets ranging from \$20 bucks for rookies to \$250 for core gamers. We think eSports and gaming will continue to grow and we do believe Turtle Beach will continue to sell well and with the stock here around 6.8x this year's earnings (based on mgmt guidance) you have to believe it's going to catch some kind of long-term support. We think a lot of people are nervous about 2019 guidance and whether it will be lower than 2018's numbers - there's probably a good chance of that due to how crazy Fortnite got this year but the counter is that all these people that just started playing games and are finding themselves liking it may go ahead and say to themselves that they'd like to continue playing and need a [better] mic/headset.

Even if growth is negative year-over-year and we expect it to be, it's still a pretty cheap stock. When we look at their rev and eps we can see 2019 dying down a bit but still way above 2017's numbers and then a pick up in 2020 as gaming continues to grow and people who bought headsets this year look to renew theirs. The company is now cash flow positive and it will help them pay down their debt too which is a huge plus.

It's also worth mentioning that if shares do stay this cheap around 6-8x this year's and next year's earnings, we could see a company like Logitech (LOGI) or even Activision (ATVI) buy them out.

Just to provide some Street perspective, Oppenheimer has a \$24 price target and Davidson has a \$30 price target.