The Tile Shop Reports Second Quarter 2023 Results

August 3, 2023

MINNEAPOLIS, Aug. 03, 2023 (GLOBE NEWSWIRE) -- Tile Shop Holdings, Inc. (Nasdaq: TTSH) (the "Company"), a specialty retailer of natural stone, man-made and luxury vinyl tiles, today announced results for its second quarter ended June 30, 2023.

Second Quarter Summary

Net Sales Decreased 8.4%
Comparable Store Sales Decreased 8.0%
Gross Margin of 64.2%
Net Income of $5.1 Million and Adjusted EBITDA of $13.6 Million
Diluted Earnings per Share of $0.12
$25.4 Million Reduction of Long-Term Debt Year-to-Date

Management Commentary – Cabell Lolmaugh, CEO

"The current macro-economic environment contributed to challenges in our store traffic and comparable store sales during the second quarter," stated Cabell Lolmaugh, CEO. "At the same time, gross margin was consistent with the previous quarter as supplier costs for our products and ocean freight rates moderated. We remain disciplined with respect to our cost structure and working capital which helped us maintain strong operating cash flow and payoff over half of our debt so far this year."

(unaudited, dollars in thousands, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net sales	$ 98,557	$ 107,604	200,576	$ 210,075
Net sales (decline) growth[1]	(8.4) %	11.9 %	(4.5) %	11.6 %
Comparable store sales (decline) growth[2]	(8.0) %	12.0 %	(4.0) %	11.6 %
Gross margin rate	64.2	66.0 %	64.2 %	65.6 %
Income from operations as a % of net sales	7.8 %	9.1 %	5.9 %	6.9 %
Net income	$ 5,079	$ 6,914	7,591	$ 10,427
Net income per diluted share	$ 0.12	$ 0.13	0.17	$ 0.20
Adjusted EBITDA	$ 13,584	$ 16,755	23,897	$ 28,422
Adjusted EBITDA as a % of net sales	13.8 %	15.6 %	11.9 %	13.5 %
Number of stores open at the end of period	143	143	143	143

(1) As compared to the prior year period.

(2) The comparable store sales operating metric is the percentage change in sales of comparable stores period over period. A store is considered comparable on the first day of the 13th full month of operation. When a store is relocated, it is excluded from the comparable store sales calculation. Comparable store sales includes total charges to customers less any actual returns. The Company includes the change in allowance for anticipated sales returns applicable to comparable stores in the comparable store sales calculation.

SECOND QUARTER 2023

Net Sales
Net sales for the second quarter of 2023 decreased $9.0 million, or 8.4%, compared with the second quarter of 2022. Sales decreased at comparable stores by 8.0% during the second quarter of 2023 compared to the second quarter of 2022, primarily due to a decrease in traffic, which was partially offset by an increase in average ticket value.

Gross Profit
Gross profit decreased $7.7 million, or 10.9%, in the second quarter of 2023 compared to the second quarter of 2022. The gross margin rate was 64.2% and 66.0% during the second quarter of 2023 and 2022, respectively. The decrease in the gross margin rate was primarily due to inflationary cost pressure which resulted in an increase in the cost of products sold as compared to last year. These cost increases were partially offset by an increase in our average selling prices.

Selling, General and Administrative Expenses
Selling, general and administrative expenses decreased $5.7 million, or 9.3%, in the second quarter of 2023 compared to the second quarter of 2022. The decrease was due to a $3.0 million decrease in variable selling expenses, a $1.1 million decrease in transportation expenses as a result of improved inventory availability across our distribution centers and a $0.9 million decrease in depreciation expense. These factors were partially offset by a $0.5 million asset impairment charge recorded during the second quarter of 2023.

Provision for Income Taxes

The provision for income taxes for the second quarter of 2023 and 2022 was $2.0 million and $2.7 million, respectively. The decrease in the provision for income tax was due to a decrease in pretax income. Our effective tax rate was 28.1% and 27.8% in the second quarter of 2023 and 2022, respectively.

Capital Structure and Liquidity

Since the beginning of the year, we have repaid $25.4 million of borrowings on our line of credit, which reduced our debt balance to $20.0 million as of June 30, 2023. Cash and cash equivalents increased by $8.6 million to $14.6 million on June 30, 2023.

Interest expense increased by $0.5 million from $0.2 million during the second quarter of 2022 to $0.7 million during the second quarter of 2023. The increase in interest expense is due to an increase in average borrowings outstanding on our line of credit as well as an increase in interest rates between the second quarter of 2022 and the second quarter of 2023.

NON-GAAP INFORMATION

Adjusted EBITDA

Adjusted EBITDA for the second quarter of 2023 was $13.6 million compared with $16.8 million for the second quarter of 2022. See the table below for a reconciliation of GAAP net income to Adjusted EBITDA.

($ in thousands, unaudited)	**Three Months Ended June 30,**			
	2023	**% of net sales**	**2022**	**% of net sales**
GAAP net income	$ 5,079	5.2 %	$ 6,914	6.4 %
Interest expense	668	0.7	201	0.2
Provision for income taxes	1,987	2.0	2,663	2.5
Depreciation and amortization	5,549	5.6	6,415	6.0
Stock-based compensation	301	0.3	562	0.5
Adjusted EBITDA	$ 13,584	13.8 %	$ 16,755	15.6 %

($ in thousands, unaudited)	**Six Months Ended June 30,**			
	2023	**% of net sales**	**2022**	**% of net sales**
GAAP net income	$ 7,591	3.8 %	$ 10,427	5.0 %
Interest expense	1,466	0.7	467	0.2
Provision for income taxes	2,802	1.4	3,620	1.7
Depreciation and amortization	11,332	5.6	12,854	6.1
Stock-based compensation	706	0.4	1,054	0.5
Adjusted EBITDA	$ 23,897	11.9 %	$ 28,422	13.5 %

Pretax Return on Capital Employed

Pretax Return on Capital Employed was 13.8% for the trailing twelve months as of the end of the second quarter of 2023 compared to 15.0% for the trailing twelve months as of the end of the second quarter of 2022. See the Pretax Return on Capital Employed calculation in the table below.

($ in thousands, unaudited)	**June 30,**	
	2023[(1)]	**2022[(1)]**
Income from Operations (trailing twelve months)	$ 19,954	$ 20,602
Total Assets	341,737	347,424
Less: Accounts payable	(26,566)	(27,257)
Less: Income tax payable	(801)	(447)
Less: Other accrued liabilities	(35,798)	(41,806)
Less: Lease liability	(129,254)	(135,705)
Less: Other long-term liabilities	(4,530)	(4,980)
Capital Employed	$ 144,788	$ 137,229
Pretax Return on Capital Employed	13.8 %	15.0 %

(1) Income statement accounts represent the activity for the trailing twelve months ended as of each of the balance sheet dates. Balance sheet accounts represent the average account balance for the trailing four quarters ended as of each of the balance sheet dates.

Non-GAAP Financial Measures

The Company calculates Adjusted EBITDA by taking net income calculated in accordance with GAAP, and adjusting for interest expense, income taxes, depreciation and amortization, and stock-based compensation expense. Adjusted EBITDA margin is equal to Adjusted EBITDA divided by net sales. The Company calculates Pretax Return on Capital Employed by taking income (loss) from operations divided by capital employed. Capital employed equals total assets less accounts payable, income taxes payable, other accrued liabilities, lease liability and other long-term liabilities. Other companies may calculate both Adjusted EBITDA and Pretax Return on Capital Employed differently, limiting the usefulness of these measures for comparative purposes.

The Company believes that these non-GAAP measures of financial results provide useful information to management and investors regarding certain financial and business trends relating to the Company's financial condition and results of operations. Company management uses these non-GAAP measures to compare Company performance to that of prior periods for trend analyses, for purposes of determining management incentive compensation, for budgeting and planning purposes and for assessing the effectiveness of capital allocation over time. These measures are used in monthly financial reports prepared for management and the Board of Directors. The Company believes that the use of these non-GAAP financial measures provides an additional tool for investors to use in evaluating ongoing operating results and trends and in comparing the Company's financial measures with other specialty retailers, many of which present similar non-GAAP financial measures to investors.

The Company's management does not consider these non-GAAP measures in isolation or as an alternative to financial measures determined in accordance with GAAP. The principal limitations of these non-GAAP financial measures are that they exclude significant expenses and income that are required by GAAP to be recognized in the Company's consolidated financial statements. In addition, they are subject to inherent limitations as they reflect the exercise of judgments by management about which expenses and income are excluded or included in determining these non-GAAP financial measures. In order to compensate for these limitations, management presents non-GAAP financial measures in connection with GAAP results. The Company urges investors to review the reconciliation of these non-GAAP financial measures to the comparable GAAP financial measures and not to rely on any single financial measure to evaluate the business.

WEBCAST AND CONFERENCE CALL

As announced on July 27, 2023, the Company will host a conference call via webcast for investors and other interested parties beginning at 9:00 a.m. Eastern Time on Thursday, August 3, 2023. The call will be hosted by Cabell Lolmaugh, CEO, Karla Lunan, CFO, and Mark Davis, Vice President of Investor Relations and Chief Accounting Officer.

To participate in the live call, please pre-register here. All registrants will receive dial-in information and a unique PIN. A webcast of the call can be accessed by visiting the Company's Investor Relations page at www.tileshop.com. A webcast replay of the call will be available on the Company's Investor Relations page at www.tileshop.com.

The Company intends to use its website, investors.tileshop.com, as a means of disclosing material non-public information and for complying with its disclosure obligations under Regulation FD. Such disclosures will be included on the Company's website under the heading News and Events. Accordingly, investors should monitor such portions of the Company's website, in addition to following its press releases, Securities and Exchange Commission filings and public conference calls and webcasts.

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ABOUT THE TILE SHOP

Tile Shop Holdings, Inc. (Nasdaq: TTSH), is a leading specialty retailer of natural stone, man-made and luxury vinyl tiles, setting and maintenance materials, and related accessories in the United States. The Tile Shop offers a wide selection of high-quality products, exclusive designs, knowledgeable staff and exceptional customer service in an extensive showroom environment. The Tile Shop currently operates 143 stores in 31 states and the District of Columbia.

The Tile Shop is a proud member of the American Society of Interior Designers (ASID), National Association of Homebuilders (NAHB), National Kitchen and Bath Association (NKBA), and the National Tile Contractors Association (NTCA). Visit www.tileshop.com. Join The Tile Shop (#thetileshop) on Facebook, Instagram, Pinterest and Twitter.

FORWARD LOOKING STATEMENTS

This press release includes "forward looking statements" within the meaning of the "safe harbor" provisions of the United States Private Securities Litigation Reform Act of 1995. Forward looking statements may be identified by the use of words such as "anticipate", "believe", "expect", "estimate", "plan", "outlook", and "project" and other similar expressions that predict or indicate future events or trends or that are not statements of historical matters. These forward looking statements include any statements regarding the Company's strategic and operational plan and expected financial performance. Forward looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward looking statements are based on information available at the time such statements are made and/or management's good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward looking statements, including but not limited to unforeseen events that may affect the retail market or the performance of the Company's stores. The Company does not intend, and undertakes no duty, to update this information to reflect future events or circumstances. Investors are referred to the most recent reports filed with the Securities and Exchange Commission by the Company.

Tile Shop Holdings, Inc. and Subsidiaries
Consolidated Balance Sheets
($ in thousands, except per share data)

	(Unaudited) June 30, 2023	(Audited) December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 14,592	$ 5,948
Restricted cash	655	1,811
Receivables, net	3,871	3,411
Inventories	106,862	120,952
Income tax receivable	875	3,859
Other current assets, net	9,007	10,422
Total Current Assets	135,862	146,403
Property, plant and equipment, net	66,938	71,095
Right of use asset	114,616	118,501
Deferred tax assets	4,530	6,536
Other assets	3,493	3,287
Total Assets	$ 325,439	$ 345,822
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 24,385	$ 23,506
Income tax payable	85	3
Current portion of lease liability	27,411	27,866
Other accrued liabilities	33,645	31,916
Total Current Liabilities	85,526	83,291
Long-term debt, net	20,000	45,400
Long-term lease liability, net	98,845	103,353
Other long-term liabilities	4,479	5,009
Total Liabilities	208,850	237,053
Stockholders' Equity:		
Common stock, par value $0.0001; authorized: 100,000,000 shares; issued and outstanding: 44,567,055 and 44,377,445 shares, respectively	4	4
Preferred stock, par value $0.0001; authorized: 10,000,000 shares; issued and outstanding: 0 shares	-	-
Additional paid-in capital	128,257	127,997
Accumulated deficit	(11,589)	(19,180)
Accumulated other comprehensive loss	(83)	(52)
Total Stockholders' Equity	116,589	108,769
Total Liabilities and Stockholders' Equity	$ 325,439	$ 345,822

Tile Shop Holdings, Inc. and Subsidiaries
Consolidated Statements of Income
($ in thousands, except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	**2022**	**2023**	**2022**
Net sales	$ 98,557	$ 107,604	$ 200,576	$ 210,075
Cost of sales	35,255	36,586	71,736	72,212
Gross profit	63,302	71,018	128,840	137,863
Selling, general and administrative expenses	55,568	61,240	116,981	123,349
Income from operations	7,734	9,778	11,859	14,514
Interest expense	(668)	(201)	(1,466)	(467)
Income before income taxes	7,066	9,577	10,393	14,047
Provision for income taxes	(1,987)	(2,663)	(2,802)	(3,620)
Net income	$ 5,079	$ 6,914	$ 7,591	$ 10,427
Income per common share:				
Basic	$ 0.12	$ 0.14	$ 0.18	$ 0.21

Diluted	$ 0.12	$ 0.13	$ 0.17	$ 0.20
Weighted average shares outstanding:				
Basic	43,363,374	50,890,063	43,300,962	50,802,423
Diluted	43,508,221	51,253,543	43,465,235	51,214,607

Tile Shop Holdings, Inc. and Subsidiaries
Rate Analysis
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	**2022**	**2023**	**2022**
Gross margin rate	64.2 %	66.0 %	64.2 %	65.6 %
SG&A expense rate	56.4 %	56.9 %	58.3 %	58.7 %
Income from operations margin rate	7.8 %	9.1 %	5.9 %	6.9 %
Adjusted EBITDA margin rate	13.8 %	15.6 %	11.9 %	13.5 %

Tile Shop Holdings, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
($ in thousands)
(Unaudited)

	Six Months Ended June 30,	
	2023	**2022**
Cash Flows From Operating Activities		
Net income	$ 7,591	$ 10,427
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,332	12,854
Amortization of debt issuance costs	129	157
Loss on disposals of property, plant and equipment	7	-
Impairment charges	618	-
Non-cash lease expense	13,016	13,016
Stock based compensation	706	1,054
Deferred income taxes	2,006	518
Changes in operating assets and liabilities:		
Receivables, net	(460)	(982)
Inventories	14,090	(12,864)
Other current assets, net	1,142	(378)
Accounts payable	984	(806)
Income tax receivable / payable	3,066	(1,733)
Accrued expenses and other liabilities	(12,789)	(12,040)
Net cash provided by operating activities	41,438	9,223
Cash Flows From Investing Activities		
Purchases of property, plant and equipment	(8,076)	(7,361)
Net cash used in investing activities	(8,076)	(7,361)
Cash Flows From Financing Activities		
Payments of long-term debt	(40,400)	(10,000)
Advances on line of credit	15,000	10,000
Employee taxes paid for shares withheld	(446)	(676)
Net cash used in financing activities	(25,846)	(676)
Effect of exchange rate changes on cash	(28)	(38)
Net change in cash, cash equivalents and restricted cash	7,488	1,148
Cash, cash equivalents and restricted cash beginning of period	7,759	10,013
Cash, cash equivalents and restricted cash end of period	$ 15,247	$ 11,161
Cash and cash equivalents	$ 14,592	$ 10,506
Restricted cash	655	655

Cash, cash equivalents and restricted cash end of period	$	15,247	$	11,161
Supplemental disclosure of cash flow information				
Purchases of property, plant and equipment included in accounts payable and accrued expenses	$	655	$	90
Cash paid for interest		1,578		538
Cash (received) paid for income taxes, net		(2,271)		4,836

Source: Tile Shop Holdings, Inc.