

Consumer

Active Lifestyle & Device Accessories Highlights From CES

Companies are pushing further into fast-growing and other notable categories like wireless headphones, action cameras, activity trackers and broader health & wellness-related wearables (including ones branded by Under Armour), and virtual reality; we found no shortage of related products at CES 2016. We came away encouraged by further consolidation in traditional wired headphones, though competition appears to be increasing in wireless, action cams, and activity trackers. Today's report includes individual takeaways related to Plantronics, ZAGG, Skullcandy, and Mad Catz.

- **Competition In Wireless More Pronounced Than In Wired Headphones.** We noted substantially fewer wired headphone offerings than in prior years and declining levels of innovation and emphasis from the likes of certain industry participants, including Monster, SMS Audio, and House of Marley. Offsetting this trend somewhat, the wireless category has become somewhat more competitive, and we noted new offerings from the likes of Sony, JBL, Skullcandy (SKUL - Buy), and ZAGG (ZAGG - Neutral) —though generally at fairly robust price points. Wireless early-mover LG demonstrated previously-launched product like its Tone Active and Tone Infinim headphones, while Jaybird launched a slightly upgraded version of its previously-successful e2 product with smaller ear inserts and an accompanying “my sound” app. Beyond that, several companies launched headphones focused on immersive technology and/or 3D directional sound—including GN Netcom’s Jabra, Skullcandy, and Mad Catz (MCZ, Buy).
- **Notable New Wireless Offerings From Skullcandy.** Skullcandy announced several new products ranging from wireless headphones to new portable speakers and immersive audio. Ink’d Wireless is a Bluetooth upgrade to one of the world’s top-selling headphones. It is expected to launch this summer and retail for \$49.99 (or a ~\$34 premium to wired), while Grind Wireless should launch in April at \$89.99 and Method Wireless should launch in fall at \$59.99—all of which seem like attractive price points versus the competition. Meanwhile, new Barricade speakers are louder, more rugged, and priced more aggressively than prior speaker offerings. Beyond that, Skullcandy announced a wireless version of its highly-successful Crusher product that should launch at retail in Holiday 2016 for \$149.99, or a 50% premium to its wired version. Crusher VRA features directional bass at 35hz and will be more of a halo product at its targeted price point of \$299.99. Both products feature upgraded aesthetics and audio quality.
- **A Range Of Innovative Products From Plantronics.** Plantronics (PLT - Buy) showcased several products and technologies, ranging from UC headsets, wireless headphones, and PC gaming headsets to IoT- and secure payments-related voice-activated concept devices. It also demoed a Google Smart Lock-integrated concept device that utilizes a variety of factors to determine if action should be taken to lock a phone or laptop when separated from the rightful owner. Notable products included the industry’s first Bluetooth stereo headset with active noise-cancellation technology designed for open workspaces as well as a PC gaming headset engineered for e-sports players. We also discussed new Plantronics Manager Pro capabilities that are the first in the industry to simplify headset management at an enterprise level through organization-wide deployment of DECT security firmware enhancements to wireless headsets. We believe this may have the potential to drive material revenue in coming quarters.

Reason for Report:

Industry Update

Roth Covered Companies Mentioned in this Report:

MCZ	\$0.40	Buy
PLT	\$43.81	Buy
SKUL	\$4.60	Buy
ZAGG	\$9.67	Neutral

Stock prices are as of previous day's close, if not otherwise specified

CES HIGHLIGHTS (CONTINUED)

ZAGG Moving Into Action Cams & Wireless Earbuds

ZAGG launched several new products at CES, including a portable action cam that takes social media-ready 6-second videos and retails for \$129.99, \$99.99 wireless headphones, and a \$79.99 mobile charging station that simultaneously charges an iPhone and Apple Watch. Meanwhile, new ZAGG-branded keyboards developed in coordination with Samsung may have the potential to hold segment sales flat in 2016.

Key Product Intros From Mad Catz To Help Offset Rock Band Margin Pressures

We had the opportunity to view and assess several of Mad Catz' recent product introductions, including the R.A.T1 Gaming Mouse and Tritton Katana universal headphone, the latter of which utilizes HDMI connections to wirelessly transmit surround sound. Management plans to use these CES Innovations Award winners as halo products as it looks to rebuild its headphone and PC gaming businesses. We view this as necessary as it looks to offset margin pressures amidst significant discounting for its Rock Band 4 products. Just ahead of CES, Mad Catz also announced itself as the first company to offer traditional video game controller hardware for the Designed for Samsung program and its intention to introduce a range of mobile gaming products for Samsung devices. Management remains optimistic that mobile gaming is on the verge of more widespread adoption.

INDIVIDUAL COMPANY VALUATIONS

Mad Catz Interactive (MCZ, Buy)

Our \$0.65 price target assumes a 2.1x multiple on FY17 projected book value of \$0.32. We believe this is reasonable in the context of a projected 20% ROE. Impediments to our price target include the inability to accurately predict consumer preferences, a decline in business from key customers, lackluster consumer spending, greater-than-anticipated competitive pressures, and weaker-than-expected adoption of new gaming consoles or accompanying accessories.

Plantronics (PLT, Buy)

Our \$64 price target assumes a roughly 18x multiple on our FY17 EPS estimate of \$3.50. Impediments to our price target include slower than expected and/or weak adoption of UC with voice products, increased competition, the inability to acquire customers and develop new products, weak enterprise or consumer spending, broad economic challenges in the U.S. or abroad, and foreign currency risk.

Skullcandy (SKUL, Buy)

Our \$10 price target assumes a roughly 8.0x multiple on our new 2016 EBITDA estimate. Impediments to our price target include increased competition, seasonally weak results, a decrease in business from or loss of major customers, inaccurate predictions of consumer preferences and fashion trends, inventory write-downs, poor execution of key initiatives, the departure of key members, weak consumer spending, and significant short interest.

ZAGG (ZAGG, Neutral)

Our \$9 price target assumes a roughly 15x multiple on our FY16 EPS estimate of \$0.60. Factors that could cause ZAGG shares to significantly deviate from our price target include: increased competition, the company's reliance on key customers, the risk of inventory obsolescence, integration risk, failure to execute on key initiatives, the departure of key personnel, and weak consumer spending.

INDIVIDUAL COMPANY RISKS

Mad Catz Interactive (MCZ, Buy)

- Much of the company's potential for success hinges on its ability to accurately predict consumer preferences. We believe that the company's failure to anticipate, identify, and react in a timely matter to consumer preferences could negatively affect its business.
- Consumer spending remains fairly constrained due to a difficult but improving economic environment. Lackluster consumer confidence could limit discretionary purchases and negatively impact Mad Catz's sales.
- GameStop and Amazon each comprise more than 10% of gross sales, thus representing significant customer concentrations. Meanwhile, Mad Catz's top 10 customers made up roughly 57% of gross sales in FY15. A meaningful decrease in business from or loss of any major customers could harm the company's financial condition by causing a meaningful decline in revenues.
- A significant portion of revenues is derived from the sale of video game accessories for use with proprietary video game platforms, such as Xbox One, PlayStation 4, and Wii U. The success of the company's products is significantly affected by commercial acceptance of such video game platforms and the life cycle of older platforms. Meanwhile, the company is reliant on license agreement renewals with these console developers.
- Mad Catz faces competition from several gaming accessories manufacturers, including Turtle Beach (HEAR, NC), Skullcandy's (SKUL, Buy) Astro, Plantronics (PLT, Buy), SteelSeries, and Razer in headphones, Logitech (LOGI, NC) in controllers, and Thrustmaster in flight simulation. Several recent product introductions have helped the company to gain credibility with core gamers following somewhat lackluster reviews of prior products, but we worry to what extent first-mover status and high price points on these new products will result in increasing competition going forward.

Plantronics (PLT, Buy)

- Plantronics is dependent on the efforts of Microsoft, Cisco, and other UC vendors in helping to drive enterprise adoption. The pace of UC audio and video adoption could remain slow, pushing out potential cash flows and increasing the risk that Plantronics headsets could be eventually outpaced by competitors or newer technology.
- The company faces competition from other office & contact center headset providers, including GN Netcom (Jabra), Sennheiser, and Accutone. Meanwhile, UC vendors themselves could look to make their own headsets at some point. In consumer audio, the company competes with several companies, including, Sennheiser, GN Netcom, Microsoft, Turtle Beach, Motorola, Jawbone, Rocketfish, Skullcandy, and V-Moda.
- The company is dependent on its ability to acquire customers and develop new products. Failure to execute on key initiatives could limit the company's growth.
- Enterprise spending remains somewhat lackluster due to a slow-growing economy, and headset adoptions/replacements are down due to limited but improving job turnover.
- Consumer spending remains fairly constrained due to a difficult economic environment and anemic job growth. Lackluster consumer confidence could limit discretionary purchases and negatively impact Plantronics' sales.
- Sales to the Europe, Middle East, & Africa region account for roughly 30% of sales, and economic fiscal challenges in Europe are weighing on enterprise and consumer spending.
- International sales account for 40%-45% of revenues, exposing the company to significant foreign currency risk.

Skullcandy (SKUL, Buy)

- The company faces significant competition from entrenched headphone companies (Bose, beats by dr. dre, Sony) as well as smaller competitors and/or more recent entrants (Sennheiser, V-Moda, Klipsch, Soul by Ludacris, SYNC by 50, House of Marley, Able Planet, Sol Republic, Neff).
- The company's operating results fluctuate quarterly with the third and fourth quarters typically generating stronger sales and when applicable, profitability. Therefore, the company is somewhat dependent on its second half performance and any unfavorable changes in weather and holiday shopping trends could negatively affect operating results.
- At more than 10% of revenues, Best Buy represents a significant customer concentration. A meaningful decrease in business from or loss of any major customers could harm the company's financial condition by causing a meaningful decline in revenues attributable to such customers.
- Much of the company's potential for success hinges on its ability to accurately predict consumer preferences and fashion trends. We believe that the company's failure to anticipate, identify, and react in a timely matter to consumer preferences, could negatively affect its business.
- The company is dependent on its ability to acquire customers and develop new products. Failure to execute on key initiatives could limit the company's growth. Skullcandy also faces the risk of claims that it violated its parties' intellectual property rights, resulting in potential legal liabilities.
- Skullcandy takes measured risks in building inventory for newly introduced product that may not sell-through as expected due to weak consumer interest.
- Skullcandy is a growth company that is dependent on the efforts of senior management. The departure of key members of this management team could negatively impact results.
- Consumer spending remains fairly constrained due to a difficult economic environment and anemic job growth. Lackluster consumer confidence could limit discretionary purchases and negatively impact Skullcandy's sales.

ZAGG (ZAGG, Neutral)

- Although we believe ZAGG's key competitive advantage is its distribution, some argue that its products lack differentiation, making it easier for competitors to enter the market. Not only are there several competitive products, but companies with greater resources could develop or acquire similar products that could negatively affect ZAGG's market position and/or financial results.
- At ~30% of revenues, Best Buy represents a significant customer concentration. This relationship also creates significant levels of Accounts Receivable that are not quickly converted to cash. Wal-Mart accounts for another 12% of sales, and we believe others like Target and certain wireless carriers account for high concentrations as well. A significant decrease in business from or loss of any major customers could harm the company's financial condition by causing a meaningful decline in revenues attributable to such customers.
- The company's operating results fluctuate quarterly with the third and fourth quarters typically generating stronger sales and when applicable, profitability. Therefore, the company is somewhat dependent on its second half performance and any unfavorable changes in weather and holiday shopping trends could negatively affect operating results.
- Consumer spending remains fairly constrained due to a difficult economic environment and anemic job growth. Lackluster consumer confidence could limit discretionary purchases and negatively impact ZAGG's sales.
- ZAGG takes measured risks in building inventory for newly introduced smartphone and tablet models that may not sell-through as expected due to weak consumer response to the new models.
- The company is dependent on its ability to acquire customers and develop new products. Failure to execute on key initiatives could limit the company's growth.
- ZAGG is an emerging growth company that is highly-dependent on the efforts of senior management. The departure of key members of this management team could negatively impact results.
- A significant percentage of ZAGG shares are held short, thereby exposing them to meaningful volatility in and around news items.

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For important disclosure information regarding the companies in this summary report, please contact: The Director of Research at (800) 678-9147 or write to: ROTH Capital Partners, LLC, Attention: Director of Research, 888 San Clemente Drive, Newport Beach, CA 92660

Disclosures:

Within the last twelve months, ROTH has received compensation for investment banking services from Mad Catz Interactive, Inc. and Plantronics, Inc..

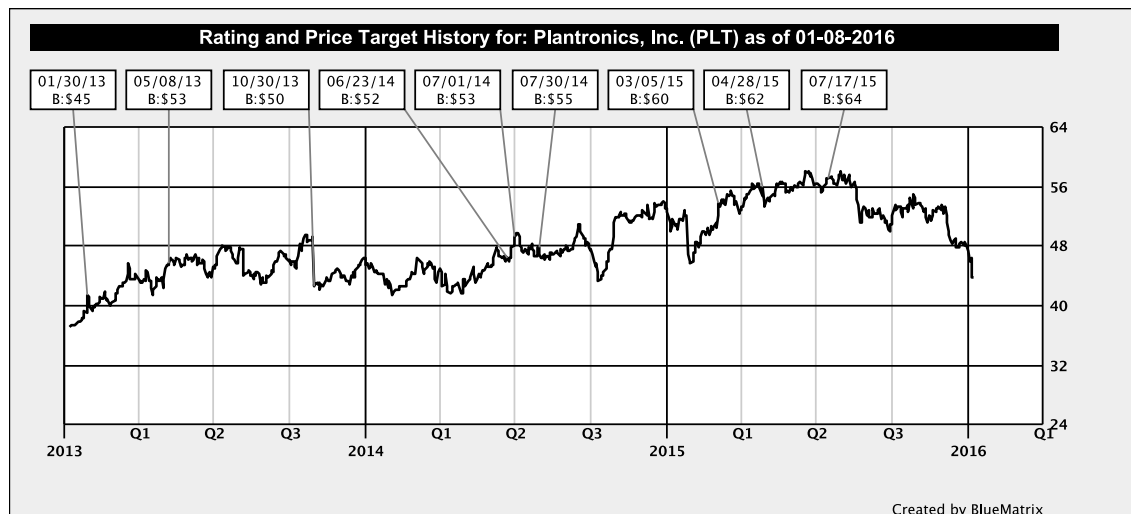
ROTH makes a market in shares of Mad Catz Interactive, Inc., Skullcandy, Inc. and ZAGG Incorporated and as such, buys and sells from customers on a principal basis.

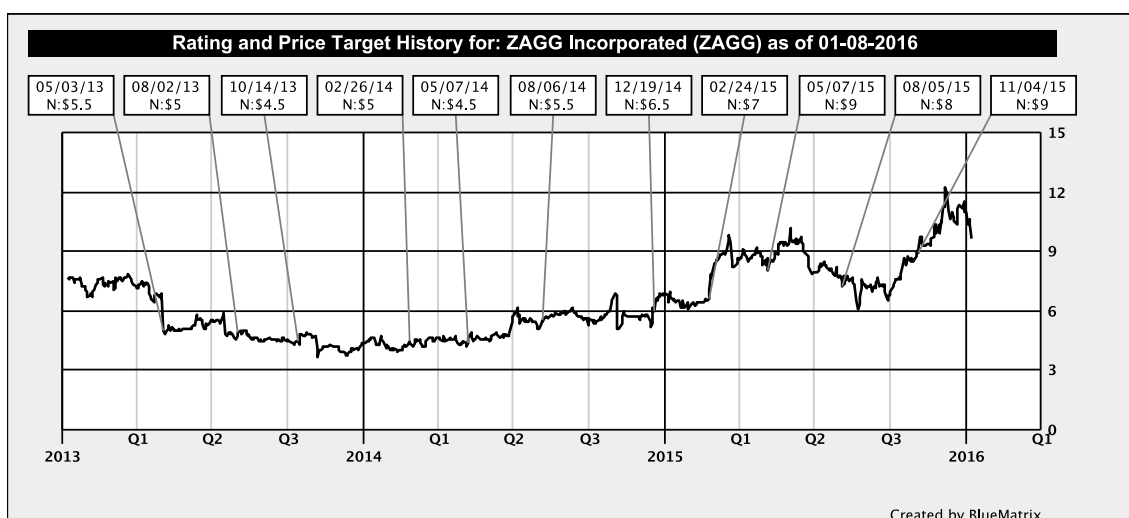
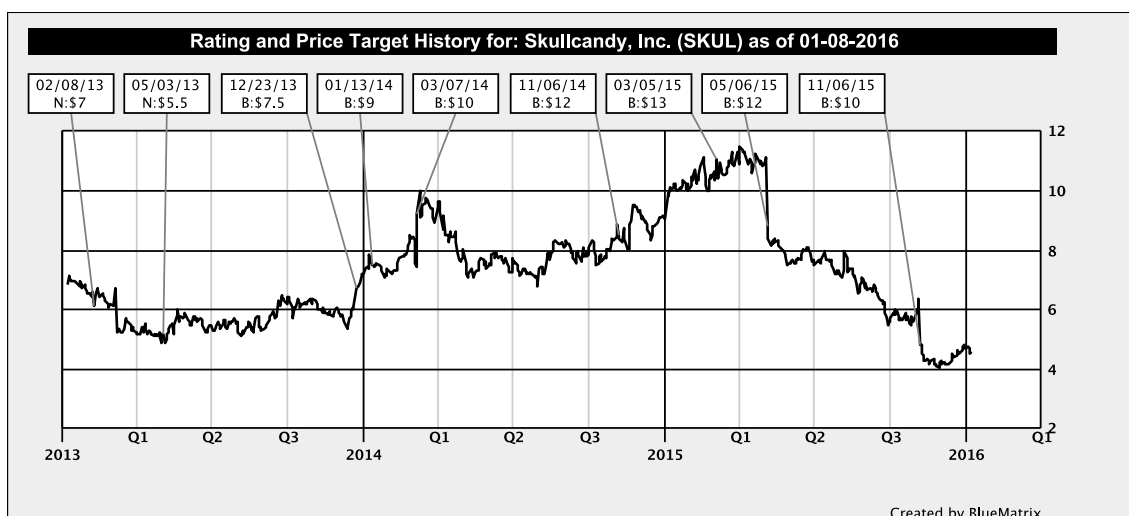
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On September 28, 2010, ROTH changed its rating system in order to replace the Hold rating with Neutral.

On May 26, 2011, ROTH changed its rating system in order to incorporate coverage that is Under Review.





Each box on the Rating and Price Target History chart above represents a date on which an analyst made a change to a rating or price target, except for the first box, which may only represent the first note written during the past three years. **Distribution Ratings/IB Services** shows the number of companies in each rating category from which Roth or an affiliate received compensation for investment banking services in the past 12 month.

Distribution of IB Services Firmwide

Rating	Count	Percent	IB Serv./Past 12 Mos. as of 01/11/16	
			Count	Percent
Buy [B]	229	77.89	131	57.21
Neutral [N]	30	10.20	16	53.33
Sell [S]	5	1.70	0	0
Under Review [UR]	25	8.50	17	68.00

Our rating system attempts to incorporate industry, company and/or overall market risk and volatility. Consequently, at any given point in time, our investment rating on a stock and its implied price movement may not correspond to the stated 12-month price target.

Ratings System Definitions - ROTH employs a rating system based on the following:

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Sell: A rating, which at the time it is instituted and or reiterated, that indicates an expectation that the price will depreciate by more than 10% over the next 12 months.

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Not Covered [NC]: ROTH does not publish research or have an opinion about this security.

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