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Half Moon Capital

TILE SHOP HOLDINGS, INC. (TTSH)

WIDE-MOAT INVESTMENT SUMMIT 2021



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Overview

- Launched July 1, 2011
- Deep value focused on complex, off-the-run situations
- Focused on equity securities in less efficient areas of the market
- Intensive research driven investment process
- Shorts are alpha-generating single name investments
- Concentrated portfolio of best ideas
- Goal: Consistent, positive returns compounded over the longer-term



MOI Conferences Track Record

<u>Year</u>	<u>Company</u>	<u>Ticker</u>	<u>Share Price</u>		<u>Change</u>
			<u>at Conference</u>	<u>Current</u>	
2021	Tile Shop Holdings	TTSH	\$4.19	\$8.46	102%
2019	BlueLinx Holdings	BXC	\$10.17	\$45.85	351%
2017	Aerojet Rocketdyne	AJRD	\$18.10	\$48.40	167%
2016	Tower International*	TOWR	\$24.14	\$31.00	28%
2015	Darling Ingredients	DAR	\$17.75	\$63.27	256%
2014	Murphy USA	MUSA	\$41.83	\$126.84	203%
2013	JB Sanfilippo	JBSS	\$17.95	\$89.49	399%

**Acquired in 2019*



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Tile Shop Holdings, Inc. (TTSH)

Tile Shop (TTSH)

Summary

- Specialty retailer of floor and wall tiles
- Up-listed to NASDAQ last week
- Q1 performance and other datapoints indicate ERP issues rectified
- Normalization of business hours to drive volume
- Benefiting from a number of tailwinds
- Very attractive risk-reward
- Strong balance sheet
- +100% upside to equity
- Multiple catalysts

Data as of 6/21/21

(\$Ms, except per share data)

Ticker	TTSH
Stock Price	\$8.46
Shares Out. (FD)	<u>51.0</u>
Market Cap	\$431.5
Net Debt	<u>(\$35.9)</u>
Enterprise Value	\$395.6
EV/ LTM EBITDA	8.7x
EV/ 2021E EBITDA	7.4x

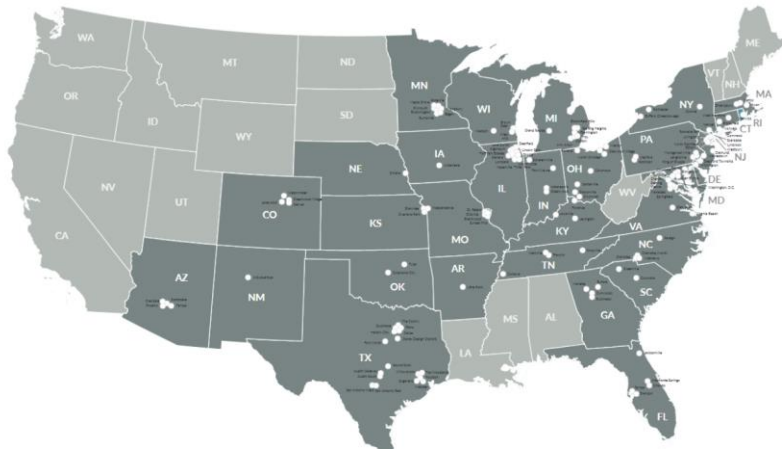


Business Overview



Retail Footprint

- Operates 143 locations covering most the US excluding the West Coast
- Average store size is 20k sq ft
 - HD and LOW: 5k sq ft dedicated to flooring
 - Floor & Décor: 19k sq ft dedicated to tile
- 5 regional DCs servicing its retail locations



Business Overview

Product

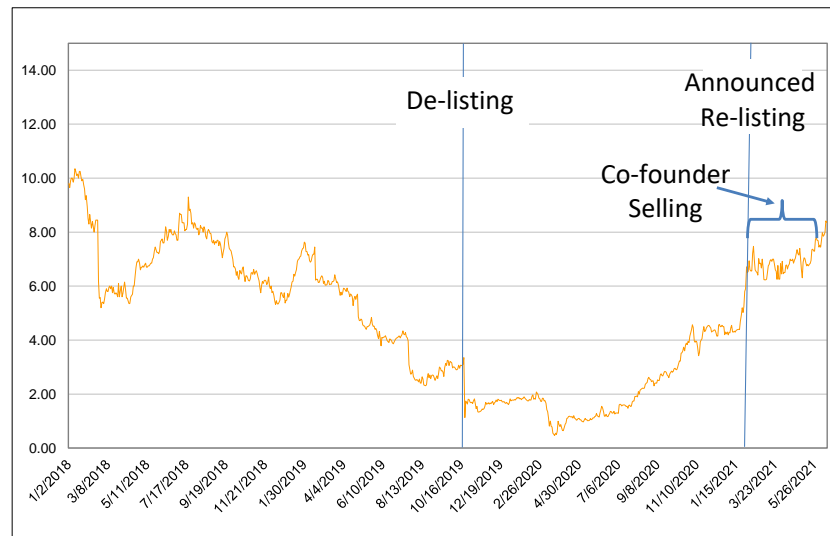
- Focused on more specialized, higher-end tiles
 - Manufactured: porcelain, ceramic, glass, etc. (47% of revenue)
 - Natural: stone, wood, metal (29% of revenue)
 - Setting materials/ accessories: grout, sealers (24% of revenue)
- 95% unique, prices average \$10-11 per sq ft
 - Floor & Décor and home improvement stores: \$2-3 per sq ft
- Source 6k SKUs from +200 suppliers globally
- Customer profile
 - Pros (designers, builders, installers) influence 70-80% of sales



Trading Technicals

NASDAQ Listing

- October 2019 announced voluntary de-listing
 - Lost shareholder base and institutional following
- March 2021 announced applied to re-list following activist letter
- Recent selling by ousted co-founder weighed on stock price
 - For personal reasons sold all his 5.7M shares from March up until June 7
 - 12% of S/O and +35% of trading volume on most days



Trading Technicals

NASDAQ Listing

- June 17 officially began trading on the NASDAQ stock exchange
- Consequence:
 - Expands potential shareholder base
 - Increased institutional awareness and potential sell-side coverage
 - Russell 2000 and other index inclusion in the December rebalance
 - Improved trading liquidity
- Precedent up-listings performance
 - Tuesday Morning (TUEM) +45% since 5/25/21
 - Gevo Inc (GEVO) and Sunworks (SUNW) +200% in 2020



Recent Background (2018-2020)

Performance Challenges

- ERP replacement led to poor order fulfillment, inventory shortages, supply chain disruptions—effectively operating blind without critical KPIs, data
- Growth stalled and margins pressured

Summary Financials

(USD in Millions)	For the Year Ended December 31 (except LTM),						
	2015A	2016A	2017A	2018A	2019A	2020A	LTM
Revenues	\$293	\$324	\$345	\$357	\$340	\$325	\$323
<i>Growth</i>		10.6%	6.3%	3.7%	(4.7%)	(4.5%)	
Gross Profit	204	227	236	251	236	222	221
<i>Gross Margin</i>	69.6%	70.0%	68.5%	70.4%	69.4%	68.1%	68.4%
EBITDA	58	67	56	50	33	42	45
<i>EBITDA Margin</i>	20.8%	20.8%	16.3%	13.9%	9.8%	12.9%	14.0%
<i>EBITDA Growth</i>		16.2%	(16.7%)	(11.7%)	(32.9%)	26.1%	



Recent Background

Pandemic Impact on Operations

- Stores closed in Q2
- Very slow to reopened and normalize hours
 - Only open until 5pm and closed on Sundays (busiest day for home improvement retailers)
 - 20-25% fewer hours than before the pandemic
 - Result: missed significant sales opportunities as demand surged

Normalization of Operating Hours

- November all locations extended hours to 7pm
- In May stores started re-opening on Sundays in certain markets
- This alone should result in a 10-20% increase in sales in 2021



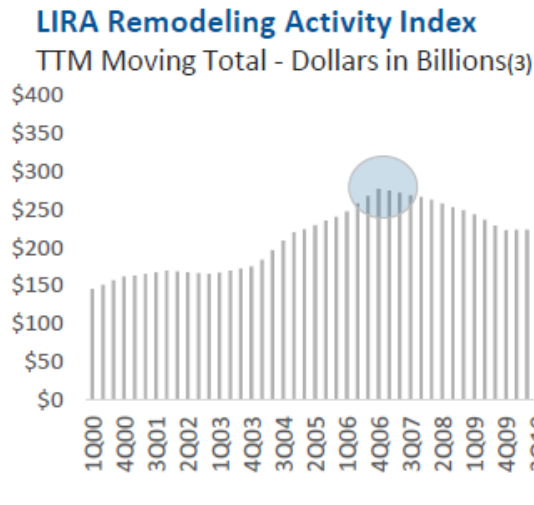
Current Environment & Improvements

ERP and POS

- Now have reporting and systems in-place, major issues rectified
- Enhanced customer loyalty program, better local demand analytics/ inventory management and overall execution
- Strong Q1'21 margins

Strong Demand Tailwinds

- R&R index
- Remodel backlogs



Valuation

Relative and Absolute Discount

- Currently trading at 7x EV/ 2021 EBITDA with a 9% FCF yield
 - Screens poorly due to depressed LTM, one-time charges, lack of guidance and no sell-side estimates
- Peer Floor & Décor (FND) trade at 22x 2021E EV/ EBITDA
 - Similar underlying fundamental drivers and product mix
- **1-year price target: \$14 (65% upside)**
 - 12x EV/ EBITDA
 - Assumes only 10% revenue growth, limited incremental operating improvement and zero unit growth in 2021
- **2-year price target: \$20 (140% upside)**

Current Trading Statistics

\$Ms*	
Ticker	TTSH
Stock Price	\$8.46
Shares Out. (Basic)	51.0
Market Cap	\$431.5
Net Debt	(\$35.9)
Enterprise Value	\$395.6
EV / LTM EBITDA	8.7x
EV / 2021 EBITDA	7.4x
FCF Yield (LTM FCF/EV)	7.1%
FCF Yield (2021 FCF/EV)	8.8%
Target Price	\$14.00
Premium to Current	65.5%
<i>*Except per share data</i>	
<i>Note: FCF = EBITDA - capex - cash taxes - chg. WC</i>	



Risks

Housing Exposure

- High correlation to residential R&R
- Mitigants: strong near and medium-term industry tailwinds and less relationship to new construction activity

Execution

- Failure to capitalize on the ERP system and continue the momentum from Q1
- Mitigants: undemanding current valuation implies stagnant growth



Catalysts & Summary

Technical

- NASDAQ re-listing
- Expanded shareholder base
- Improved trading liquidity
- Russell 2000 Index inclusion

Fundamental and Operational

- Increasing R&R activity
- Ongoing consumer spending on home renovation and improvement
- Normalizing business hours to capture missed sales opportunities
- Realization of the benefits of the upgraded ERP system

Increased Institutional Awareness

- Resumption of corporate communication
- Sell-side initiations

Potential Sale

- Profile and self-help opportunity highly attractive to a financial buyer



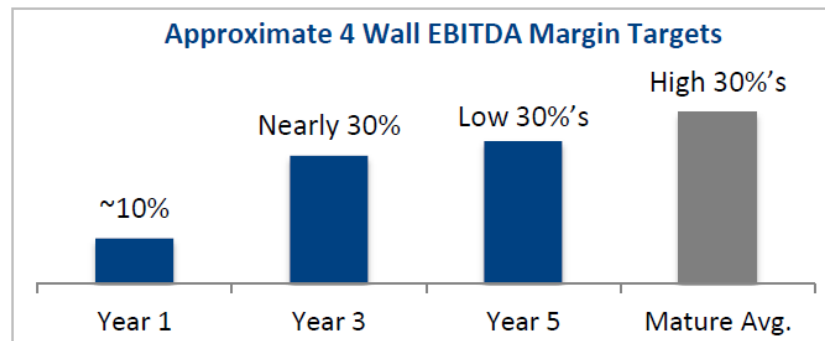
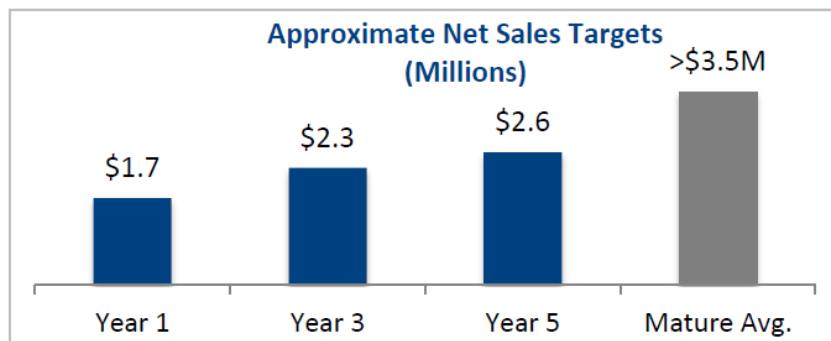
Appendix

Exhibits

Unit Economics

Current Average Store Opening Targets:

- Capital Expenditure: ~\$1 million
- Store Inventory: ~\$100k
- Store Size: 10,000 - 16,000 square feet



Return Profile

- Free Cash Flow Payback: ~3 years
- Cash on Cash Return in Year 3: >70%

Source: Company presentation (3/18/19)



Appendix

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Investment Philosophy

- **Value: Trading price significantly divergent from intrinsic value**
 - Technical and behavioral dynamics lead to inefficiencies in the near and medium-term
 - Disconnects create asymmetrically skewed risk/ return opportunities
 - Emphasis on margin of safety for downside protection
- **Skeptical and independent mindset**
 - Unbiased analysis of overlooked and out-of-favor companies
- **Generalist approach**
 - Flexible mandate to look across all industries and sectors for the most appealing opportunities
- **Concentrated fund of high conviction ideas**
 - Deep knowledge of each situation provides insight and mitigates risks



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Sources of Opportunity

- **Small and mid-capitalization companies**
 - Frequently neglected or lack institutional following (\$300M - \$5B market capitalization)
- **Out-of-favor and misunderstood companies**
 - Structural shifts in company and industry dynamics
 - Market overreaction to a large, but solvable challenge
- **Special situations and recurring themes**
 - Corporate actions and market events create mis-pricings
 - Perceived complexity or lack of easily accessible information causes investor aversion
 - Spin-offs, post-reorg equities, stressed/distressed, demutualizations, merger securities, recaps, etc.
- **Short selling**
 - Impairments: Product obsolescence, intensifying competition, disintermediation, eroding unit economics
 - Misperceptions: Overstated TAM, credit events, cyclical or commodity exposure
 - General: Accounting issues, fraud, legal/ regulatory liability



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Investment Strategy and Process

Identify mispriced securities

- Idea generation: Keyword alerts, systematic screens, news media, recurring situations, personal network, etc.

Evaluate reason for the mispricing through intensive research

- Assess fundamentals: FCF generation, earnings quality, ROIC and asset value relative to price
- Public filings, primary calls, management, legal filings, FOIA, trade publications, etc.

Find catalysts that may lead to value realization

Size Position

- Particular consideration to conviction/ edge, liquidity, leverage and market/ sector exposure

Closely monitor and track



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Differentiation & Competitive Advantages

- Original and independent mindset: all investment ideas and research generated internally
- Intensive and superior research approach leads to unique view and variant conclusion from the market
- Acute awareness of inherent behavioral biases enabling rational investment decisions
- Highly disciplined and systematic investment style
- Repeatable process: deep understanding of corporate events
- Structural: broad and flexible mandate focused where other are not
- Fund management aligned with investor interests
- Proven record of performance through the economic cycle
- Focused, lean and highly motivated Investment Manager



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Eric DeLamarter - Curriculum Vitae

Prior to founding Half Moon Capital in 2010, Eric DeLamarter earned an M.B.A. from The Heilbrunn Center for Graham & Dodd Investing at Columbia Business School, with a concentration in applied value investing. While attending Columbia Business School, Eric was a research analyst at Stelliam Investment Management, a value-oriented hedge fund, where he focused on identifying and evaluating investment opportunities across various sectors. Prior to Columbia Business School, from 2006 to 2008, Eric was an associate at Lineage Capital, LLC, a middle-market private equity fund, where his responsibilities included evaluating and structuring leveraged buyouts. From 2003 to 2006, Eric was an investment banking analyst at RBC Capital Markets and during 2001, Eric was an equity research summer associate at Merrill Lynch. Eric earned a B.A. in history from the University of Michigan in 2002.



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