

# WESTPEAK RESEARCH ASSOCIATION

## Turtle Beach Corp. (NASDAQ: HEAR)

### Consumer Electronics - Videogame Peripherals

#### A Sound Bull Case

April 30, 2020

Turtle Beach Corporation (*the Company*), is a leading videogame peripheral brand offering a large selection of gaming accessories for all major gaming consoles, PC's and mobile devices. A market leader in console gaming headsets for the past 10 years, Turtle Beach has recently expanded its product offering to include PC gaming peripherals such as headsets, keyboards and mice.

#### Thesis – Over-Shorted and Underappreciated

We believe the market has over-corrected for Turtle Beach's inflated valuation in 2018 caused by the meteoric rise of battle royale games. The current short interest on the stock suggests the market is now overly pessimistic of the company's future performance.

#### Drivers – Online Multiplayer Games

The success of major gaming franchises with popular online multiplayer modes that encourage player communication tend to drive increased gaming headset sales. Furthermore, the launch of new Xbox and Playstation gaming consoles in late 2020 is expected to drive growth in headset sales in 2021 and 2022, as new buyers look to purchase a gaming headset to enhance their gaming experience with their new console and owners of the previous generation of consoles look to upgrade their gaming headset.

#### Valuation

Given the current share price of \$10.08, we believe that Turtle Beach is currently undervalued by the market. Using a discounted cash flow analysis (perpetuity growth and exit multiple methods) and a comparable company analysis weighted equally, we determined a target share price of \$16.00, representing a 12-month total return of 58.7%. We initiate a **Buy** rating on Turtle Beach.

Analyst: Ian Del Rio, BSc. '21  
contact@westpeakresearch.com

#### Equity Research US

Price Target	USD\$ 16.00
Rating	Buy
Share Price (Apr. 30 Close)	USD \$10.08
Total Return	58.7%

#### Key Statistics

52 Week H/L	\$12.50/\$4.05
Market Capitalization	\$143M
Average Daily Trading Volume	0.4M
Net Debt	\$7.4M
Enterprise Value	\$134.86M
Net Debt/EBITDA	0.5x
Diluted Shares Outstanding	14.5M
Free Float	94%
Dividend Yield	N/A

#### WestPeak's Forecast

	<u>2019A</u>	<u>2020E</u>	<u>2021E</u>
Revenue	\$238M	\$221M	\$227M
EBITDA	\$15M	\$23M	\$20M
Net Income	\$18M	\$22M	\$21M
EPS	\$1.24	\$1.53	\$1.26
P/E	9.7x	7.1x	7.5x
EV/EBITDA	7.2X	4.7X	5.6X

#### 1-Year Price Performance



## Business Overview

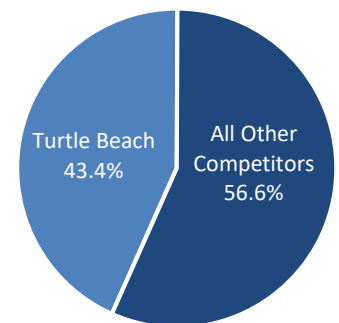
### Company Overview

For over 40 years, Turtle Beach Corp. (“Turtle Beach”, “the Company”) has been on the cutting edge of audio technology innovation. Headquartered in San Diego, California, Turtle Beach is known for its award-winning line of console gaming headsets that give gamers a competitive edge in their gameplay. It has recently added PC gaming headsets to its product lineup and has further expanded into the PC peripherals market with its recent acquisition of ROCCAT GmbH.



### Gaming Headsets

Turtle Beach is known primarily for its console gaming headsets. In 2018, Turtle Beach was the #1 gaming headset provider for Xbox and Playstation console systems, having produced all 5 of the top 5 selling console headsets in the U.S. and Canada. The company’s line of console gaming headsets captured 41.6% of U.S. and Canadian console headset revenue in 2018, which represents a higher revenue share than the next 4 competitors combined, and 49.8% of UK console headset revenue. The success of the company’s console gaming headsets is attributable to many factors, including a strong brand and reputation, strategic partnerships with esports teams and influencers, patented audio technology, and product variety targeted at various customers and price points (\$20-\$299).



U.S. and Canada console headset revenue in 2019

In 2018, Turtle Beach launched a PC gaming headset line with a price range of \$40-\$150. Like its console gaming headsets, the wide range in price points is intended to cater to gamers of all levels, from casual gamers to esports professionals. Since its release, the new line of headsets has garnered praise from both product reviewers and gamers alike. As such, in 2018, Turtle Beach captured 34.8% of the combined console and PC gaming headset market in the U.S. and Canada.



Recon Chat Console Gaming Headset (\$19.95)

Elite Pro 2 Console Gaming Headset (\$249.95)

## PC Peripherals – ROCCAT Acquisition

In May 2019, Turtle Beach acquired ROCCAT, a Hamburg- and Taipei-based producer of PC keyboards, mice, headsets and software. The acquisition introduced new technology to Turtle Beach's product lineup in the form of award-winning gaming mice, keyboards and additional PC gaming headsets. The acquisition also led to experienced PC accessories engineers and product managers joining Turtle Beach's team, further diversifying the breadth of skill among Turtle Beach employees. Lastly, we can expect revenue synergies to arise from the companies leveraging each others' distribution networks to reach new audiences, since their products have minimal overlap.



*Vulcan 120 AIMO Mechanical Gaming Keyboard (\$159.99)*



*Kain 200 AIMO Gaming Mouse (\$99.99)*

## Company Strategy

Turtle Beach management has set a goal of building a \$100 million PC gaming accessories business in the coming years. This section outlines the strategies that will aid them in achieving that goal.

### Expanding Product Lines

Turtle Beach is focused on expanding its total addressable market within the gaming accessories market by diversifying its product lines. Expansion began in 2018 when the company launched the Atlas line of PC gaming headsets, which was very well received by leading PC gaming reviewers and PC gamers. Furthermore, the ROCCAT acquisition added a powerful product lineup consisting of award-winning gaming mice, keyboards and other accessories to its own line of gaming accessories.



*Elite Atlas Pro PC Headset (\$99.95)*

### Growing Revenue in New Markets

The company also aims to expand its international presence by focusing on the key geographies of Asia and Europe. The company has an established presence in North America and in the U.K. as demonstrated by its revenue shares in the two markets (shown in the Business Overview section). Its acquisition of ROCCAT will allow it to penetrate PC-centric European and Asian markets due to ROCCAT's established presence in those geographies. For information regarding the gaming peripheral market's addressable size, please see the Industry Analysis section.

## Expanding Brand Awareness

Turtle Beach seeks to expand its brand awareness by partnering with leading esports teams and influencers, including:

- Astralis: CS:GO esports team that holds 3 Major Championship wins,
- Ali-A: #1 Call of Duty and top Fortnite Youtube channels with 21M+ subscribers,
- Castro\_1021: #1 FIFA streamer on Twitch,
- Kevin DeBruyne: professional football player with Manchester City F.C. and the Belgium national football team.

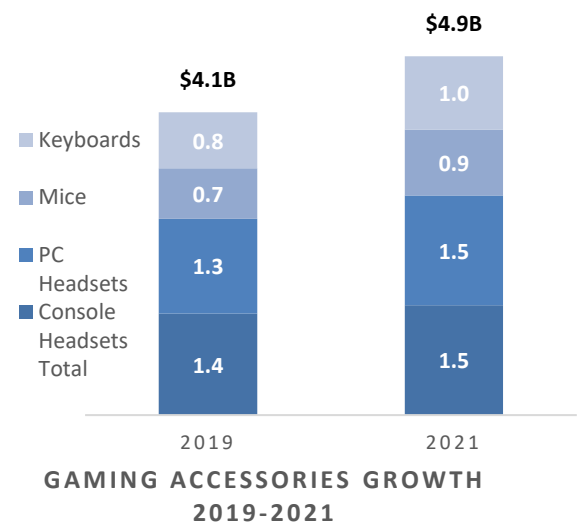
These partnerships will allow Turtle Beach to take advantage of the growing popularity of streaming and esports by advertising Turtle Beach and ROCCAT products to the large audiences streaming and esports attract.

## Industry Analysis

### Gaming Peripherals Market

#### Key Figures

- Gaming peripherals are a growing global market sized at over \$4.1 billion in 2019 (+2.1% YOY growth).
- 75% of the market is concentrated in the Americas and Europe, with the APAC region experiencing the most growth in 2018.
- The combined console and PC gaming headset market is estimated to be worth \$2.7 billion, which represents more than 70% of the total peripherals market.
- The overall gaming accessories market is expected to grow 18% over the course of 2019-2021, with:
  - 24% growth in the gaming keyboards market
  - 25% growth in the gaming mice market
  - 20% growth in the PC headset market
  - 10% growth in the console headset market
- Gaming peripherals are a seasonal market, with a large portion of revenues typically generated around the holiday season. Historically, 45-55% of Turtle Beach's headset sales have occurred between September and December as new products are released and consumers engage in holiday shopping.



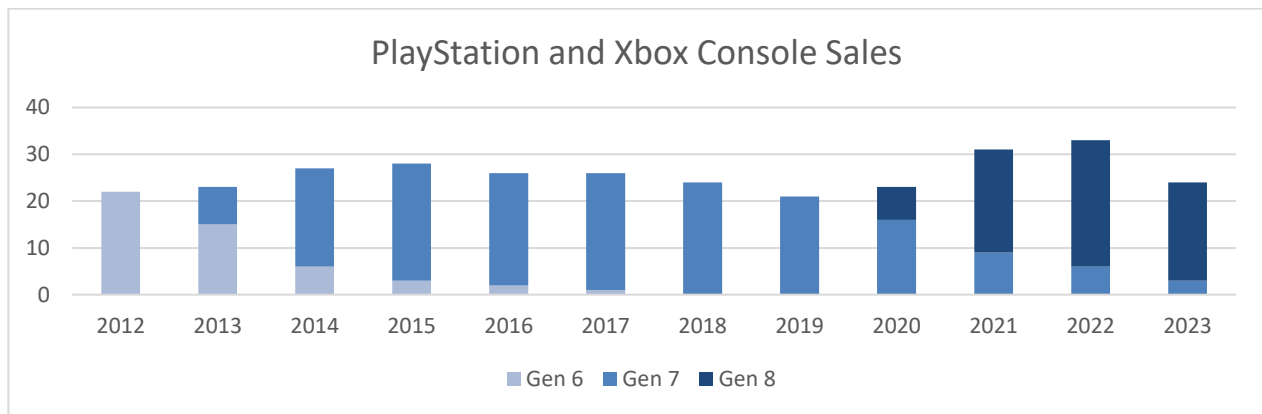
### YOY Growth and the Battle Royale Effect

Battle royale is a genre of game in which multiple combatants fight each other in a shrinking play area until one player or team remains standing. Many Battle Royale games have been released over the years, but Epic Games' Fortnite, released towards the end of 2017, ignited an explosive rise in the popularity of battle royale games. This sudden surge of interest led to unprecedented YOY growth in gaming peripheral sales in 2018, with overall sales growing by +33.7%, including +44.6% growth in console headset sales and +39.9% growth in PC headset sales relative to 2017. This growth is likely attributable to higher gaming headset purchases, as gaming headsets confer several advantages in Battle Royale games, namely hearing enemies' footsteps and being able to communicate with one's team. However, in 2019 sales only grew +2.1% as demand for peripherals sharply decreased relative to 2018.



### Next-Generation Console Launch Effect

Microsoft and Sony have announced the release of next-generation consoles in the holiday season of 2020. Historically, the year prior to the transition from one generation of consoles to the next sees a slump in console sales, and then an acceleration of sales in the 2 years following. Console gaming accessories follow a similar trend with a lag of approximately 1 year, as users delay buying or upgrading their equipment until information about peripheral backward compatibility has been released. As such, Turtle Beach expects the console gaming headset market to fall roughly 11% in 2020, followed by mid to high single digit growth in 2022.



## Investment Thesis

### Turtle Beach's Outlook is Being Sold Short

#### Inflated Valuation

Few companies capitalized on the battle royale craze that swept gamers in 2018 like Turtle Beach. This phenomenon caused the market for console gaming headsets to grow 44% in one year, for Turtle beach's market share in North America to grow

from 42.4% in 2017 to 46.1%. Although initially causing a steep appreciation in the company's stock price, valuations soon became too high to justify the boost in revenue from the non-recurring, meteoric rise of battle royale games, and over the course of March 2019, the stock lost almost 30% of its value. Since then, the stock has fallen a further 20%. We believe that markets have not realized the benefits that the battle royale period have conferred to the company and are overreacting to a justified decline in headset sales.

### Replacements as a Driver

Despite slower growth relative to 2018, battle royale games can still be expected to drive headset demand in future years. Given that a significant portion of gaming headset revenue is generated from consumers replacing and upgrading their equipment, we believe this large growth in Turtle Beach's installed headset base will increase its sales going forward. Surveys show that 55% of Fortnite gamers have a budget of \$100+ for their next headset. Given that company loyalty is very high across the gaming peripherals industry, we believe a significant percentage of Fortnite players that purchased lower-end Turtle Beach headsets in 2018 to upgrade to higher-end models sometime in the next two years.

Regardless of whether battle royale users drive revenue in the future, the influx in capital generated in 2018 allowed Turtle Beach to pay off its debt and retire its preferred stock, putting the company in a better financial position.

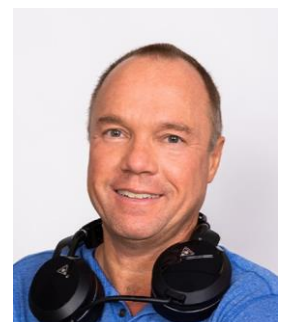
### Failure to Penetrate New Markets

Turtle Beach short sellers cite another main reason for their bearish sentiment towards the company's stock: management's disinclination to penetrate PC and international markets in the past. However, as discussed in the Company Strategy section, Turtle Beach has taken a strong first step towards entering both PC and international markets with the acquisition of ROCCAT in May 2019. We believe that ROCCAT's strong brand in Germany and Taipei will allow Turtle Beach to successfully establish a presence in the European and Asian PC markets in the long term. Indeed, Turtle Beach have allocated roughly \$9 million for 2020-2021 to expand their PC portfolio, continue development on the ROCCAT brand and expand into new geographies.

## Management Team

### Juergen Stark

Juergen Stark became Turtle Beach's Chief Executive Officer in January 2014. Before joining Turtle Beach, Mr. Stark served in senior management roles at Motorola Mobility Holdings Inc.'s \$9 billion Mobile Devices business for over 8 years. There, he led the hardware and software businesses in the consumer, enterprise, and government sectors, taking on the role of Chief Operating Officer in 2011. Prior to that, Mr. Stark was the Chief Executive Officer of Centerpost Corporation, an enterprise solutions technology company that he co-founded. Prior to that, Mr. Stark worked at



McKinsey & Co. as a partner. Mr. Stark obtained a B.S. in Aerospace Engineering at the University of Michigan and completed his M.B.A. at Harvard Business School.

## John T. Hanson

John T. Hanson is Turtle Beach's Chief Financial Officer and Treasurer and Secretary. Prior to joining Turtle Beach in January 2014, Mr. Hanson served as Executive Vice President and Chief Financial Officer at Dialogic, Inc., a global telecommunications network appliance and software business, from 2011 to 2013. Before that, Mr. Hanson served as Chief Financial Officer for OneCommunications Corp., a local exchange carrier, from 2011 to 2013. Mr. Hanson has additionally served as the Chief Financial Officer for multiple companies, such as Worldport Communications, Inc., Millennium Rail, Inc., and Wace USA, Inc. Mr. Hanson holds a B.A. in Commerce from DePaul University and has an M.B.A. from the Northwestern University J.L. Kellogg Graduate School of Business.



## Ronald Doornink

Ronald Doornink has served as Turtle Beach's Chairman of the Board since January 2014. Prior to that, Mr. Doornink served as an Operating Partner of Stripes Group, LLC., a private equity and venture capital firm, since 2006. Before that, Mr. Doornink served as President of Activision, Inc. from 1998 to 2006, holding other senior management and advisory positions at Activision and Activision-Blizzard, Inc. through 2012. Mr. Doornink has additionally served in senior management roles with ConAgra Foods, Inc. and the Procter & Gamble Company. Mr. Doornink holds an undergraduate degree in Economics from the Hogere Economische School of Arnhem in the Netherlands and completed his M.B.A. at Columbia University.



## Shareholder Base and Liquidity

### Shareholder Base

Turtle Beach's shareholder base is not significantly concentrated, with VTB Holdings, Inc. (a wholly-owned subsidiary of Turtle Beach) owning 5.44% of free float. Below is a breakdown of the top 10 shareholders, which own 31.12% of free float collectively. None of the below investors have a track record of activism, which is an advantage because management cannot be influenced to make decisions that are aimed at increasing short-term returns over long-term investments.

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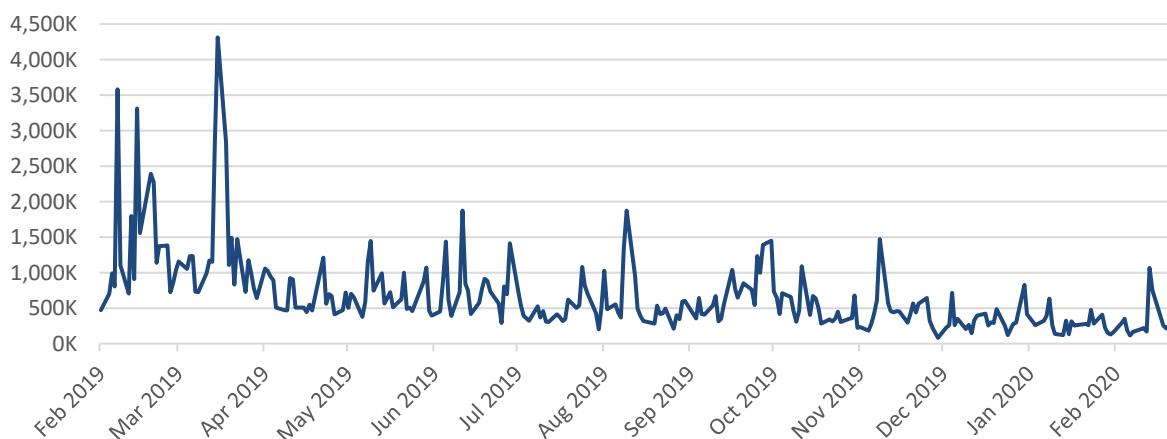
#### Exhibit 1: Top 10 Shareholders

Shareholder (Name)	Shares Owned (mm)	% of Free Float (%)	Insider? (Yes/No)	Filing Date (Date)
<b>VTB Holdings Inc</b>	0.79	5.44	No	02/26/19
<b>Morgan Stanley</b>	0.73	5.04	No	10/14/12
<b>AWM Investment Co Inc</b>	0.54	3.69	No	09/30/19
<b>Systematic Financial Management LP</b>	0.53	3.63	No	09/30/19
<b>Doornink Ronald</b>	0.43	2.95	Yes	08/28/19
<b>Vanguard Group Inc</b>	0.40	2.73	No	09/30/19
<b>MYDA Advisors LLC</b>	0.34	2.37	No	09/30/19
<b>Manatuck Hill Partners LLC</b>	0.31	2.15	No	09/30/19
<b>AWH Capital LP</b>	0.24	1.65	No	09/30/19
<b>Royce &amp; Associates LP</b>	0.21	1.47	No	09/30/19

## Liquidity

As of January 9th, 2020, Turtle Beach's year-to-date average daily trading volume was 716K with a volume-weighted average price of \$12.20. This implies that the average dollar amount traded on a year-to-date basis was approximately \$8.7 million, which seems moderately healthy for its current market capitalization of \$129 million.

**Exhibit 2: Year-To-Date Daily Trading Volume**



Source: Bloomberg



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## Valuation

Our final valuation is computed using the following methods weighted equally: discounted cash flow analysis (perpetuity growth method), discounted cash flow analysis (exit multiple method) and median comparable companies EV/EBITDA. Our DCF analyses yielded an implied share prices of \$15.03 and \$14.89 respectively. Our comparables analysis yielded an implied share price of \$17.13. Using these values, we arrived at a target share price of \$16.00 representing a 58.7% upside of the stock's current price of \$10.08.

### Discounted Cash Flow Analysis Assumptions

**Revenue:** We projected revenue based on management's guidance, which has been reliable (revenue-wise) in the past. Specifically, 2019Q4 revenue is estimated to fall in the range of \$100M-\$102M which represents a ~10% decline from 2018Q4 sales of \$111.3M. This is in line with the expected fall in revenue after the rise of battle royale games boosted revenue in FY2018. We expect low growth during FY2020, given new console releases and continued revenue pull-back from the battle royale effect. For FY2020 and beyond, we project that revenue will grow at a CAGR of 8.5%, a conservative estimate relative to management's guidance of 10-20% CAGR. This reflects management's confidence in their ability to expand into new markets and geographies.

**Gross Margin:** Gross margins are projected to remain between 33-34% for FY2019, and increase incrementally in the future, driven by measures to improve operational efficiency.

**EBITDA:** For FY2020 and beyond, we project that EBITDA will grow at a CAGR of 11.6%, a conservative estimate relative to management's guidance of 15-30% CAGR.

**Effective Tax Rate:** We used the United States corporate tax income figure of 21% as our effective tax rate, overestimating management's estimated tax rate of 19% to compensate for historically bullish management guidance.

**WACC:** We calculated the weighted average cost of capital (WACC) to be 10.8%. This factored in a risk-free rate of 1.39% based on the YTM of 5-year US treasury bills, a 5-year adjusted beta of 1.63, an expected market return of 8.96%, an effective tax rate of 21%, and an after-tax cost of debt of 1.64%.

**Terminal Multiple:** Past our 5-year projection horizon, we used an EV/EBITDA exit multiple of 6.3x, which is equal to Turtle Beach's FY2020 forward multiple.

### Comparable Company Analysis Set

**Logitech International S.A.:** Logitech is a Swiss manufacturer of computer peripherals and software. It owns Astro Gaming, a popular gaming headset brand.

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**Creative Technology Ltd.:** Creative Technology (known as Creative Labs in the United States) is an audio technology designer and manufacturer headquartered in Singapore. It owns the Soundblaster line of gaming headsets.

**Daktronics Inc.:** Daktronics is an American company that designs and manufactures LED displays, scoreboards, digital billboards and sound systems.

**Universal Electronics Inc.:** Universal Electronics is an American manufacturer of smart home-related products, such as universal control technology and wireless security.

**Dolby Laboratories Inc.:** Dolby Laboratories is an American company that develops audio noise reduction and audio encoding/compression software. Dolby generates revenue by licensing its products to consumer electronics manufacturers.

**B&C Speakers S.p.A.:** B&C Speakers is an Italian designer and manufacturer of loudspeaker transducers and OEM audio components.

**Koss Corp.:** Koss Corporation is an American designer and manufacturer of high-fidelity computer and stereo headphones, wireless headphones and wireless speakers

## Recommendation

We believe that the market's pessimism of Turtle Beach's future performance, as shown by the significant short interest in its stock, is overblown and unjustified. Our research indicates that the market has overcorrected the company's inflated valuation due to the meteoric growth of battle royale games in 2018. Our target share price of \$11.00 represents a 12-month total return of 58.3% from the current share price of \$6.95. We initiate a **Buy** rating on Turtle Beach.

## Risks

### Performance of New Video Game Titles and Gaming Platforms

The performance of Turtle Beach's products depends on the success of certain gaming franchises, especially those that offer multiplayer experiences which drive headset sales. It also depends on the success of gaming platforms, such as Microsoft's Xbox and Sony's PlayStation. Both have announced the launch of new gaming consoles for the 2020 holiday season. If next-generation consoles or game franchises that indirectly drive headset sales were to perform poorly in the future, Turtle Beach's business could be adversely affected.

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## Competition

Turtle Beach faces significant competition from large companies that produce gaming accessories, such as Razer Inc., Logitech Int. S.A. (ASTRO Gaming), and Kingston Technology Corp (HyperX). Larger competitors could allocate more capital towards research and development, adopt more aggressive pricing policies, and launch broader marketing campaigns, which could adversely affect Turtle Beach's sales. Given that Turtle Beach captured 41.6% of U.S. and Canada console headset revenue in 2018, competitors have a compelling reason to eat into Turtle Beach's market share.

## Integration Uncertainty

Turtle Beach may not be able to capitalize on intended strategic benefits from the acquisition of ROCCAT if growth forecasts in European / PC peripherals markets were overestimated. In such a scenario, Turtle Beach will have spent a significant portion of its cash reserves and incurred debt without generating any positive impact on its business, which would represent a pointless deterioration of its financial condition.

## Concentrated Customer Base

Turtle Beach counts on a few customers to generate a significant portion of its revenue. In 2018, its three largest customers (Walmart, Game Stop, Best Buy) accounted for approximately 44% of gross sales. Those three customers have consistently accounted for 40%+ of annual revenue since 2013. Furthermore, the company holds no long-term agreements with any of its significant customers and current agreements do not require customers to purchase any specific amount of the company's products. If the company were to lose any significant customers, it would have a strong detrimental effect on its business and financial condition.

## Financing Risk

Turtle Beach depends its revolving credit facility with the Bank of America to finance its operations. If the company were unable to abide by the credit facility's covenant (a fixed charge coverage ratio of 1.0x or greater measured quarterly), the lender may demand that any outstanding borrowings be paid back immediately. Such an event could obligate the company to seek out alternative sources of funding which may not be secured on favourable terms, or at all. Such a scenario would have immediate and material adverse effects on the company's business and financial condition.

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Analyst

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## Appendix 1: Model Summary

	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24
(Figures in mm USD)	FY2014	FY2015	FY2016	FY2017	FY2018	Q1-2019	Q2-2019	Q3-2019	Q4-2019	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
<b>Income Statement</b>															
Revenue	186.2	162.7	174.0	149.1	287.4	44.8	41.3	46.7	100.2	233.1	231.1	254.3	277.1	299.3	320.3
EBITDA	(8.0)	(68.5)	(72.6)	8.9	58.0	2.8	(0.1)	1.0	9.8	13.5	22.7	25.4	26.3	31.4	35.2
Net Income	(15.5)	(82.9)	(87.2)	(3.2)	39.2	3.1	(2.4)	(3.1)	9.0	6.5	19.4	23.0	24.1	29.5	33.7
Earnings Per Share	\$ (0.39)	\$ (1.96)	\$ (1.79)	\$ (0.26)	\$ 2.74	\$ 0.19	\$ (0.16)	\$ (0.22)	\$ 0.64	\$ 0.44	\$ 1.38	\$ 1.63	\$ 1.72	\$ 2.10	\$ 2.40
<b>Cash Flow Statement</b>															
Capital Expenditures	(3.5)	(6.7)	(3.2)	(4.4)	(5.1)	(0.6)	(0.5)	(0.6)	(0.6)	(2.2)	(1.7)	(2.3)	(1.9)	(1.4)	(0.9)
Acquisitions	4.1	-	-	-	-	-	(12.7)	-	-	(12.7)	-	-	-	-	-
Dividend Payment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend Per Share	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Dividend Payout to Earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend Payout to Core FCF	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend Yield	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Balance Sheet</b>															
Current Assets	116.1	94.9	86.6	86.8	113.8	71.9	77.7	108.0	120.9	120.9	137.2	162.4	188.7	219.9	255.5
Non-Current Assets	130.9	77.6	8.2	7.5	8.1	10.0	24.1	22.6	22.1	22.1	20.5	20.4	20.1	19.5	18.9
Assets	247.0	172.5	94.8	94.3	121.9	81.9	101.8	130.6	143.0	143.0	157.7	182.9	208.8	239.4	274.4
Current Liabilities	88.9	69.2	66.9	67.6	73.6	29.7	52.6	84.5	88.0	88.0	83.4	85.5	87.3	88.5	89.8
Non-Current Liabilities	26.9	46.6	48.6	48.9	10.8	4.9	4.9	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Liabilities	115.8	115.8	115.5	116.4	84.4	34.5	57.4	89.0	92.4	92.4	87.8	90.0	91.8	92.9	94.2
Shareholders' Equity	131.2	56.7	(20.7)	(22.2)	37.5	47.4	44.4	41.6	50.6	50.6	69.9	92.9	117.0	146.5	180.2
Cash	7.9	7.1	6.2	5.2	7.1	10.2	3.4	7.0	7.2	7.2	9.1	52.7	68.2	88.7	112.3
Debt	44.6	49.4	49.0	49.4	37.4	-	10.8	26.6	-	-	-	-	-	-	-
Net Debt	36.6	42.3	42.8	44.2	30.3	(10.2)	7.4	19.5	(7.2)	(7.2)	(9.1)	(52.7)	(68.2)	(88.7)	(112.3)
Minority Interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt/EBITDA	n/a	n/a	n/a	5.0 x	0.5 x	-	-	-	-	n/a	n/a	n/a	n/a	n/a	n/a
<b>Operating Metrics</b>															
Return on Equity (ROE)	-11.8%	-146.3%	421.3%	14.7%	104.5%	-	-	-	-	12.9%	27.7%	24.7%	20.6%	20.2%	18.7%
Return on Assets (ROA)	-6.3%	-48.1%	-92.0%	-3.4%	32.1%	-	-	-	-	4.6%	12.3%	12.6%	11.5%	12.3%	12.3%
Return on Invested Capital (ROIC)	-37.7%	-300.8%	-432.9%	31.5%	132.7%	-	-	-	-	18.9%	40.7%	85.0%	67.7%	66.1%	61.6%
<b>Valuation Metrics</b>															
Stock Price (High)	\$ 23.44	\$ 10.52	\$ 8.00	\$ 34.50	\$ 21.89	\$ 19.00	\$ 12.76	\$ 11.81	\$ 6.95	\$ 19.00	\$ 6.95	\$ 6.95	\$ 6.95	\$ 6.95	\$ 6.95
Stock Price (Low)	\$ 7.00	\$ 3.32	\$ 2.23	\$ 1.64	\$ 8.25	\$ 10.58	\$ 8.13	\$ 8.46	\$ 6.95	\$ 6.95	\$ 6.95	\$ 6.95	\$ 6.95	\$ 6.95	\$ 6.95
Stock Price (Average)	\$ 15.22	\$ 6.92	\$ 5.12	\$ 18.07	\$ 15.07	\$ 14.79	\$ 10.45	\$ 10.14	\$ 6.95	\$ 12.98	\$ 6.95	\$ 6.95	\$ 6.95	\$ 6.95	\$ 6.95
Diluted Shares Outstanding (Average)	39.7	42.3	48.6	12.3	14.3	16.3	14.6	14.1	14.1	14.7	14.1	14.1	14.1	14.1	14.1
Market Capitalization (Average)	603.7	292.5	248.5	222.9	215.3	240.5	152.4	142.5	97.7	191.2	97.7	97.7	97.7	97.7	97.7
Enterprise Value (Average)	640.3	334.8	291.4	267.1	245.6	230.3	159.7	162.0	90.5	184.0	88.6	45.0	29.5	9.0	(14.6)
P/E	n/a	n/a	n/a	n/a	5.5 x	-	-	-	-	29.3 x	5.0 x	4.3 x	4.1 x	3.3 x	2.9 x
EV/EBITDA	n/a	n/a	n/a	30.1 x	4.2 x	-	-	-	-	13.6 x	3.9 x	1.8 x	1.1 x	0.3 x	n/a
FCF Yield to Market Capitalization	-1.7%	-29.0%	-32.5%	-1.7%	13.7%	-	-	-	-	1.4%	3.0%	39.7%	10.6%	14.6%	16.9%
FCF Yield to Enterprise Value	-1.6%	-25.3%	-27.7%	-1.4%	12.0%	-	-	-	-	1.5%	3.3%	86.3%	35.2%	158.1%	-113.1%
<b>Free Cash Flow</b>															
EBIT	(13.8)	(74.4)	(77.7)	4.8	54.0	1.8	(2.3)	(2.5)	8.7	5.7	19.5	23.0	24.0	29.5	33.7
Tax Expense	6.3	(2.4)	0.4	(0.6)	(1.7)	(0.2)	(0.0)	(0.1)	(1.8)	(1.2)	(4.1)	(4.8)	(5.0)	(6.2)	(7.1)
D&A	5.8	5.9	5.1	4.1	4.0	1.0	2.2	3.5	1.1	7.8	3.2	2.4	2.3	2.0	1.6
Capital Expenditures	(3.5)	(6.7)	(3.2)	(4.4)	(5.1)	(0.6)	(0.5)	(0.6)	(0.6)	(2.2)	(1.7)	(2.3)	(1.9)	(1.4)	(0.9)
Changes in NWC	(4.8)	(7.1)	(5.2)	(7.6)	(21.8)	39.6	(1.0)	(11.7)	(34.3)	(7.3)	(14.0)	20.5	(9.0)	(9.6)	(10.7)
Unlevered Free Cash Flow	(10.1)	(84.7)	(80.7)	(3.7)	29.4	41.7	(1.6)	(11.4)	(26.9)	2.7	2.9	38.8	10.4	14.2	16.5

## Appendix 2: Discounted Cash Flow Analysis

(Figures in mm USD)	FY2014	FY2015	FY2016	FY2017	FY2018	Q1-2019	Q2-2019	Q3-2019	Q4-2019	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
<b>WACC Calculations</b>															
<b>Cost of Equity</b>															
Risk-free rate	1.4%														
Expected market return	9.0%														
<b>Market Risk Premium</b>	<b>7.6%</b>														
Beta	1.63														
<b>Cost of Equity</b>	<b>13.7%</b>														
<b>Cost of Debt</b>															
Pre-tax cost of debt	1.6%														
Effective tax rate	21.0%														
<b>Cost of Debt</b>	<b>1.3%</b>														
<b>WACC</b>															
Market value of equity	97.7														
Market value of debt	29.6														
<b>Total Capitalization</b>	<b>127.3</b>														
Cost of equity	13.7%														
Cost of debt	1.3%														
<b>WACC</b>	<b>10.8%</b>														
<b>Free Cash Flow</b>															
EBIT	(13.8)	(74.4)	(77.7)	4.8	54.0	1.8	(2.3)	(2.5)	8.7	5.7	19.5	23.0	24.0	29.5	33.7
Less: Tax expense	6.3	(2.4)	0.4	(0.6)	(1.7)	(0.2)	(0.0)	(0.1)	(1.8)	(1.2)	(4.1)	(4.8)	(5.0)	(6.2)	(7.1)
Add: Depreciation and amortization	5.8	5.9	5.1	4.1	4.0	1.0	2.2	3.5	1.1	7.8	3.2	2.4	2.3	2.0	1.6
Less: Capital expenditures	(3.5)	(6.7)	(3.2)	(4.4)	(5.1)	(0.6)	(0.5)	(0.6)	(0.6)	(2.2)	(1.7)	(2.3)	(1.9)	(1.4)	(0.9)
Less: Change in net working capital	(4.8)	(7.1)	(5.2)	(7.6)	(21.8)	39.6	(1.0)	(11.7)	(34.3)	(7.3)	(14.0)	20.5	(9.0)	(9.6)	(10.7)
<b>Unlevered Free Cash Flow</b>	<b>(10.1)</b>	<b>(84.7)</b>	<b>(80.7)</b>	<b>(3.7)</b>	<b>29.4</b>	<b>41.7</b>	<b>(1.6)</b>	<b>(11.4)</b>	<b>(26.9)</b>	<b>2.7</b>	<b>2.9</b>	<b>38.8</b>	<b>10.4</b>	<b>14.2</b>	<b>16.5</b>
Discount factor						-	-	-	0.25	0.25	1.25	2.25	3.25	4.25	5.25
<b>Present Value of Unlevered Free Cash Flow</b>						-	-	-	<b>(26.2)</b>	<b>(26.2)</b>	7.5	30.8	7.4	9.2	9.6
<b>Discounted Cash Flow Valuations</b>															
<b>Perpetuity Growth Method</b>															
<b>Perpetuity Growth Rate</b>	<b>2.0%</b>														
PV sum of unlevered FCF	38.3														
Terminal value	111.2														
<b>Enterprise Value</b>	<b>149.5</b>														
Add: Cash	7.0														
Less: Debt	26.6														
Less: Other EV adjustments	-														
<b>Equity Value</b>	<b>130.0</b>														
Shares outstanding	14.1														
<b>Implied Share Price</b>	<b>\$ 9.25</b>														
<b>Exit Multiple Method</b>															
<b>Terminal EV/EBITDA Multiple</b>	<b>6.3x</b>														
PV sum of unlevered FCF	38.3														
Terminal value	129.3														
<b>Enterprise Value</b>	<b>167.6</b>														
Add: Cash	7.0														
Less: Debt	26.6														
Less: Other EV adjustments	-														
<b>Equity Value</b>	<b>148.1</b>														
Shares outstanding	14.1														
<b>Implied Share Price</b>	<b>\$ 10.54</b>														
<b>WACC Sensitivity Analysis</b>															
<b>Perpetuity Growth Rate</b>		<b>WACC</b>													
		11.02%	10.52%	10.02%	9.52%	9.02%									
	1.00%	\$ 8.17	\$ 8.75	\$ 9.39	\$ 10.11	\$ 10.92									
	1.50%	\$ 8.57	\$ 9.20	\$ 9.90	\$ 10.70	\$ 11.60									
	2.00%	\$ 9.01	\$ 9.70	\$ 10.48	\$ 11.36	\$ 12.37									
2.50%	\$ 9.50	\$ 10.26	\$ 11.13	\$ 12.12	\$ 13.26										
3.00%	\$ 10.05	\$ 10.90	\$ 11.87	\$ 12.99	\$ 14.30										
<b>Terminal EV/EBITDA Multiple</b>		<b>WACC</b>													
		11.02%	10.52%	10.02%	9.52%	9.02%									
	6.0x	\$ 10.01	\$ 10.26	\$ 10.52	\$ 10.79	\$ 11.06									
	7.0x	\$ 11.46	\$ 11.74	\$ 12.04	\$ 12.34	\$ 12.65									
	8.0x	\$ 12.90	\$ 13.23	\$ 13.56	\$ 13.90	\$ 14.25									
	9.0x	\$ 14.35	\$ 14.71	\$ 15.07	\$ 15.45	\$ 15.84									
10.0x	\$ 15.80	\$ 16.19	\$ 16.59	\$ 17.01	\$ 17.43										
Current Price	\$ 6.95														
<b>Implied Price</b>	<b>\$ 9.25</b>														
<b>Total Return</b>	<b>33.1%</b>														
Current Price	\$ 6.95														
<b>Implied Price</b>	<b>\$ 10.54</b>														
<b>Total Return</b>	<b>51.6%</b>														

