



Retail

# ELEVATOR PITCH

Presented by Hedgeye Retail Sector

The Container Store Group, Inc.

Ticker	TCS		2022A	2023E	2024E	2025E	2026E
Price	\$1.76	Hedgeye EPS	\$ 0.75	\$ (0.15)	\$ 0.37	\$ 1.01	\$ 1.57
Market Cap	0.09 bn	Street EPS		\$ (0.18)	\$ 0.25	\$ 0.30	
Enterprise Value	0.25 bn	Variance			48%	241%	
Short Interest	3.0%	P/E			4.7x	1.7x	1.1x
Debt/EBITDA	2.6x	Target P/E			18.0x	16.0x	14.0x
Sell Side Target	\$2.00	Implied Price			\$6.7	\$16.1	\$22.0
Return to SS Tgt	14%	Price Variance %			280%	818%	1152%

## HEDGEYE EDGE | Rare Unit Growth Story In Home Ecosystem

Best Idea Long TCS is one of the most underestimated and underappreciated growth stories in retail. The earnings leverage juice in this model on a home spend recover is massive. The stock has been beaten up due to the home consumption recession that started in late 2H 2022. We think home organization will be a long term consumer trend. TCS's category cannot be easily transferred online, and it has a large custom closets business that also can't be done online. The new CEO has been in place for just over 2.5 years and has been tweaking the model to be better positioned for selling the visual experience, service and organizational solutions as opposed to being "sale" oriented. The company plans to open 76+ new stores and is targeting low double digit op margins over the long term. As home spend recovers and store growth ramps, we'll see big revenue growth with margin expansion, gross margin normalization, and SG&A leverage. That gets to \$1+ in EPS in '25, and \$2+ over 4 to 5 yrs.

## NEAR-TERM (TREND) | Rate of Change Bottoming

The business is under pressure near term, with comps down 20% in 2Q and earnings falling to below breakeven this year, but it looks like we have found the rate of change bottom as comps are expected to get less bad in the Qs to come. Growth comparisons are very easy from here. Guidance and commentary around liquidity and free cash potential remains positive with an aim for FCF neutral to positive despite the recent earnings declines. Store visits data slowed from Sept to October, but recent trends are less bad. Home spend might be under pressure until at least 1H24.

## KEY RISKS TO THE CALL | Persistent Home Retail Recession

With some leverage on the balance sheet, the bear case is that the home retail environment remains under pressure for longer than expected with a slowing consumer, and therefore the company has to raise capital prior to the free cash flow acceleration.

### COMPANY DESCRIPTION

The Container Store is a US specialty retailer offering in-home organizational solutions. In addition to the banner stores it owns Elfa, a flexible storage solutions brand. TCS has storage solutions for every room of the home as well as a big custom closets offering. It currently operates 97 stores.

### KEY MODELING ASSUMPTIONS

	2022A	2023E	2024E	2025E	2026E
Revenue	\$ 1,047	\$ 894	\$ 976	\$ 1,172	\$ 1,346
YY % Change		-14.7%	9.2%	20.0%	14.8%
Gross Margin %	57.4%	56.5%	57.7%	58.3%	58.8%
EBIT Margin %	6.9%	0.8%	4.0%	6.6%	8.1%
EBITDA	\$ 115	\$ 52	\$ 90	\$ 131	\$ 166
Net Debt	\$ 161	\$ 132	\$ 131	\$ 100	\$ 65
Net Debt/EBITDA	1.4x	2.6x	1.4x	0.8x	0.4x
FCF/Share	\$ (0.10)	\$ 0.72	\$ 0.24	\$ 0.65	\$ 1.06