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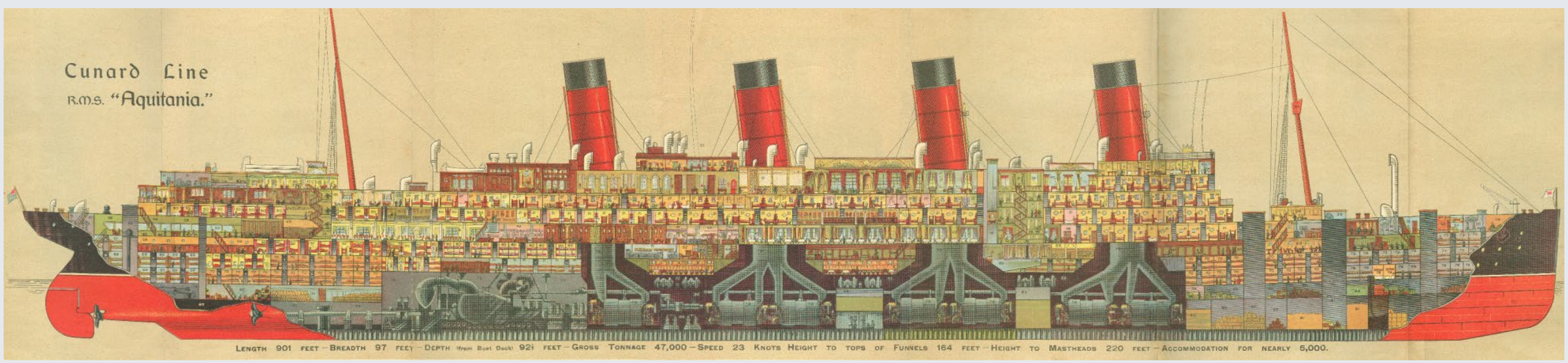
Chris Karlin

Chief Investment Officer, Aquitania Capital Management

BEST IDEAS

Tuesday Morning (TUEM)

Christopher Karlin, CFA
Aquitania Capital Management, LLC



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Investment Style

- Compounders:
  - Identifying companies with the potential to compound capital at exceptional rates over long periods of time
- Opportunistic:
  - Asymmetric reward-to-risk situations with high conviction in a variant thesis through intensive independent research
- Counterweights:
  - Long positions in companies expected to provide stable growth/inflation hedge

TUESDAY MORNING

Betting on a Proven and Highly-Incented Team

Tuesday Morning (TUEM) $1.94

- Off-price home goods retailer operating since 1974
- COVID-related Chapter 11 to restructure leases and shrink store base from 687 stores to 490
- New, highly-regarded management team in place
- Shifting to everyday off-price, ending promotions
- COVID and restructuring clouds external visibility
- $175MM market capitalization, $220MM TEV, $154MM NOLs

Value Proposition

Simple, No-Frills Stores Provide a "Treasure Hunt" Destination

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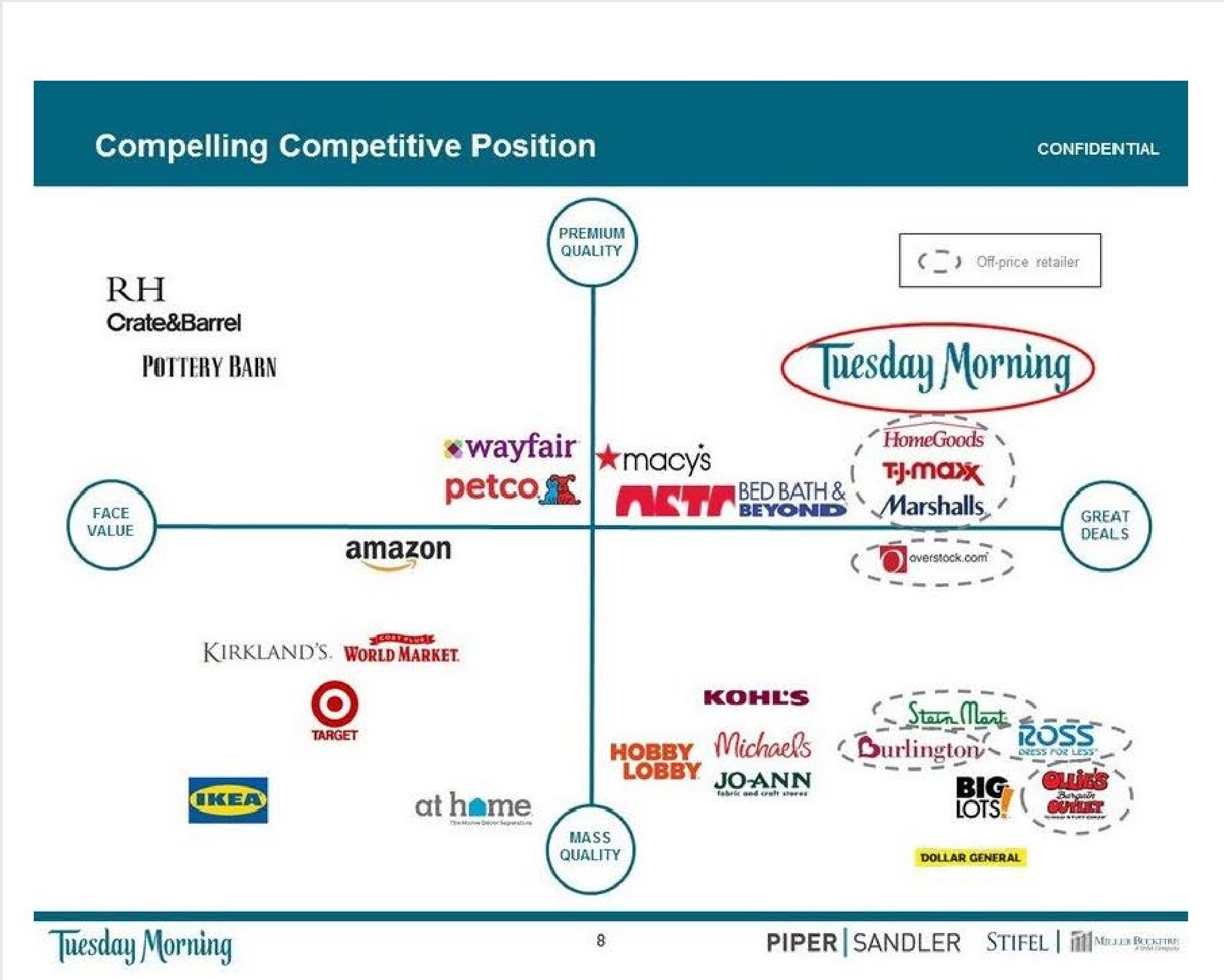
The Company's merchandising, store layout and co-tenancy strategy reflect its position as a premier destination for finding deals

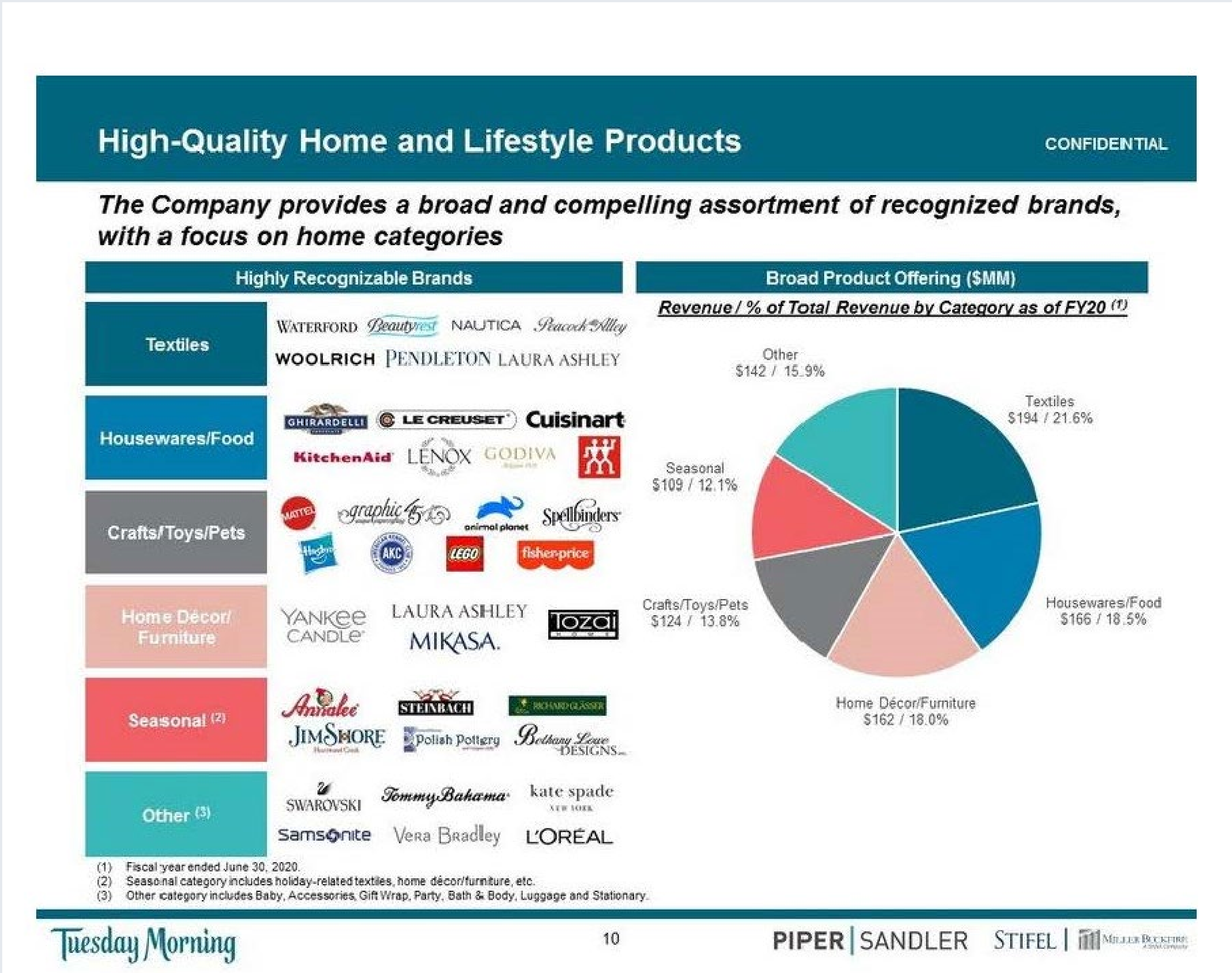
- Tuesday Morning is a unique destination shopping experience that appeals to customers who enjoy the thrill of finding a "diamond in the rough"
  - "Treasure hunt" drives high average basket size of over $33 on more than ~29MM transactions during calendar year 2019
  - All merchandise is displayed on counters, shelves, or racks while maintaining minimum inventory in stockrooms
- The Company's average pro forma store size is 12,000 feet
  - Tuesday Morning intends to continue to increase its average store size, as larger stores are more productive and profitable
  - The current retail environment will allow the Company to be opportunistic in its real estate strategy

Merchandising and Store Layout Strategy

Competitive Position



Merchandise



Customer Profile

Loyal Customers Who Are Passionate About the Deal

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Customers are shopping aficionados who appreciate the Company's "treasure hunt" experience for premium products and great value

Average Age:	Household Income:	Education:	Marital Status:	Children Ages 0-18:
53	51%	38%	75%	37%
Years Old (1)	$75K+	Bachelor's or Higher	Married	In Household

High customer loyalty / engagement with 18% email open rate (over 3.4 million active subscribers) (2)

(1) 44% of Tuesday Morning's customers are under 49 years old, and the average age has gone down from 58 since 2017.
(2) Per Company data for the past 12 months ending July 1, 2020.

490 Stores

Current Rationalized Real Estate Footprint

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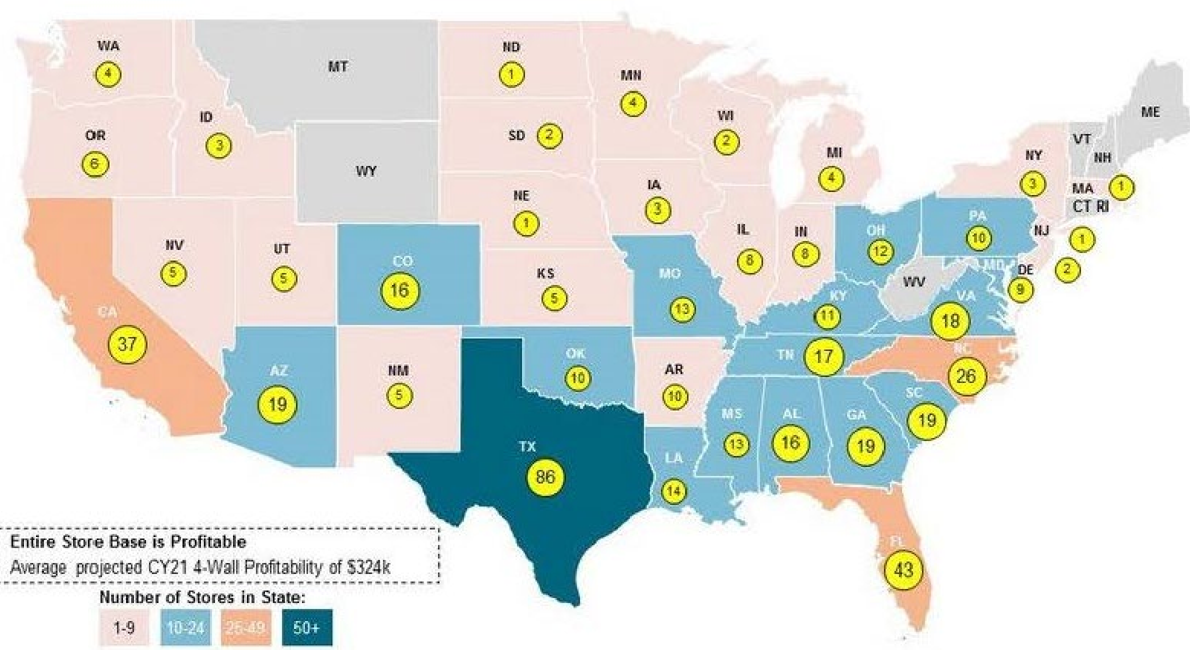
Tuesday Morning has a pro forma national footprint of 490 stores in 40 states and 94 markets (DMA) with a meaningful presence in growth geographies such as Texas, California, Florida and the Southeastern (Sun Belt) United States



Store Visit – Austin, Texas

Bankruptcy Timeline

- 3/25/20 – Temporarily close all 687 stores for COVID-19
- 5/27/20 –Chapter 11 bankruptcy filing
- By 6/30/20 – 685 stores reopened (2 closed)
- By 7/31/20 – Closed 132 stores
- By 8/31/20 – Closed 65 stores
- 9/23/20 – Financial projections for emergence
- 11/16/20 – Reorg plan filed
- 12/23/20 – Plan confirmed
- 12/31/20 – Emerged from Ch 11, gets $25MM term loan from Osmium/Tensile
- 2/9/21 – Closed $40MM rights offering @ $1.10 backstopped by Osmium/Tensile who now own 31.4%

Personnel Timeline

- 12/9/19 – Paul Metcalf, “Acting Chief Merchant” (4/19)
  - CMO, Burlington Stores, TJX
- 5/6/21 – Fred Hand, CEO
  - COO, Burlington Stores
- 5/21/21 – Marc Katz, Interim CFO
  - CFO, Burlington Stores
- 9/9/21 – Marc Katz becomes COO
- 9/9/21 – Jennifer Robinson, CFO
  - SVP Finance & Treasury, Michaels Stores
- 9/9/21 – Bill Baumann, CIO
  - CIO, Torrid (ex-CIO Total Wine and More, West Marine, REI)
- 9/16/21 – Paul Metcalf, Chief Merchant

Opportunity

October 2020 BK Plan Projections

Pro Forma Financial Summary ($MM)

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	Jan - Jun	CY21	FY22	FY23
Period Ending	2021	12/31/2021	6/30/2022	6/30/2023
($ in thousands)				
Net Sales	$ 335,471	$ 769,544	$ 772,836	796,021
Cost of Sales	180,906	416,478	419,925	433,586
Gross Profit[1]	154,566	353,066	352,911	362,435
SG&A Expense[2]	166,134	328,901	317,564	321,332
Operating Profit	**(11,569)**	**24,165**	**35,347**	**41,103**
Other Income / (Expense)				
Interest Expense	(2,243)	(4,389)	(3,875)	(2,510)
Other Income / (Expense)	327	552	552	552
Earnings Before Taxes	**(13,485)**	**20,329**	**32,024**	**39,145**
Income Tax Expense[3]	-	-	-	-
Net Income	**(13,485)**	**20,329**	**32,024**	**39,145**
Memo:				
Adjusted EBITDA[4]	**$ (854)**	**$ 41,513**	**$ 48,549**	**$ 53,302**

1) Presented without UNICAP re-allocations.
2) CY21 includes nonrecurring restructuring fees of $3.4 million in January 2021.
3) No income tax has been factored. The NOL balance as of June 30, 2020 was approximately $140 million.
4) Adjusted EBITDA is calculated as Operating Profit plus depreciation & amortization, other income/(expense), restructuring fees, and stock compensation.

Resetting Expectations

- Adjusted EBITDA was negative $20.3 million for fiscal 2021, compared to negative $15.4 million for the prior year period. Adjusted EBITDA is not a measure of financial performance under GAAP. A reconciliation of GAAP and non-GAAP measures is provided below.

The Company ended fiscal 2021 with $6.5 million in cash and cash equivalents and $12.0 million outstanding under its line of credit with availability on the line of $38.9 million, compared to $46.7 million in cash and cash equivalents and $0.1 million of outstanding borrowings under its line of credit in the prior year. Inventories at the end of fiscal 2021 were $145.1 million compared to $114.9 million in the prior year.

Outlook

First quarter fiscal 2022 comparable store sales are up low single digits quarter-to-date compared to the similar period in fiscal 2020.

Due to the continued uncertainty of the current environment, the Company is not providing financial guidance. The Company does expect to report an Adjusted EBITDA loss for fiscal 2022, slightly improved from fiscal 2021, given the continued headwinds from the industry wide supply chain dislocation.

The Company also expects to be net cash flow neutral during fiscal 2022 with sufficient capacity to cover its obligations and plans for the fiscal year.

What Happened?

- F22E Adj. EBITDA forecast of ~($20MM) vs. $48MM
- F22E FCF forecast of ~$0 vs. $38MM

- But…

- New team did not make those projections

- Oct. ’20, very different COVID-19 environment

- Ch. 11 – primarily to renegotiate leases
  - Debtors & vendors paid in full
  - No incentive to keep valuation low
  - Post-reorg opportunity was promoted

October 2020 BK Plan Projections

Key Elements of Plan and Anticipated Pro Forma Savings Effectuated through Bankruptcy

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Store Base Rationalization / Rent Renegotiations

- Tuesday Morning identified and executed 199 store closures based on several factors, including historical financial performance, future profitability given rent obligations, customer base and geography
- The average Tuesday Morning store is expected to generate pro forma revenue and 4-wall EBITDA of $1.6 million and $300K[(1)] in FY2022, respectively
  - Remaining stores average 50% higher revenue than the stores that were closed
- Remaining store base retains higher performing locations, including many that were repositioned over the past five years and have excellent co-tenancy in high traffic centers, coupled with updated lighting and fixture packages

Rent negotiations, in partnership with A&G, expected to result in annual run rate savings of $12 million on the remaining store base

Phoenix DC Closure

- Closure and exit from the Phoenix distribution center reduces supply chain costs and enhances logistics efficiency
  - Store rationalization eliminates the need for the Phoenix distribution center
  - No operational hurdles experienced during the closure of the Phoenix distribution center
- Dallas distribution center can service the pro forma store fleet, generating material run rate savings

Phoenix DC closure expected to result in run rate savings of $10-12 million annually

Overhead Cost Reductions

- The Company has completed several other reductions to SG&A to further optimize operations
  - Reduction in advertising and marketing expense to reflect pro forma store base
  - Reduction in Force (RIF) actions prior to filing
  - Consolidation of 44 sales districts to 20

Overhead Cost Reductions expected to result in run rate savings of $17 million annually

Total Projected Annual Run-Rate Savings Based on Cuts: $39-$41 million

(1) Store 4-Wall EBITDA excludes Freight In, DC Network expenses and Corporate SG&A

October 2020 BK Plan Projections

FY2019 to FY2022E Margin Enhancement ($MM)

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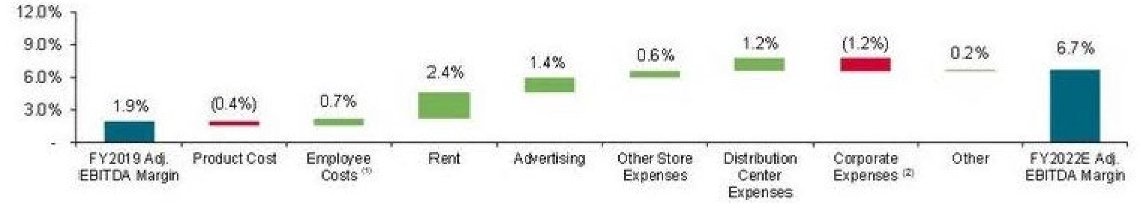

Category	FY2019 ($ / % Sales)	FY2022E ($ / % Sales)	Variance ('22 vs '19)	Commentary
Revenue	$1,007	$773	($234)	• FY2022E revenue adjusted to reflect 490 pro forma store base
Product Cost	$463 46.0%	$359 46.4%	($105) 0.4%	• Minor decrease in IMU based on new merchandising strategy to further drive topline growth
Store Employee Costs(1)	$108 10.7%	$78 10.0%	($30) (0.7%)	• Elimination of 18 of 42 districts, position of regional director of operations and one regional manager, as well as multiple rounds of RIFs
Rent	$118 11.8%	$73 9.4%	($46) (2.4%)	• Reduction of rent by approximately $12MM per year on the remaining store footprint as a result of lease negotiations. Run rate savings has been achieved
Advertising	$27 2.6%	$10 1.3%	($17) (1.4%)	• Represents a reduction in newspaper, direct mail and digital media and an exit from radio / TV advertisements • $2.6 million reduction in Agency costs
Distribution Center Expenses	$88 8.8%	$59 7.6%	($30) (1.2%)	• Significant cost savings from the closure of the Phoenix distribution center, requirements to service a smaller store base and rationalization to the Dallas distribution center • Distribution center expenses include freight out
Corporate Expenses(2)	$63 6.2%	$58 7.5%	($5) 1.2%	• Decrease in $6MM in employee costs. Corporate RIF was completed pre-filing
Adjusted EBITDA	$20 1.9%	$52 6.7%	$32 4.8%	• Topline growth and cost savings initiatives return the company to adjusted EBITDA margins closer inline with core competitors

Note: Historical data may not tie to filings due to UNICAP removal.
(1) Store employee costs include wages, benefits, payroll taxes and worker's compensation.
(2) Corporate employee costs include wages, benefits, payroll taxes, stock-based compensation and worker's compensation.

Tuesday Morning   STIFEL | MILLER BUCKFIRE A Stifel Company

Operational Improvements

- Sales/sqft has risen from $114-$115 to $116
- SG&A has shrunk from $360MM (36%) to $245MM (34%)
- Inventory turns have risen from 2.7x to 3.7x

Near-Term Headwinds

- Increased transport/labor costs may persist
- Ending of pandemic relief payments/child care credit lowers household budgets y/y
- Omicron spike in December 2021 may have impacted holiday sales
- F22 (June) is an investment year focused on optimizing distribution
- May not have real clarity on economic power of business until early 2023.

Transport/Supply Chain

- Pre-Covid, TUEM generated $39/sqft in gross profit (34%) on $114/sqft in revenues
- TTM 9/30/21, TUEM generated $34/sqft in gross profit (29%) on $116/sqft in revenues
- ($32MM) adverse gross profit impact on a $220MM EV company

Upside Potential

- EBITDAR% was around 14% pre-covid and recovered to that level in the 12/20 and 3/21 quarters before falling below 8% in the 6/21 and 9/21 quarters due to transport issues

- If EBITDAR% can rise to 10% on $750MM sales (vs. 706MM TTM) = $75MM EBITDAR (vs. $54MM TTM)

- ROST trades at 10.3x, TUEM trades at 4.1x

- @ 8x $75MM EBITDAR, TUEM is $6.17 +218%

Incentives

"Show me the incentive and I'll show you the Outcome"
 - Charlie Munger

Share-based Compensation from Related Party to CEO

Upon his appointment as the Company's Chief Executive Officer, Fred Hand entered into agreements with Osmium Partners, LLC., pursuant to which Mr. Hand became entitled to receive 30% of all carry distributions ("Carried Interest") payable by certain members of Osmium Partners (Larkspur SPV) LP (the "SPV") in respect of its approximately 31.4% of the outstanding shares of common stock of the Company, at the date of the Carried Interest Arrangement, May 4, 2021 (including warrants to purchase 10,000,000 shares of common stock), to Osmium Partners, LLC, the SPV's carry partner.

31.4% shares o/s * 20% carried interest * 30% take =

1.9% capture of market cap over $2.88 (5/4/21 price)

~$1.6MM for every $1 increase in stock price

Performance Stock Units vest in three tranches at $6, $9, and $12

Insider Cash Purchases

- 9/8/21 – Stock closes at $4.27
- 9/9/21 – Earnings release, stock falls -45% to $2.34
- 9/10/21 – 9/15/21 Stock falls -26% to $1.73

- 9/13/21 – CEO Hand buys 235,925 shares @ $1.81
- 9/14/21 – CEO Hand buys 275,462 shares @ $1.72
- 9/15/21 – CEO Hand buys 227,224 shares @ $1.65
- 9/14/21 – COO Katz buys 150,000 shares @ $1.71
- 9/14/21 – CIO Baumann buys 100,000 shares @ 1.71
- 9/15/21 – CMO Metcalf buys 100,000 shares @ $1.68
- 9/16/21 – CMO Metcalf converts from consultant to CMO

Summary

- Limited downside/significant upside at current quote
- Proven and well-incentivized management
- Execution story – brand and customer loyalty intact
- Expectations have been reset
- COVID + restructuring noise clouds visibility

CONTACT

Aquitania Capital Management, LLC
info@aquitaniacapital.com
www.aquitaniacapital.com