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Half Moon Capital

**CONTAINER STORE HOLDINGS, INC.
(NYSE: TCS)**

WIDE-MOAT INVESTING SUMMIT 2022



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



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	\$3.49	\$3.96	13%
2019	BlueLinx Holdings	BXC	\$10.17	\$71.64	604%
2017	Aerojet Rocketdyne	AJRD	\$18.10	\$38.77	114%
2016	Tower International*	TOWR	\$24.14	\$31.00	28%
2015	Darling Ingredients	DAR	\$17.75	\$72.93	311%
2014	Murphy USA	MUSA	\$41.83	\$231.90	454%
2013	JB Sanfilippo	JBSS	\$17.95	\$67.97	279%

**Acquired in 2019*



Half Moon Capital

Container Store Holdings, Inc. (TCS)

The Container Store (TCS)

Summary

- Specialty retailer of organization solutions and custom closets
- Less economic sensitivity than perceived
- New high-quality CEO
- Multiple improvement initiatives
- Large footprint expansion and potential to double revenue
- Strong balance sheet
- Very attractive risk-reward
- +100% upside to equity
- Multiple catalysts

Data as of 6/22/22	
Ticker	TCS
Stock Price	\$7.00
S/O (FD)	50.3
Market Cap.	\$352
(+) Net Debt	\$146
Enterprise Value	\$498
EV/ EBITDA - LTM	3.1x
P/ E - LTM	4.3x

\$Ms (except per share data)



Business Overview

Retail Footprint: 94 locations in 33 states

Customer Demographic: Affluent >35 years-old suburban female

Loyalty Program: 11M members (75% of sales to 25% of customers, 77 NPS)

Product Set: 11k SKUs (majority exclusive to TCS)

Custom closets (50% of sales)



General merchandise (50% of sales)



Custom Closets

- #1 share in custom closets in US
 - Dominant share in \$2k closets
 - Now offer products at all price points with biggest opportunity in premium segment (+67% GMs)

Custom Closets for Every Size, Style and Budget



elfa CLASSIC

Elfa is the original custom closet system. Exclusively ours, this wall-hanging system is incredibly strong and customizable – allowing you to easily move shelves and drawers. It's ideal for closets, pantries, offices, craft rooms and garages.



elfa DÉCOR

Exclusively ours, Elfa Décor combines the strength and flexibility of Elfa Classic with the beauty of wood and deluxe options. Take your custom closet to the next level with real wood shelves, drawers and trim in a variety of finishes.

Premium Spaces



avera

Introducing the evolution of the custom closet. Exclusively ours, Avera's innovative design delivers the built-in look at an incredible price. Features include full-extension Drawers that open at a touch, Back Panels that complete the look and optional LED lighting.



laren

For unparalleled custom built-in luxury, look no further than Laren. Formerly TCS Closets and exclusive to us, Laren offers extraordinary 1"-thick construction, a variety of exclusive finishes and options like glass-front Doors and LED Lighting.

- Vertically integrated through ownership of Elfa and now Closet Works
- Drivers: home remodeling spending



General Merchandise

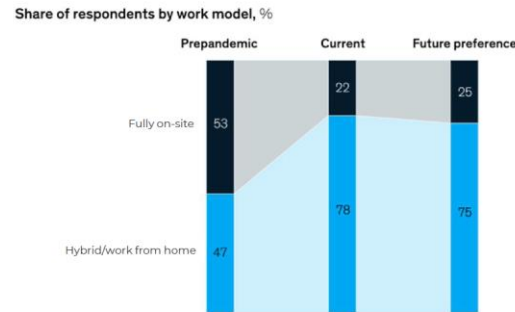
- Broad selection of containers, integrated organizers and other solutions addressing each storage situation
- In-home consultation services
- Majority of products are exclusive to TCS
- Partnerships with influencers—Home Edit, Marie Condo, etc.
- Growth opportunities: garage and additional rooms, share gains from Bed Bath & Beyond and others



Macro Trends & Drivers

Home Investment Support

- Shift to hybrid work
- Record levels of home equity



Source: McKinsey & Co.

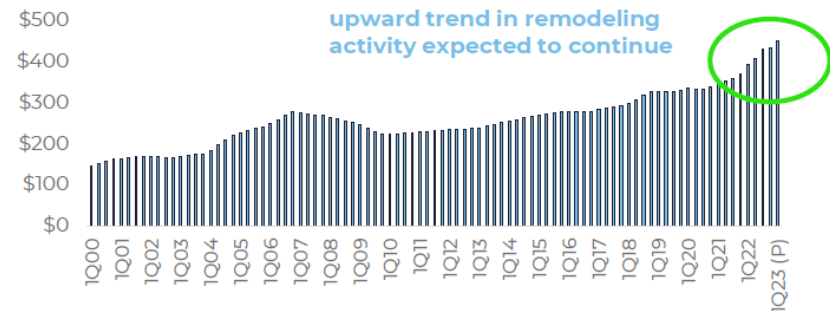


Source: FRED

Sustained Demand Tailwinds

- Renovation & Remodel
- Pro backlogs

LIRA Remodeling Activity Index
TTM Moving Total - Dollars in billions ⁽³⁾



Source: Joint Center for Housing Studies



New Leadership Team

- Prior management team stumbled with execution with untapped potential
- CEO Satish Malhotra started in February 2021
 - Formerly COO and Chief Retail Officer at Sephora
 - Rationalized supply chain, inventory management and sales practices
 - Led development and rollout of store-in-store concept
- New CIO
- Added a Head of Real Estate
- Added a Head of Custom Closets
- Other management team upgrades
- Sizable insider purchases at prices 50% above its present level with a \$100k open market purchase by CEO last week

1. Name and Address of Reporting Person* Malhotra Satish		2. Issuer Name and Ticker or Trading Symbol Container Store Group, Inc. [TCS]		5. Relationship of Reporting Person(s) to Issuer (Check all applicable)					
(Last) (First) (Middle)		3. Date of Earliest Transaction (Month/Day/Year) 06/16/2022		<input checked="" type="checkbox"/> Director	<input type="checkbox"/> 10% Owner				
C/O THE CONTAINER STORE GROUP INC. 300 FREEPORT PARKWAY		4. If Amendment, Date of Original Filed (Month/Day/Year)		<input checked="" type="checkbox"/> Officer (give title below)	<input type="checkbox"/> Other (specify below)	CEO & PRESIDENT			
(Street) CORPELL TX 75019	(City) (State) (Zip)			6. Individual or Joint/Group Filing (Check Applicable Line) <input checked="" type="checkbox"/> Form filed by One Reporting Person <input type="checkbox"/> Form filed by More than One Reporting Person					
Table 1 - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned									
1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Desired Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 3 and 5)	4. Securities Acquired (A) or Disposed Of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
				Code	V	Amount			
Common Stock	06/16/2022		P		14,600	A	\$6.8254 ⁽¹⁾	466,801	D



Recent Improvements

- **Merchandising**
 - Refined promotions and reduced sales
 - Culled commoditized and undifferentiated products
 - Expanded sales of higher-end custom closets and wooden systems (Closet Works acquisition)
 - Overhauled website layout and launched app
- **Service and marketing**
 - Added hosts, redid displays (higher margin focus), zones with specialists and demos
 - In-home organizational consultants and services
 - New tier-based loyalty program
 - Re-branding campaign
- **Inventory and supply chain rationalization**
 - Ship-from-store and BOPIS added
- **Future opportunities**
 - Cross-selling
 - Upselling of premium closets
 - Store-in-store



Growth Initiatives

New Store Opening Plan

- 76 new locations by 2027
 - Starting in 2022 and accelerating in 2023
 - Condensed smaller footprint with a 2-2.5 year payback
 - Hub-and-spoke in existing markets (leveraging existing DCs and marketing spend)
 - Suburban focus
 - Emphasis on custom closets
 - Potential for 200-250 stores
- Store-in-store concept
 - Profile custom closets
 - Low cost, low risk expansion, can be opened rapidly
 - Potential partners: Home Depot, Lowes



Primary Call Perspectives

“Garage is a huge opportunity...there is a lot of untapped potential across the store base and product set.” – Former Director of Sales

“Container Store offers a level of service and customization that big box cannot.” – Former Director of Sales

“Container Store has really improved their service and customer roadmap in closets over the last year. It’s an impressive product.”
– Largest competitor

“California Closets has a great higher-end product but it’s decentralized franchise model creates some service inconsistencies and operational challenges.” – California Closets franchisee



Financial Profile

- Stagnant recent unit growth
- Peer high gross margins
- Lack of historical SG&A leverage and lagging operating margins presents opportunity for improvement

FYE-3/21 (2/28 pre-15')	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Net Store Additions	4.0	5.0	5.0	7.0	9.0	7.0	4.0	2.0	1.0	0.0	1.0
Same-Store-Sales	7.6%	4.4%	2.9%	-1.4%	0.0%	-2.4%	0.9%	3.5%	2.9%	6.0%	10.0%
Revenue	\$634	\$707	\$749	\$782	\$797	\$820	\$857	\$895	\$916	\$990	\$1,094
<i>YoY Growth</i>	<i>11%</i>	<i>12%</i>	<i>6%</i>	<i>4%</i>	<i>2%</i>	<i>3%</i>	<i>5%</i>	<i>4%</i>	<i>2%</i>	<i>8%</i>	<i>11%</i>
Gross Profit	\$367	\$416	\$440	\$458	\$464	\$476	\$497	\$524	\$533	\$570	\$636
<i>Gross Margin</i>	<i>58.0%</i>	<i>58.8%</i>	<i>58.8%</i>	<i>58.6%</i>	<i>58.3%</i>	<i>58.1%</i>	<i>58.0%</i>	<i>58.5%</i>	<i>58.2%</i>	<i>57.6%</i>	<i>58.2%</i>
(-) SG&A	\$292	\$328	\$354	\$370	\$396	\$390	\$407	\$427	\$443	\$420	\$477
<i>% of Sales</i>	<i>46.0%</i>	<i>46.4%</i>	<i>47.2%</i>	<i>47.3%</i>	<i>49.7%</i>	<i>47.5%</i>	<i>47.5%</i>	<i>47.7%</i>	<i>48.3%</i>	<i>42.4%</i>	<i>43.6%</i>
Adj. EBITDA	\$76	\$88	\$86	\$88	\$68	\$87	\$90	\$96	\$91	\$151	\$159
<i>Margin</i>	<i>11.9%</i>	<i>12.4%</i>	<i>11.5%</i>	<i>11.3%</i>	<i>8.6%</i>	<i>10.6%</i>	<i>10.5%</i>	<i>10.8%</i>	<i>9.9%</i>	<i>15.2%</i>	<i>14.5%</i>
Free Cash Flow											
Cash from Ooperations	\$42	\$45	\$51	\$65	\$42	\$45	\$62	\$55	\$31	\$138	\$57
(-) Capital Expenditures	(\$41)	(\$48)	(\$48)	(\$49)	(\$46)	(\$29)	(\$28)	(\$34)	(\$34)	(\$17)	(\$33)
Free Cash Flow	\$1	(\$3)	\$2	\$16	(\$4)	\$16	\$35	\$21	(\$3)	\$121	\$24

\$Ms (except per share data)



Valuation

Highly attractive risk-reward

- Currently trading at 3x EV/ EBITDA and 4.3x P/E
- 1-year price target: \$20-26 (190-270% upside)
 - Assumes modest revenue growth, limited incremental operating improvement, cost inflation and an accelerated unit growth rate
 - Re-rating to 6-8x EV/ EBITDA

FYE-3/21 (2/28 pre-15')	2021	2022E	2023E
Net Store Additions	1.0	2.0	20.0
Same-Store-Sales	10.0%	2.1%	1.9%
Revenue	\$1,094	\$1,124	\$1,228
YoY Growth	11%	3%	9%
Gross Profit	\$636	\$639	\$700
Gross Margin	58.2%	56.9%	57.0%
(-) SG&A	\$477	\$481	\$525
% of Sales	43.6%	42.8%	42.8%
Adj. EBITDA	\$159	\$159	\$175
Margin	14.5%	14.1%	14.2%
Free Cash Flow			
Cash from Operations	\$57	\$104	\$113
(-) Capital Expenditures	(\$33)	(\$62)	(\$71)
Free Cash Flow	\$24	\$42	\$42

Price Target - March'23	
EBITDA - FY2023	\$175
EV/ EBITDA - NTM	8.0x
Enterprise Value	\$1,398
(-) Net Debt	\$106
Equity Value	\$1,292
S/O	50.3
Price Target Mar-23	\$26.00
Upside/(Downside)	271%

\$Ms (except per share data)



Catalysts

Fundamental

- Continued financial outperformance of low expectation
- Sustained consumer spending on home renovation and improvement
- Appreciation for the quality of the custom closet segment and business improvements
- Formal announcement of growth plans and unit economics
- Investor day in 2H'22
- Reappraisal from fatigued sell-side

Potential Sale

- Profile and growth opportunity highly attractive to a financial buyer



Risks

Housing Exposure

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

Deterioration in Consumer Spending

- Discretionary products
- Mitigant: Less financially sensitive affluent customer base, limited stimulus impact

Competition

- Target, Amazon and other home décor retailers
- Mitigant: Integrated customizable products and in-store service



Appendix

Exhibits

Unit Economics and Longer-term Targets

12,500 SQFT

Size

\$5M

Year 1 Revenue

20.0%

Year 1 Store EBITDA Margin

\$3M

Cash Investment

2.5 YRS

Payback Period

Targeting \$2 billion in consolidated net sales and over \$3.00 in earnings per diluted share by the end of fiscal 2027

76 new stores*

Low Double-Digit Store Growth CAGR
Generating \$400 million of
incremental sales



Low-Single Digit

Comparable Store Annual
Sales Growth



Low-Double Digit

Consolidated Net Sales Growth CAGR



**Slight Operating
Margin Expansion**



Over \$3.00

Earnings per Diluted Share

*1/3 expected to open in the first 3
years, remainder 2/3 expected to open
in last 3 years

Source: Company presentation (5/17/22)



Appendix

Half Moon Capital, LLC

Half Moon Capital

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



Half Moon Capital

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



Half Moon Capital

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



Half Moon Capital

Portfolio Manager - Eric DeLamarter

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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