Tuesday Morning: A Retail Turnaround Priced For Perfection, Up To 40% Downside

Feb. 17, 2015 5:00 AM ET | **Tuesday Morning Corporation (TUEMQ)** | BBBYQ, TGT, PIRRQ... | 17 Comments

Jeremy Raper
5.42K Followers

Summary

- TUES, a close-out retailer of home furnishings, operates a structurally low-margin business in a hyper-competitive environment.
- A modestly successful 2-year turnaround has precipitated a beyond-frothy valuation of 29x current-year EV/EBITDA and ~15x FY16 EV/EBITDA - a level many turns above larger, more cash-generative competitors.
- TUES' recent comp sales gains and margin improvements likely reflect the "low hanging fruit" of restructuring. Go-forward margin improvement and comp gains will be much harder to achieve.
- With the stock priced for perfection, any misstep in execution will be punished severely. A more appropriate multiple - still at a premium to all comps - suggests ~40% downside.

While looking for ideas on the short side, I generally prefer to bet against secularly impaired businesses or broken capital structures, even at a low price, rather than mediocre businesses trading at a rich price. With Tuesday Morning (TUES), however, I have made a slight exception to this rule. The Dallas-based home furnishings retailer represents another category in the potential short handbook, namely, the "overhyped turnaround story": a business that has historically generated low economic returns (and traded with a low multiple as result), goes through a restructuring and temporarily provides the investor community with hope for a fundamental change in performance, before returning to its low-growth, low-return ways. With human nature such as it is - hopeful and optimistic in the main - Wall Street loves a turnaround story, and you often see fairly outrageous multiples applied to businesses that have gone through restructuring (well in advance of the restructuring thesis being proven to have worked). Indeed, TUES' stock is so expensive now, that even pricing in not just a return to peak earnings power but new highs in the business (in EBITDA and EBITDA margin terms), the stock is still trading at double the multiple of direct comps. We will get to valuation later; for now, let's start at the beginning.

What exactly is Tuesday Morning?

TUES presents a fairly unique offering in the furnishings space. The company describes itself as follows (in its latest 10-K, my **emphasis**):

> We are a leading retailer of off-price, upscale decorative home accessories, housewares, seasonal goods and famous-maker gifts that we generally sell **below retail prices charged by department stores and specialty and on-line retailers** in the United States. Our strong **everyday value proposition** is also supported with **promotional sales events** that create a sense of urgency and excitement for our customer base.

> ... We believe that our well recognized, first quality brand name merchandise and **value-based pricing** have enabled us to establish and maintain strong customer loyalty. We differ from other discount retailers in that we **do not stock continuing lines of merchandise**. Because we offer a continuity of merchandise categories with ever-changing individual product offerings, we provide our customers a higher proportion of new merchandise items than general merchandisers... Our customers, who are predominantly women from middle to upper-income households, are **brand savvy, value-conscious customers** seeking quality products at **discount pricing**. While we offer our customers consistent merchandise categories, our offerings include limited quantities of new and appealing products within these categories, creating a **"treasure hunt" atmosphere** in our stores.
>
> We believe that our customers are attracted to our stores primarily because of our limited quantities of first quality, brand name merchandise which we offer at **attractive prices**. Our stores operate in both primary and secondary locations of major suburban markets, such as **strip malls**, near our middle and upper-income customers. We are generally able to obtain favorable lease terms because of **our flexibility regarding site selection and our "no frills" format**, allowing us to use a wide variety of space configurations.

Apologies for the length, but it is important to understand the business proposition. I have emphasized what I believe are the most important takeaways, viz.:

- TUES sells upscale home furnishing brands, but in limited runs (it's a "close-out" retailer), and competes almost entirely on price
- It is committed to undercutting both other physical retailers AND online competition (despite having NO online business itself)
- TUES' store location prioritizes cheaper leases, and are mostly located in strip malls and, presumably, traditional malls

Right off the bat, we can already tell that **structurally this should be a low-margin business:** TUES is seeking a "value-conscious" consumer, lured to the store by the promise of a "treasure hunt" to find limited quantities of merchandise at prices cheaper even than online competitors (despite lacking a low-cost online distribution strategy itself). Clearly, we should not expect chunky margins at a business like this (more on this point later).

More importantly, from a secular perspective, the long-term forward on this kind of business is not pretty. Much has been written about the decline of physical retailing in favor of online shopping, and I don't believe the point is worth much debate - suffice to say, TUES is fighting on the wrong side. In particular, I would add that those businesses most affected by the immutable rise of online shopping are those that - like TUES - compete most all on price. These companies will either continue to lose share to the Amazons of the world (due to convenience + better pricing), or they will be forced to participate in a self-destructive "race to the bottom" in pricing, as the online retailers use their operational scale, "loss leader" economics and lack of physical store costs to drive prices ever lower. While larger off-price retailers like TJX Companies (TJX) and Ross Stores (ROST) possess far more scale (in terms of store count, product offering, and purchasing power), the relatively smaller players like TUES will likely be squeezed between the off-price physical behemoths and the secular online juggernaut.

In fact, even if we ignore the online threat for a moment, the competitive picture within close-out retail is tough and likely becoming tougher. As mentioned, in the off-price space, both TJX and ROST have far more operational scale and financial muscle to win share. In particular, TJX's HomeGoods brand has been especially aggressive in rolling out new stores, adding over 20 in FY14 (with an average size ~20k sq. ft., vs. TUES at ~10k sq. ft.). Further, HomeGoods has consistently generated high mid-single digit comps over the last two years. Meanwhile, full-price competitors like Target (TGT) and Bed Bath & Beyond (BBBY) possess similar scale/resource advantages to TJX/ROST, and have shown an increasing willingness to get more competitive on pricing to win back traffic.

Note, I am not saying that TUES is in imminent bankruptcy danger; rather, that the longer-term outlook for its stated business model is fairly worrisome, and that **even if the company succeeds in its vision, it is destined to be a low-margin business with zero pricing power in a hyper-competitive industry**. This has important consequences for when we think about valuation later on.

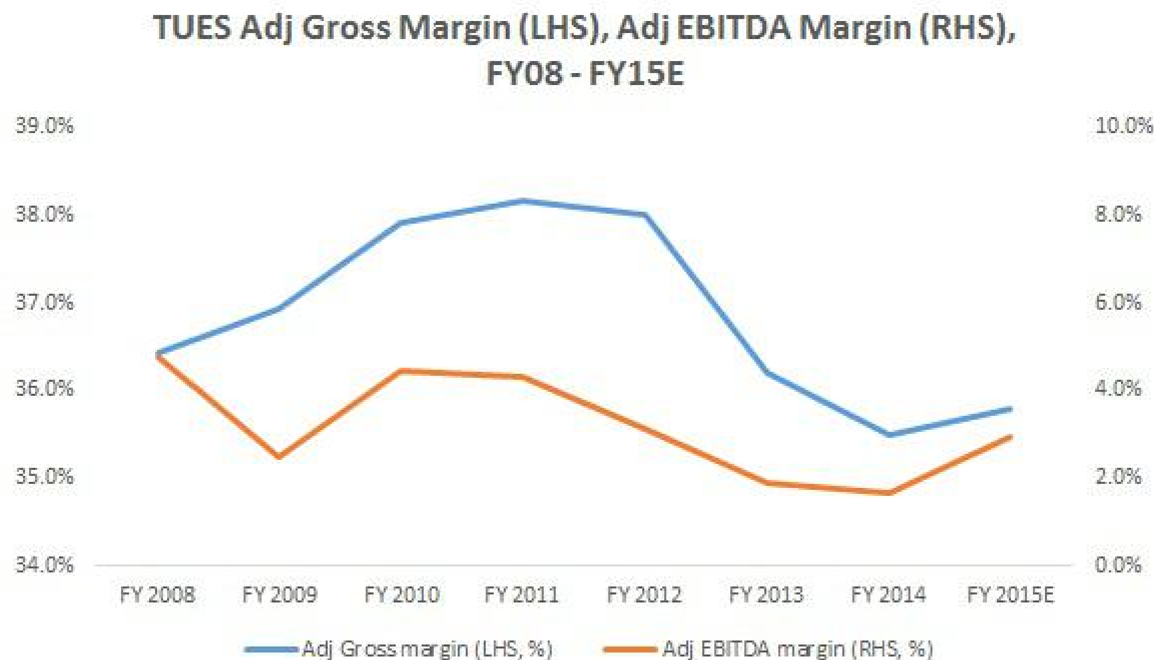
The business: Restructuring completed, now what?

As mentioned earlier, TUES has gone through a restructuring process over the last ~1.5-2 years that has obfuscated underlying performance. The original impetus for restructuring the business was years of low-single digit EBITDA margins, tepid comp sales, bloated inventories, and strategic ennui. During the restructuring (begun in FY13), the company:

- Streamlined the store count (862 in FY11 -> 794 in 2Q FY15);
- Replaced the CEO and management team in a move led by then-involved activist investors (including small cap activist Becker Drapkin, which has since completely sold down its stake);
- Attempted to cut SG&A spend via headcount cuts, lease optimization, etc.

While I don't intend to get too into the weeds of the restructuring, according to management, the process was largely completed as of Q1'15 (Sept. '14), and in fact, the last two quarters (Q1'15, Q2'15) included no add-back adjustments to earnings - suggesting, finally, that going forward, "what you see is what you get."

Let's take a brief look at the operational performance of the company. The below chart shows gross margins and EBITDA margins over the last seven years (FY08-FY15E), including my estimates for FY15:



(Source: Company filings, my estimates)

A couple of relevant points jump out from this chart: 1) Even before the effects of restructuring, **peak margins are not very high** (GMs in the 37.5-38% range, EBITDA margin around ~4.5%); and 2) **Current (FY15E) are really not that far removed from peak margins** (only around 2% in both GM and EBITDA margins). This may seem like a large potential for improvement, and in a sense, it is - especially in the discount retailing world. The problem is simply that the stock's valuation, even allowing for a return to peak earnings power (or even exceeding peak earnings power), is so inflated that even achieving these relatively lofty numbers still makes the stock a screaming sell.

And that is really the key point: TUES may have successfully restructured the business, but it is still stuck in a hyper-competitive industry, where best-case, it can only expect to generate 5% EBITDA margins and minimal cash. As such, this is not a business that demands a premium multiple (and yet, look where TUES trades...)

Comp sales: Good so far, but...

We will get to valuation shortly, but a quick examination of comparative store sales ("comp sales") trends first. As highlighted below, TUES has generated some relatively impressive comps over the last couple of years, as it has restructured the business to remove underperforming stores and tighten the product offering:

(Source: Company filings)

After suffering a -3.1% comp in FY12, TUES generated positive comps of 3.9% and 6.1% in FY13 and FY14, respectively. Normally, I would clearly find positive comps to be, well, positive (:P), but in TUES' case, I am a little more skeptical, since coming off a significant overhaul of the store base and a period of strongly negative comps, you would expect a snap back, as the very worst stores were closed and the baseline comp has been quite low for a while (i.e., the entire FY09-FY12 period). To wit, while Q1 FY15 comps generated a strong double-digit number (+11.3%) in the first "post-restructuring" quarter while lapping a tough comp (+9.1% in Q1 FY14), the Q2 FY15 comp slowed down to +7.6% (despite lapping a much lower YoY comp (+3.1% in Q2 FY14). And looking forward to the second half of the year, the comps get more difficult (Q3 FY14 and Q4 FY14 comps posted +6.4% and +7.4% gains last year), while clearly FY16 will get even tougher still as the company laps an increasingly more efficient and optimized store fleet already, coming off **three years** of positive overall comps.

Indeed, comp deceleration is a key risk for TUES: the stock traded from $21 all the way down to $17.5, before bouncing when the latest comp slowdown was announced in late January. This could be repeated if Q3 or Q4 comps show meaningful deceleration again. In this vein, key competitor Pier 1 Imports (PIR) saw its stock tumble 30% in a session when it announced a lower-than-expected January comp of +5.7% (to be fair, there was the additional bad news of executive turnover and lowered FY guidance).

Model and valuation

TUES had executed reasonably well on its turnaround thus far, and in modeling out the rest of FY15 and FY16, I have given the company credit for continued strong execution. Specifically, I expect the following:

- +7% comp sales growth in Q3 and Q4 (only a slight moderation from Q2's 7.6% comp), and only a slight deceleration to +6.5% in FY16
- Comp store count of 794 at year-end FY15 (from the assumed 798 in Q2), with slight growth to 800 comp stores in FY16

- Gross margin expansion to 37% in FY16 (+120bps YoY), ~100bps below peak GMs (FY11)
- SG&A expense ratio falling to 33% on better operational leverage (this is better than the peak efficiency of 33.6% enjoyed in FY08)
- A slight giveback in working capital in 2H 15, and zero working capital moves in FY16;
- A 15% tax rate in FY16

While I feel the above assumptions are reasonably generous, the biggest question mark (and clearly valuation determinant) is the comp sales number. By FY16, TUES will be lapping 3 straight years of both positive comps and annual comp acceleration; assuming the pace of comp growth slows only mildly to 6.5%, despite being a full 1.5 years removed from the "low-hanging fruit" of restructuring-inspired comp gains, is, to me, quite aggressive. The gross margin expansion modeled is also, I feel, quite generous in that it does not account for ongoing price deflation led by online retailers, nor the lower-margin profile of the dominant off-price retailers TJX and ROST (more on that below). Finally, after years of optimizing and reducing overhead (SG&A costs) as the company restructured, it is reasonable to expect operating costs to rise as the company returns to growth. In fact, management has suggested one avenue for further revenue and comp growth is relocating stores from current "C" and "D" locations (dictated by TUES' flexible location and "no-frills" store approach, all in search of low rents) to slightly more upscale "B" locations. Of course, such a move would necessitate higher operating costs. So, while clearly in a position to enjoy operational leverage as revenues continue to grow, I expect an SG&A expense ratio of 33% may be about as good as can be expected medium-term, and frankly could be too optimistic for FY16.

Nevertheless, with the above assumptions, I see TUES generating **$27mm EBITDA in FY15 and $51mm in FY16** (on 6.2% and 7.3% net revenue growth, respectively). Allowing for some FCF generation in both years (and minimal increase in capex from baseline levels), this puts TUES stock, trading at $19.4, **at ~29x and ~15x EV/EBITDA** on FY15E and FY16E numbers.

Model:

(fiscal yr end June)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	1Q 2013	2Q 2013	3Q 2013	4Q 2013	FY 2013
Income statement	June '08				June '12					June '13
Revenue	885.3	801.8	828.3	821.2	812.8	172.8	285.3	178.1	202.1	838.3
COGS	562.8	505.6	514.3	507.8	503.9	107.9	223.7	111.9	135.4	578.9
Gross Profit	322.5	296.2	314	313.4	308.9	64.9	61.6	66.2	66.7	259.4
SG&A (incl R&D, D&A)	297.9	293.7	293.9	295.3	301.4	75.8	84.2	77.9	78.0	315.9
Operating Profit	24.6	2.5	20.1	18.1	7.5	-10.9	-22.6	-11.7	-11.3	-56.5
D&A	17.7	17.5	16.7	17.1	15.3	3.8	3.6	3.4	3.3	14.1
Others (NOT incl stock comp)	0	0	0	0	2.7	1.5	48.5	4.8	3.5	58.3
Adjusted EBITDA	42.3	20	36.8	35.2	25.5	-5.6	29.5	-3.5	-4.5	15.9
Interest expense	-3.9	-2.7	-2.9	-3.2	-2.3	-0.4	-0.5	-0.4	-0.4	-1.7
Interest income	0.2	0	0	0	0	0	0.0	0.0	0.0	0.0
Other income, net	1.1	0.2	-0.5	-0.6	0.2	0.1	-1.3	-0.1	-3.9	-5.2
Income tax expense	7.6	0	5.9	6	1.5	-4.3	-2.9	0.1	0.1	-7.0
Net income (un-adjusted)	14.4	0.0	10.8	9.5	3.9	-6.9	-21.5	-12.3	-15.7	-56.4
Adj net income (add back one-timers)	14.4	0.0	10.8	9.5	3.9	-6	15.5	-4.8	-5.5	-0.8
Avg shs outstanding (diluted)	41.494	41.505	42.483	43.078	42.536	41.764	42.308	42.427	42.248	42.248
Diluted EPS	0.35	0.00	0.25	0.22	0.09	-0.17	-0.51	-0.29	-0.37	-1.33
Adj diluted EPS	0.35	0.00	0.25	0.22	0.09	-0.14	0.37	-0.11	-0.13	-0.02
Sales growth %		-9.4%	3.3%	-0.9%	-1.0%	1.3%	4.3%	3.1%	2.9%	3.1%
Gross margin (%)	36.4%	36.9%	37.9%	38.2%	38.0%	37.6%	21.6%	37.2%	33.0%	30.9%
SG&A % of revs	33.6%	36.6%	35.5%	36.0%	37.1%	43.9%	29.5%	43.7%	38.6%	37.7%
Operating margin (%)	2.8%	0.3%	2.4%	2.2%	0.9%	-6.3%	-7.9%	-6.6%	-5.6%	-6.7%
Adj EBITDA margin (%)	4.8%	2.5%	4.4%	4.3%	3.1%	-3.2%	10.3%	-2.0%	-2.2%	1.9%
Stock price	4.6	4.3	4.4	3.7	5.6	6.0	6.6	8.0	12.5	12.5
Market cap	190.9	178.4	186.9	159.4	238.2	250.6	279.2	339.4	528.1	528.1
Net debt	-0.1	-5.8	-23.5	-19.4	-39.7	2.5	-48.0	-34.5	-28.9	-28.9
Enterprise Value	190.8	170.6	163.4	140.0	198.5	253.1	231.2	304.9	499.2	499.2
EV/Adj EBITDA (TTM)	4.5x	8.5x	4.4x	4.0x	7.8x	18.7x	6.3x	11.4x	31.4x	31.4x
EV/GAAP EBITDA (x)	4.5x	8.5x	4.4x	4.0x	8.7x	25.3x	-15.7x	-10.6x	-62.4x	-11.8x
Price/Adj Earnings (x)	13.3x	########	17.3x	16.8x	61.1x	-80.1x	24.6x	80.4x	-606.1x	-606.1x
Price/GAAP Earnings (x)	13.3x	########	17.3x	16.8x	61.1x	-62.2x	-10.5x	-8.5x	-9.4x	-9.4x
Price/Book Value (x)	0.8x	0.7x	0.8x	0.6x	0.9x	1.0x	1.2x	1.5x	2.5x	2.5x
P/FCF (x)	4.0x	9.0x	12.5x	-7.6x	5.2x					-41.3x

(fiscal yr end June)	1Q 2014	2Q 2014	3Q 2014	4Q 2014	FY 2014	1Q 2015	2Q 2015	3Q 2015E	4Q 2015E	FY 2015E	FY 2016E
Income statement					June'14						
Revenue	183.7	285.8	182.8	212.5	864.8	202.2	301.4	192.0	222.9	918.5	985.6
COGS	120.3	186.4	114.7	141.3	562.7	130.3	192.4	120.0	147.1	589.8	1049.3
Gross Profit	63.4	99.4	68.1	71.2	302.1	71.9	109.0	72.0	75.8	328.7	364.7
SG&A (incl R&D, D&A)	75.9	81.1	75.7	77.5	310.2	77.7	84.8	73.9	78.0	314.4	325.2
Operating Profit	-12.5	18.3	-7.6	-6.3	-8.1	-5.8	24.2	-1.9	-2.2	14.3	39.4
D&A	3.0	3.2	3.4	3.2	12.8	3.2	3.2	3.2	3.1	12.7	12.0
Others (NOT incl stock comp)	2.4	2.0	2.2	3.1	9.7	0.0	0.0	0.0	0.0	0.0	0.0
Adjusted EBITDA	-7.1	23.5	-2.0	0.0	14.4	-2.6	27.4	1.3	0.9	27.0	51.4
Interest expense	-0.4	-0.4	-0.4	-0.3	-1.5	-0.4	-0.4	-0.4	-0.3	-1.5	-1.5
Interest income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other income, net	0.1	0.0	0.0	-0.7	-0.6	0.0	0.1	0.0	0.0	0.1	0.2
Income tax expense	-0.7	0.2	0.4	0.1	0.0	0.1	0.3	0.0	0.0	0.4	6.2
Net income (un-adjusted)	-12.1	17.7	-8.4	-7.4	-10.2	-6.3	23.6	-2.3	-2.5	12.5	32.0
Adj net income (add back one-timers)	-10.1	19.3	-5.7	-3.4	0.1	-6.3	23.6	-2.3	-2.5	12.5	32.0
Avg shs outstanding (diluted)	42.618	43.221	43.072	42.943	42.943	43.324	43.777	43.777	43.777	43.777	43.777
Diluted EPS	-0.28	0.41	-0.20	-0.17	-0.24	-0.15	0.54	-0.05	-0.06	0.28	0.73
Adj diluted EPS	-0.24	0.45	-0.13	-0.08	0.00	-0.15	0.54	-0.05	-0.06	0.28	0.73
Sales growth %	6.3%	0.2%	2.6%	5.1%	3.2%	10.1%	5.5%	5.0%	4.9%	6.2%	7.3%
Gross margin (%)	34.5%	34.8%	37.3%	33.5%	34.9%	35.6%	36.2%	37.5%	34.0%	35.8%	37.0%
SG&A % of revs	41.3%	28.4%	41.4%	36.5%	35.9%	38.4%	28.1%	38.5%	35.0%	34.2%	33.0%
Operating margin (%)	-6.8%	6.4%	-4.2%	-3.0%	-0.9%	-2.9%	8.0%	-1.0%	-1.0%	1.6%	4.0%
Adj EBITDA margin (%)	-3.9%	8.2%	-1.1%	0.0%	1.7%	-1.3%	9.1%	0.7%	0.4%	2.9%	5.2%
Stock price	13.5	14.0	15.5	18.8	18.8	18.8	19.0	19.4	19.4	19.4	19.4
Market cap	575.3	605.1	667.6	807.3	807.3	814.5	831.8	849.3	849.3	849.3	849.3
Net debt	-13.3	-53.3	-41.6	-49.7	-49.7	-8.5	-54.8	-48.9	-57.2	-57.2	-93.6
Enterprise Value	562.0	551.8	626.0	757.6	757.6	806.0	777.0	800.4	792.1	792.1	755.7
EV/Adj EBITDA (TTM)	39.0x	65.7x	63.2x	52.6x	52.6x	42.6x	34.1x	30.7x	29.4x	29.4x	14.7x
EV/GAAP EBITDA (x)	-12.5x	-128.3x	-1130.1x	161.2x	161.2x	69.5x	44.4x	34.8x	29.4x	29.4x	14.7x
Price/Adj Earnings (x)	-118.5x	-414.6x	-292.6x	-9600.9x	-9600.9x	209.8x	104.3x	74.2x	68.6x	68.6x	26.6x
Price/GAAP Earnings (x)	-9.3x	-26.1x	-35.1x	-77.8x	-77.8x	-182.1x	721.4x	188.1x	68.6x	27.2x	26.6x
Price/Book Value (x)	2.9x	2.8x	3.2x	4.0x	4.0x	4.1x	3.7x	3.7x	3.7x	3.7x	3.7x
P/FCF (x)					45.4x					124.0x	23.3x

(Source: Company filings, my estimates)

For reference, here is where TUES' key comps trade. Note - I have adjusted Restoration Hardware (RH) and Williams-Sonoma's (WSM) gross margins to remove occupancy costs (which they included in the GM line, instead of the SG&A line):

FY16 numbers (estimated)	RH*	ETH	BBBY	WSM*	PIR	TJX	ROST	Average	TUES
Gross margin (%)	43.0%	54.5%	38.6%	54.8%	40.2%	28.6%	28.7%	41.2%	**37.0%**
Operating margin (%)	10.2%	11.1%	12.4%	11.0%	9.2%	12.5%	14.0%	11.5%	**4.0%**
Adj EBITDA margin (%)	13.4%	13.4%	14.5%	14.7%	9.4%	14.6%	16.3%	13.8%	**5.2%**
EV/Revenue (TTM) (x)	1.4x	1.0x	0.8x	1.5x	0.6x	1.5x	1.4x	1.2x	**0.8x**
EV/Adj EBITDA (FY1) (x)	10.3x	7.4x	8.4x	10.0x	6.7x	10.1x	8.8x	8.8x	**14.7x**
Price/Adj Earnings (FY1) (x)	26.8x	14.3x	14.2x	20.6x	14.0x	18.9x	17.0x	18.0x	**26.6x**
EPS growth (FY1) (%)	30.9%	30.3%	7.5%	16.8%	-17.0%	12.7%	14.2%	13.6%	**172%**
EBITDA growth (FY1) (%)	41.2%	15.8%	-0.5%	14.1%	-11.0%	8.0%	9.4%	11.0%	**93%**
Sales growth (FY1) (%)	19.1%	5.8%	3.0%	8.6%	6.0%	7.1%	7.7%	8.2%	**7.8%**

*adjusting GM to remove occupancy expenses and most of depreciation (which they report in COGS not SG&A)

(Source: Company filings, my estimates)

As you can see, TUES trades at a **massive premium to all its competitors**, despite inferior operating performance (even assuming my post-restructuring improvements into FY16E) and a weaker business proposition. Wall Street analysts look at tables like the above and likely assume TUES EBITDA margins can grow ~4-5pts over time and hence justify its lofty targets.

To me, though, this table is worrying. First, I would highlight that TUES' gross margins continue to look somewhat high, in the face of TJX and ROST's lower gross margins and superior pricing power (and TUES' stated prerogative to always win on price). Secondly, consider, for example, that PIR - not a discount retailer, and one with a significant online business in addition to its physical stores - only generates gross margins a few points higher than TUES, suggesting little if any headroom for GMs to expand further.

And finally, I would suggest looking at how the TUES business has performed historically, and where it has traded: even back when GMs and EBITDA margins peaked in FY11 (at ~38% and 4.5% respectively) and the business generated then-peak EBITDA of $37mm, the market applied **just a 4-5x multiple** to these earnings. That is a low multiple, certainly, but one more in line with the volatility and low overall returns of the business, and indeed, more in line with where better-performing comps trade even today after a few years of market multiple expansion. At the current stock price, TUES is trading at **almost 11 turns above the FY11 multiple, stacked on top of what would be a new 8-year peak in absolute EBITDA** - even though the fundamentals of the industry have only deteriorated (thanks to both online and offline competition). My personal price target is **8-9x** FY16 EBITDA, which is still a significant premium to where TUES has traded historically on normalized, peak earnings, and a level that does not look particularly cheap versus the better operators it competes against. Even so, such a target implies a price of $11.5-12.7, or **35-41% downside from current levels**.

Why the pricing anomaly exists, and upside risks

At this point, we have to ask - What does the market see in TUES that we could be missing? I have already discussed Wall Street's chronic disposition to periodically fall in love with turnaround stories, and to be fair, TUES has executed well over the last 1.5 years or so. In addition, I would add that the nature of the business makes TUES quite sensitive to a recovering US economy, and, like most discretionary retailers, a beneficiary of lower oil prices (although its largest single-state exposure is to Texas [13.5% of stores], which could be hit hard by the slowdown in the oil industry). I believe a combination of these factors has resulted in a valuation well and truly over its skis, and any slight execution misstep could see a valuation reset to much lower levels.

As for upside risk, clearly, TUES is a well-shorted stock that has been a pain trade for many over the last couple of years; I am cognizant of the stock's propensity to rally even on fair-to-middling performance given the short interest. But the crux of the thesis is that TUES' turnaround is not only more than priced in - it will also begin to see meaningful deceleration in the coming quarters, taking the air out of the valuation balloon. Assuming, however, continued outsized comp gains, improved operational efficiency, and the market's ongoing willingness to ascribe a nonsensical multiple, you could see the stock retest multi-year highs near $22.5 (implying 15% downside to the short case).

This article was written by

Jeremy Raper

5.42K Followers

Full-time investor. Going forward all my write-ups/content will be exclusively at rapercapital.com.You can read about my approach here:https://rapercapital.com/investment-philosophy/You can see my past performance here:https://rapercapital.com/historical-idea-performance/You c

Show More

Analyst’s Disclosure: The author is short TUES. The author wrote this article themselves, and it expresses their own opinions. The author is not receiving compensation for it (other than from Seeking Alpha). The author has no business relationship with any company whose stock is mentioned in this article.

Seeking Alpha's Disclosure: Past performance is no guarantee of future results. No recommendation or advice is being given as to whether any investment is suitable for a particular investor. Any views or opinions expressed above may not reflect those of Seeking Alpha as a whole. Seeking Alpha is not a licensed securities dealer, broker or US investment adviser or investment bank. Our analysts are third party authors that include both professional investors and individual investors who may not be licensed or certified by any institute or regulatory body.