MOI GLOBAL

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BEST IDEAS

Half Moon Capital

TILE SHOP HOLDINGS, INC. (TTSH)

BEST IDEAS 2021

Half Moon Capital, LLC

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Half Moon Capital

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

Best Ideas Conferences Track Record

			Share Price		
Year	Company	Ticker	at Conference	Current	Change
2019	BlueLinx Holdings	BXC	$10.17	$29.69	192%
2017	Aerojet Rocketdyne	AJRD	$18.10	$52.76	191%
2016	Tower International*	TOWR	$24.14	$31.00	28%
2015	Darling Ingredients	DAR	$17.75	$55.39	212%
2014	Murphy USA	MUSA	$41.83	$129.69	210%
2013	JB Sanfilippo	JBSS	$17.95	$75.62	321%

**Acquired in 2019*

Tile Shop Holdings, Inc. (TTSH)

Tile Shop (TTSH)

Summary

- Specialty retailer of floor and wall tiles
- A non-fundamental event in 2019 led to forced selling, loss of shareholder base and institutional following
- Execution missteps are being resolved
- Benefiting from a number of tailwinds
- Trades at a substantial discount
- +100% upside to equity
- Multiple catalysts

Data as of 1/4/21

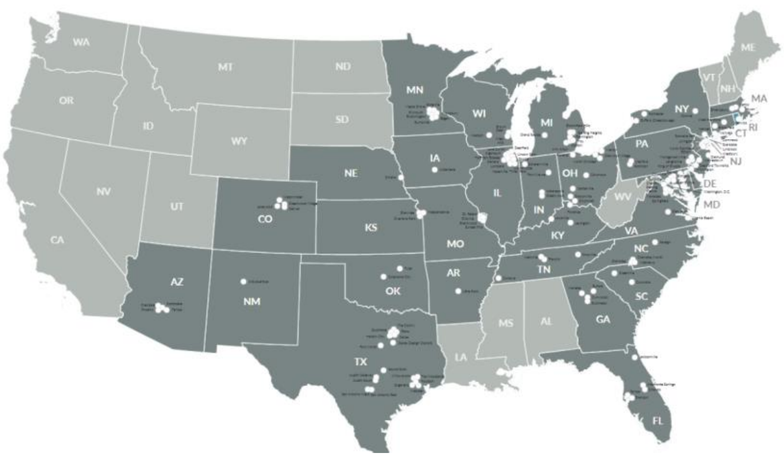
($Ms, except per share data)

Ticker	**TTSH**
Stock Price	$4.19
Shares Out. (FD)	51.7
Market Cap	**$216.6**
Net Debt	($2.0)
Enterprise Value	**$214.6**
EV/ LTM EBITDA	***5.9x***
EV/ 2021E EBITDA	***4.8x***

Business Overview

Retail Footprint

- Operates 142 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

Business Overview

Background

- Founded in 1985
- IPO in 2012 (NASDAQ: TTS)
- Strong debut and initial momentum
  - Solid mid-single digit comps while expanding footprint at a healthy pace of 15-20 new store openings/ year
- Performance challenges: Growth stalled and margins pressured
  - Poor execution, ineffective response to competition and ERP disruption
  - Management turnover and lack of strategic focus

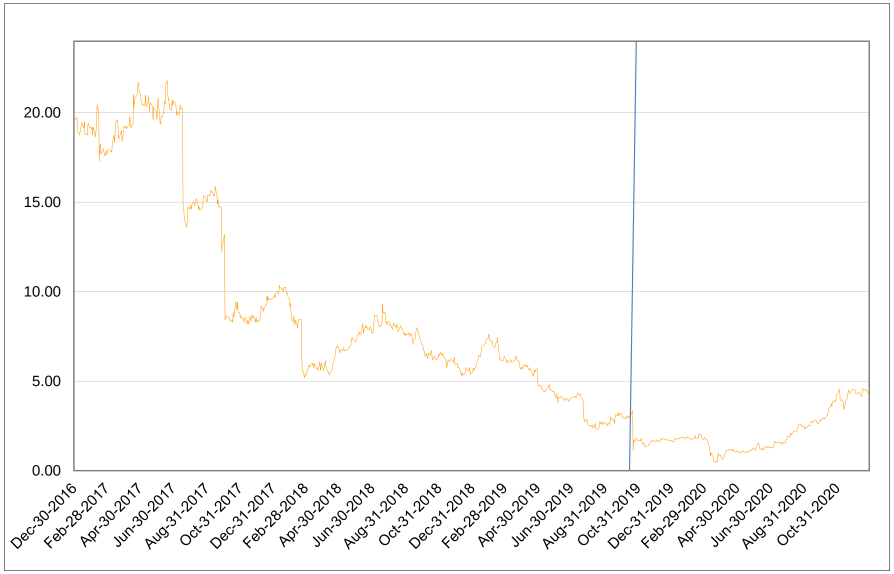
Summary Financials

	For the Year Ended December 31 (except LTM),					
(USD in Millions)	**2015A**	**2016A**	**2017A**	**2018A**	**2019A**	**LTM**
Revenues	$293	$324	$345	$357	$340	$322
Growth		*10.6%*	*6.3%*	*3.7%*	*(4.7%)*	*(6.8%)*
Gross Profit	204	227	236	251	236	219
Gross Margin	*69.6%*	*70.0%*	*68.5%*	*70.4%*	*69.4%*	*68.1%*
EBITDA	58	67	56	50	33	36
EBITDA Margin	*20.8%*	*20.8%*	*16.3%*	*13.9%*	*9.8%*	
EBITDA Growth		*16.2%*	*(16.7%)*	*(11.7%)*	*(32.9%)*	

Background

NASDAQ De-listing

- October 2019 announced voluntary de-listing
  - Concurrently suspended dividend and halted share repurchase program
- Result:
  - Forced selling and a total loss of its shareholder base
  - Stock went from $20 per share in 2017 to $4 today



Background

Subsequent Events

- Following the de-listing insiders aggressively bought stock
  - Doubled insider ownership to 30% of S/O
  - Brought into the question the motive for de-listing
- Involved parties were subsequently sued
  - Settled in July 2020 and founder/ Chairman replaced
- Company remains de-listed but not de-registered
  - Still SEC filer with limited incremental costs required to re-list (D&O insurance)
- Activism
  - September 10, 2020: B. Riley Capital Management filed a 13D disclosing an 8% stake (increased to 9.2%)
  - October 27, 2020: 272 Capital letter

Current Environment & Improvements

Pandemic Impact on Operations

- Stores closed in Q2
- Slowly reopened but still remain on a limited schedule
  - 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
- November started moving toward more normalized hours
  - Should result in a 10-20% increase in sales

Operational

- ERP and POS
  - Replacement led to checkout issues, inventory management and supply chain disruption
  - Now have reporting and systems in-place and major issues rectified
  - Enhanced customer loyalty program, better local demand analytics/ inventory management

Strong Demand Tailwinds

- Permits, starts, homebuilder order backlogs, continued R&R
- Credit card data up 20% QTD*

Source: Key First Look Data, Consumer Spending and KeyBanc Capital Markets

Valuation

Discount to Peers

- Currently trading at 6x EV/ EBITDA
- Peers Lumber Liquidators (LL) and Floor & Décor (FND) trade at 11x and 30x EV/ EBITDA
  - Both have similar underlying fundamental drivers and product mix
- Price target: $7-9 per share (60-110% upside)
  - 10x-12x EV/ EBITDA
  - Values TTSH on depressed performance with no credit for the operating improvement that will take hold over the coming quarters

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Risks

Housing Exposure

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

Technical

- No up-listing and share price discount persists
- Mitigants: activist involvement and management incentives

Catalysts & Summary

Technical

- NASDAQ re-listing
- Expanded shareholder base
- Improved trading liquidity
- Russell 2000 Index inclusion
- Move above $5 per share threshold

Fundamental and Operational

- Increasing homebuilding activity
- Ongoing consumer spending on home renovation and improvement
- Reopening stores on Sundays and 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

Activist Letter

272 Capital, LP Issues Letter to Board of Directors of TTSH

Stock Is Significantly Undervalued and Lags Peers

Up-Listing to a Major Stock Exchange Necessary to Unlock Value

272 Capital, LP Seeks Constructive Dialogue with the Board of Directors

October 27, 2020 04:14 PM Eastern Daylight Time

DALLAS--(BUSINESS WIRE)--272 Capital, LP, a shareholder of Tile Shop Holdings, Inc. (OTCMKTS: TTSH), publicly released a letter it delivered to the Board of Directors of TTSH on October 27, 2020. The full text of the letter is included below.

To Members of the Board of Directors,

272 Capital, LP currently owns 660,306 shares of Tile Shop Holdings, Inc. ("TTSH" or the "Company") and we are writing because we believe TTSH's common stock shares (the "Shares") are significantly undervalued. While we expect the Shares to appreciate as the Company reports improving financial performance during the remainder of 2020 and all of 2021, we believe TTSH's Board of Directors (the "Board") can also take action to significantly increase shareholder value in the near-term. Specifically, we urge the Board to immediately relist the Shares of the Company on a major stock exchange.

We strongly believe that up-listing to a major exchange will result in a significantly higher share price for the shareholders and a lower cost of capital for the Company. This will be the case for a multitude of reasons including:

1. The environment for companies that are in the business of providing home building products, remodeling products and home furnishings has improved significantly over the last few months. Not only from a business perspective but from an investor interest perspective, which has resulted in multiple expansion and higher share prices across the board as the COVID driven "nesting" trend has taken hold.

2. Multiples of peer companies have expanded significantly. For example, two publicly traded peers, Floor & Decor Holdings, Inc. (NYSE: FND), and Lumber Liquidators Holdings, Inc. (NYSE: LL) have had their enterprise value, excluding operating leases to EBITDA multiples, expand by over 100% from 2018 levels as demonstrated in the table below. TTSH's multiple on the other hand has slightly declined over the same time period. We believe this is simply a result of being listed on the OTC versus a major exchange.

EV/EBITDA					
Company	Ticker	FY18	FY19	FY20E	Multiple Expan
Floor & Decor Holdings	FND	14.0x	21.5x	34.4x	146%
Lumber Liquidators	LL	8.4x	8.4x	15.9x	88%
Tile Shop Holdings	TTSH	6.6x	10.1x	6.1x	-8%

Source: Bloomberg & 272 Capital Ests

3. Listing on a major exchange is necessary for passive investment funds to buy shares. For example, at its current market capitalization, TTSH would qualify for inclusion in the Russell 2000 Index, which should create demand for, at least, approximately 7-10% of the Shares and support a higher stock price. Further, given the fact that passive funds are a larger percentage of the market than active funds the overall amount is likely much larger.

With the recent addition of three new independent Board members, it is crucial that the Board evaluate an up-listing, as we believe the benefit to shareholders outweighs the relatively small amount of cash savings that are derived from not being listed on a major exchange.

I look forward to discussing this further.

Sincerely,

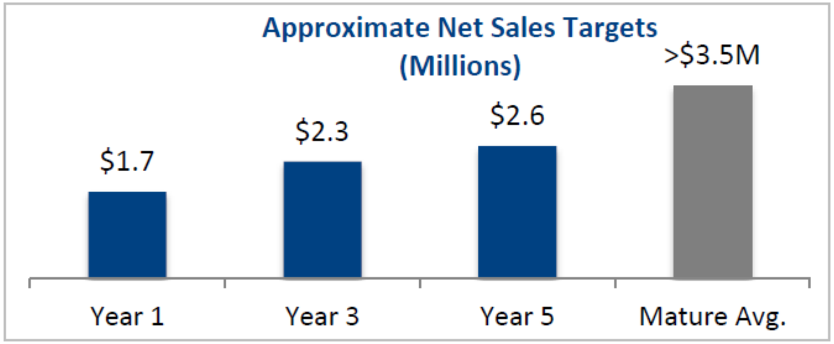
Wes Cummins
CEO, 272 Capital LP

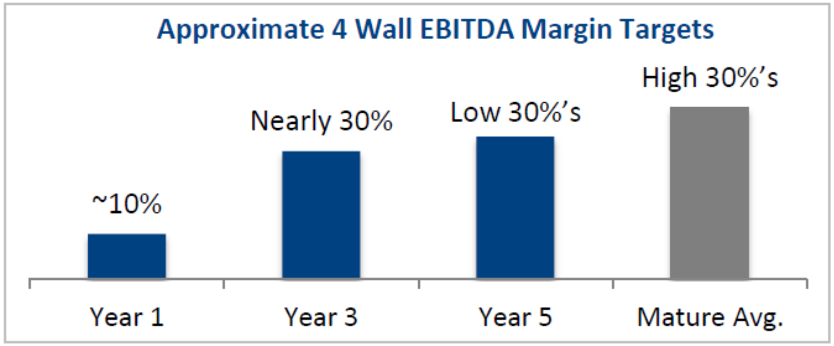
wes@272.capital
214-556-2465

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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