



 **The Tile Shop**

INVESTOR
PRESENTATION
October 2018

Forward Looking Statements and Non-GAAP Information

These slides and accompanying oral presentation contain "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 (including the financial performance of new stores). 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 those 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 SEC by the Company.

Factors that could materially affect actual results, levels of activity, performance or achievements include those listed under the caption "Risk Factors" in our 2014 Annual Report.

If any of these risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary significantly from what we projected. Any forward-looking statement you see or hear during this presentation reflects our current views with respect to future events and is subject to these and other risks, uncertainties, and assumptions relating to our operations, results of operations, growth strategy, and liquidity. We assume no obligation to publicly update or revise these forward-looking statements for any reason, whether as a result of new information, future events, or otherwise. These slides and accompanying oral presentation contain also contain non-GAAP measures of financial results. We believe that these non-GAAP measures of financial results provide useful information to management and investors regarding certain financial and business trends relating to our financial condition and results of operations. Our management uses these non-GAAP measures to compare our performance to that of prior periods for trend analyses, for purposes of determining management incentive compensation, and for budgeting and planning purposes. These measures are used in monthly financial reports prepared for management and our board of directors. We believe 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 our financial measures with other specialty retailers, many of which present similar non-GAAP financial measures to investors. Our 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 our 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. We urge investors to review the reconciliation of our non-GAAP financial measures to the comparable GAAP financial measures and not to rely on any single financial measure to evaluate our business.

Company Snapshot

- Founded in 1985
- Dedicated retailer to the home tile market with a strong growth story
- Operates 140 stores in 31 states with a long-term goal of 400+ stores
- Key differentiation points drive strong operating margins



2018 Strategic initiatives are focused in 3 areas

Best Product Assortment

- Competitive Advantage

Best Service

- High-End Experience catered to upscale customer

Best Product Presentation

- High-End Look in-store and online

Best Product Assortment

- Added ~2,000 SKUs to our assortment over the last 12 months
- Partnered with premium brands and designers to release high end, exclusive product lines
- Enhanced the quality and depth of our pro product offerings



Best Service

- Increased the number of regional managers
- Introduced pro market managers
- Implemented a new sales associate compensation plan
- Formalized our pro loyalty program

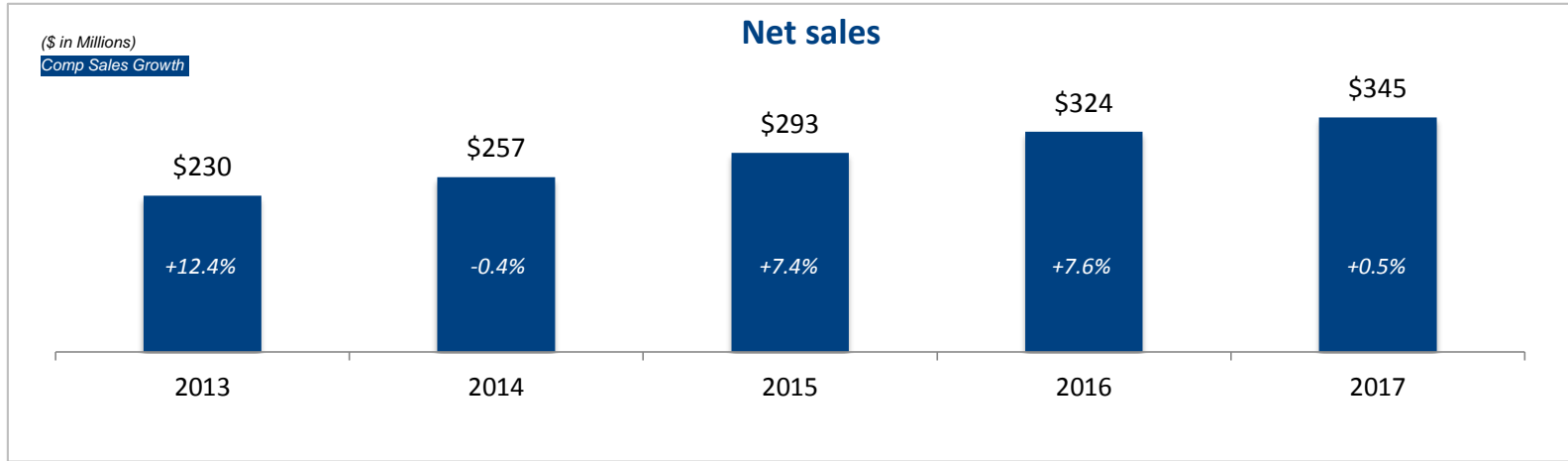


Best Product Presentation

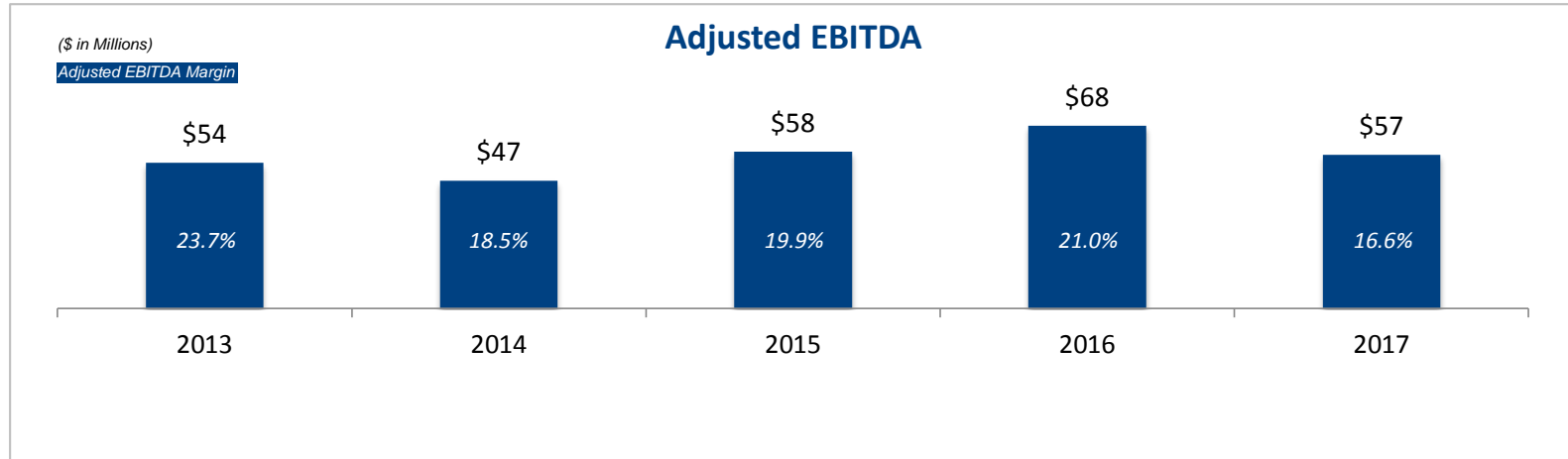
- Significant remodel of 10 stores (2 additional stores in Q4)
- Enhanced our website to provide a consistent, high-end brand experience
- Added new merchandise signage, endcaps, displays and fixtures to all 140 stores



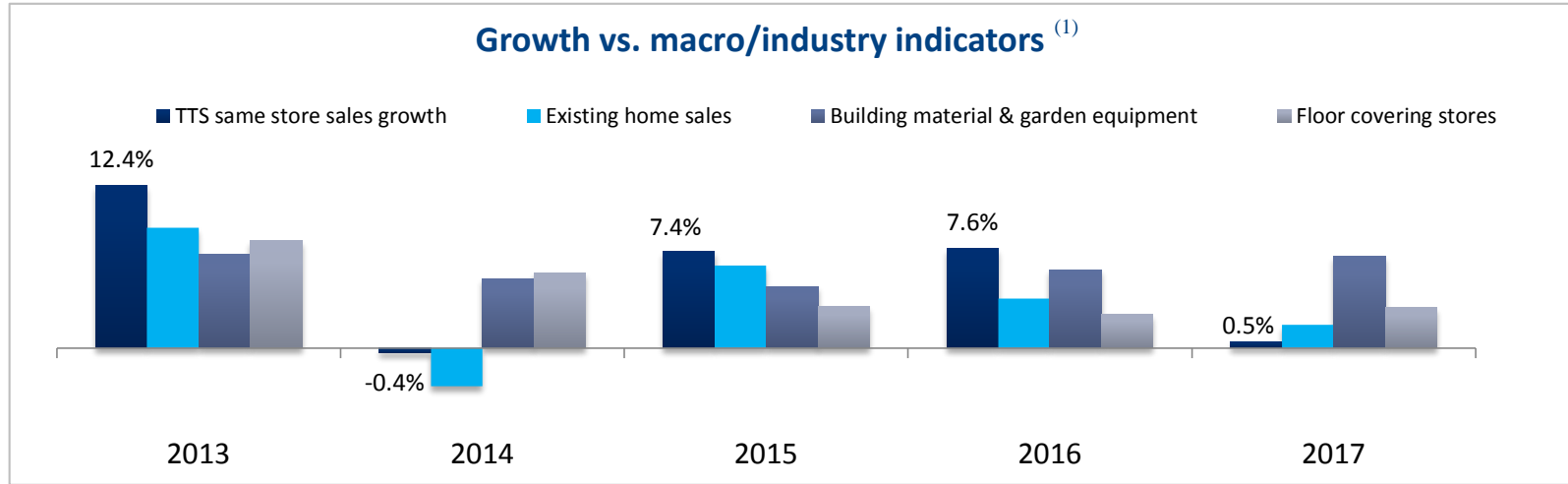
Historical Financial Performance



Historical Financial Performance



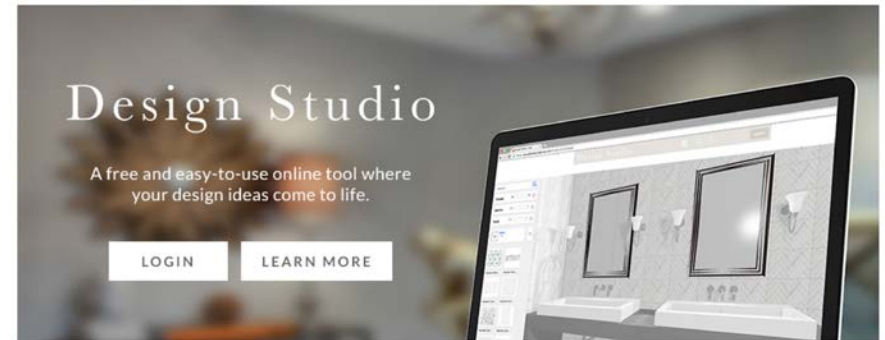
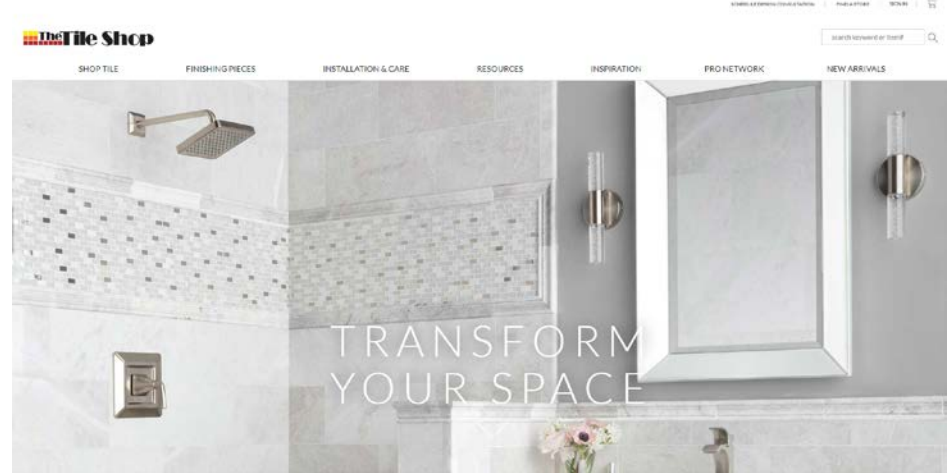
Historical Financial Performance



⁽¹⁾ Existing Home Sales Per National Association of Realtors. Seasonally Adjusted Annual Rate. Floor Covering Stores and Building Materials & Garden Equipment growth is per Government Census bureau data.

Current E-Commerce Initiatives; Inspiration and Research

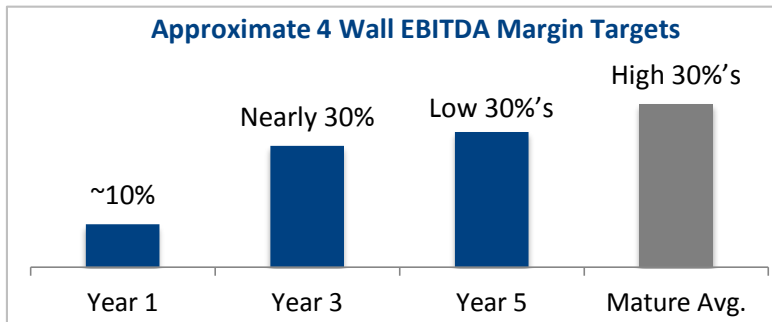
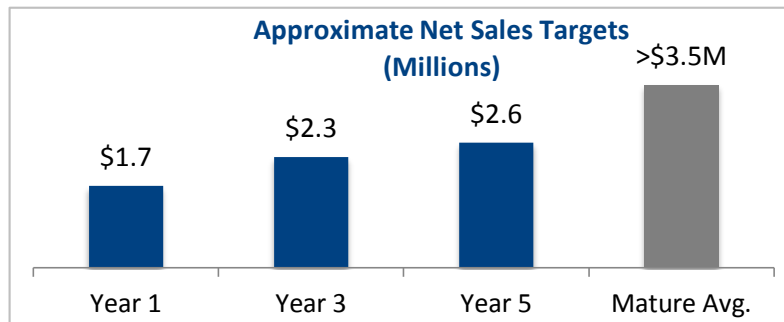
- **Content** enhanced to create a consistent online and in store brand experience
- **Pro My Account** implemented to enable Pro's to manage their Tile Shop account online
- **Design Studio** launched to enhance collaboration across project stakeholders
- **Pricing** removed for non-pros to drive inspiration and traffic



New Store Unit Economics

Current Average Store Opening Targets:

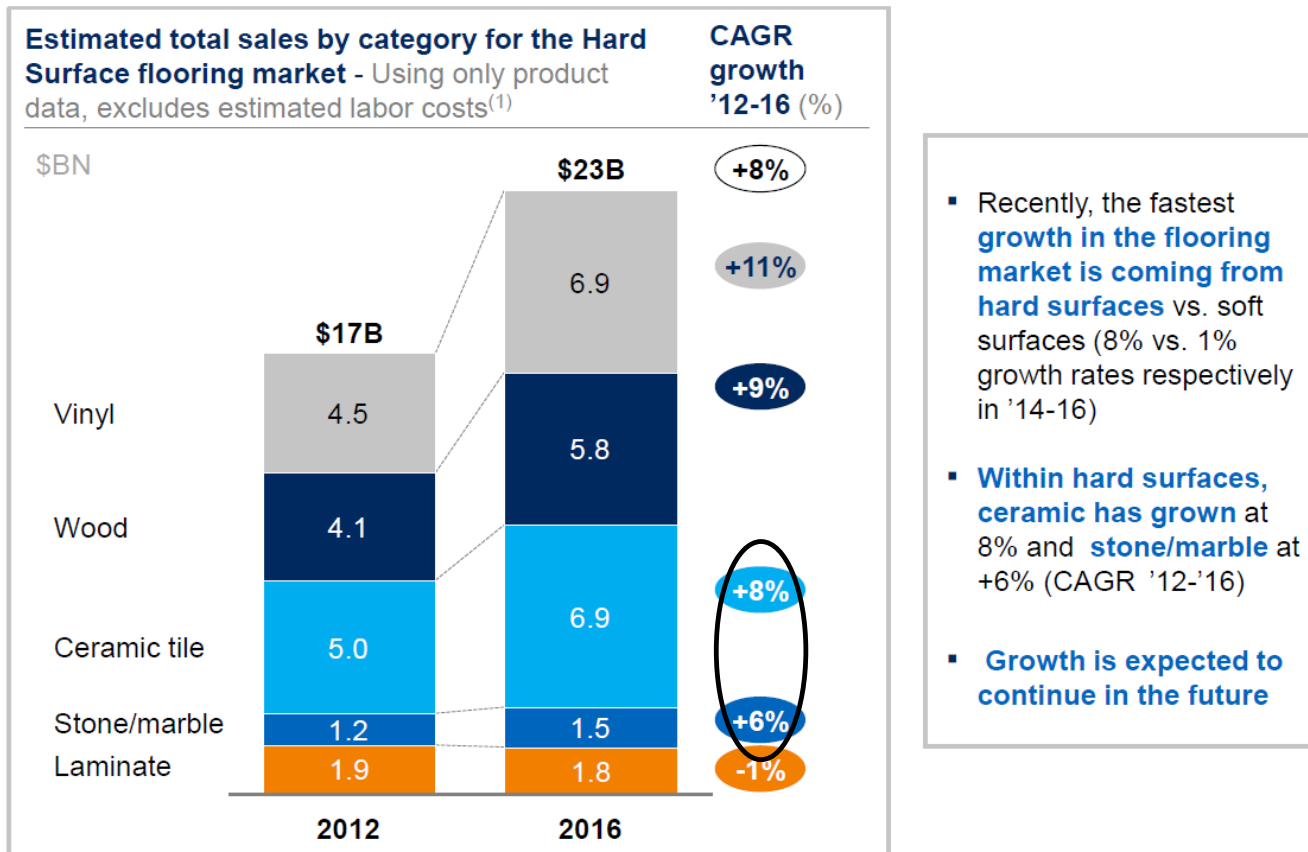
- Capital Expenditure: ~\$1.1 million
- Store Inventory: ~\$100k
- Store Size: ~15,000 square feet



Return Profile

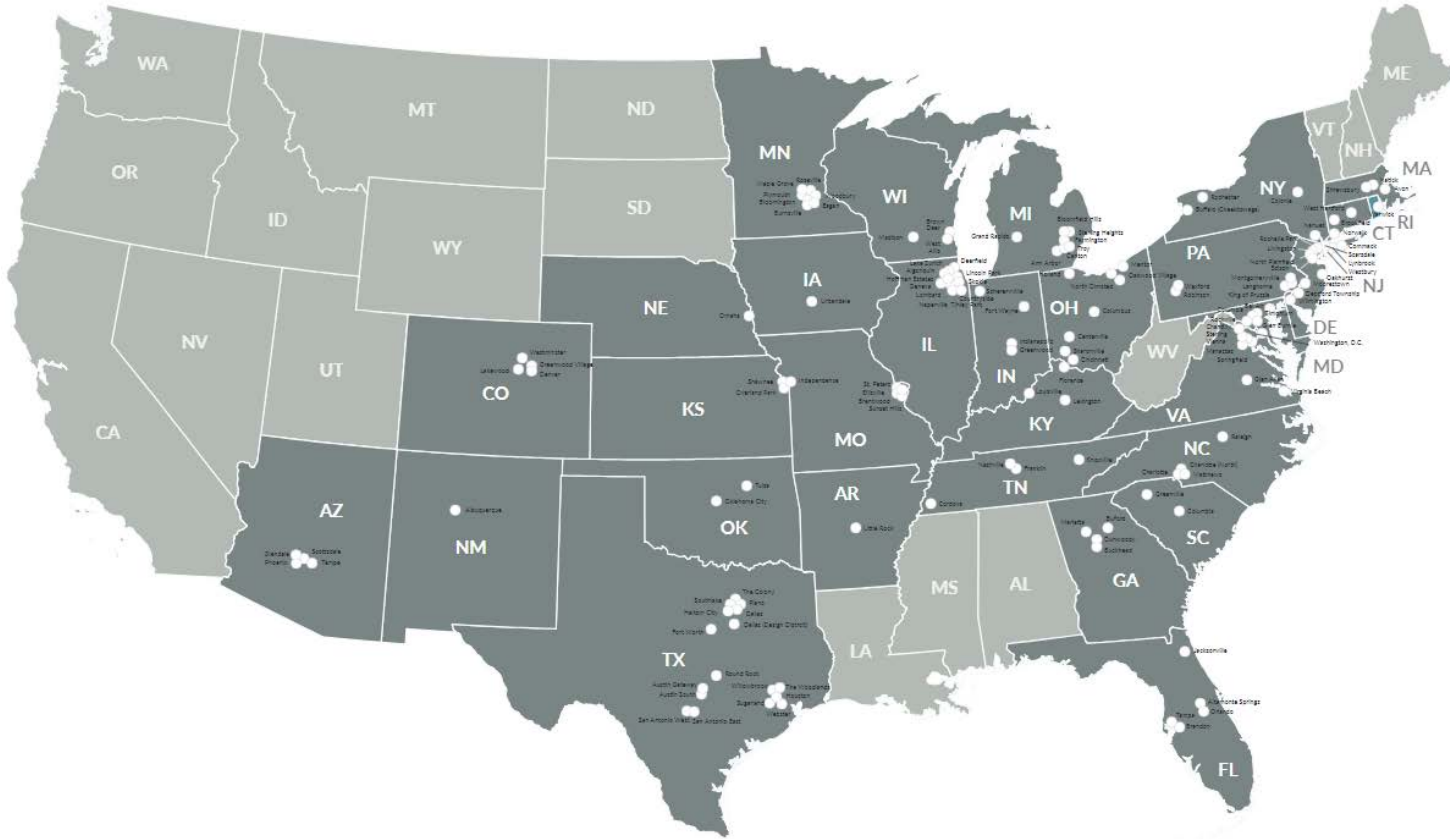
- Free Cash Flow Payback: ~3 years
- Cash on Cash Return in Year 3: >70%

Hard Surface Flooring Market is Growing



⁽¹⁾ Vinyl experienced the largest sales growth during the last 4 years, due to advancements in technology, in particular in LVT (~20-30% from 2012 to 2016), estimated to primarily take share from carpet & laminate in the short term.

Strong and growing 140 store presence in U.S. (as of October 1, 2018)



Goals of Strategic Initiatives

- **Build upon our leading customer service culture**
 - Increase retail customer satisfaction
 - Increase pro sales growth
 - Increase traffic and conversion
- **Continue to build the bench – Stores, DC's and Plymouth, MN office**
 - Increase store manager tenure
 - Decrease sales associate turnover
 - Develop talent across the organization
- **Deliver strong financial performance**
 - Comp sales back to mid-single digits with strong 69-70% gross margin
 - Longer term, achieve adjusted EBITDA margin of +20%
 - Longer term, achieve pretax return on capital employed of +20%