Postmortem: Tailored Brands

Equity – Ticker: TLRD

7% Bonds Due 2022 – CUSIP: 587118AE0

http://finra-markets.morningstar.com/BondCenter/BondDetail.jsp?ticker=C632019

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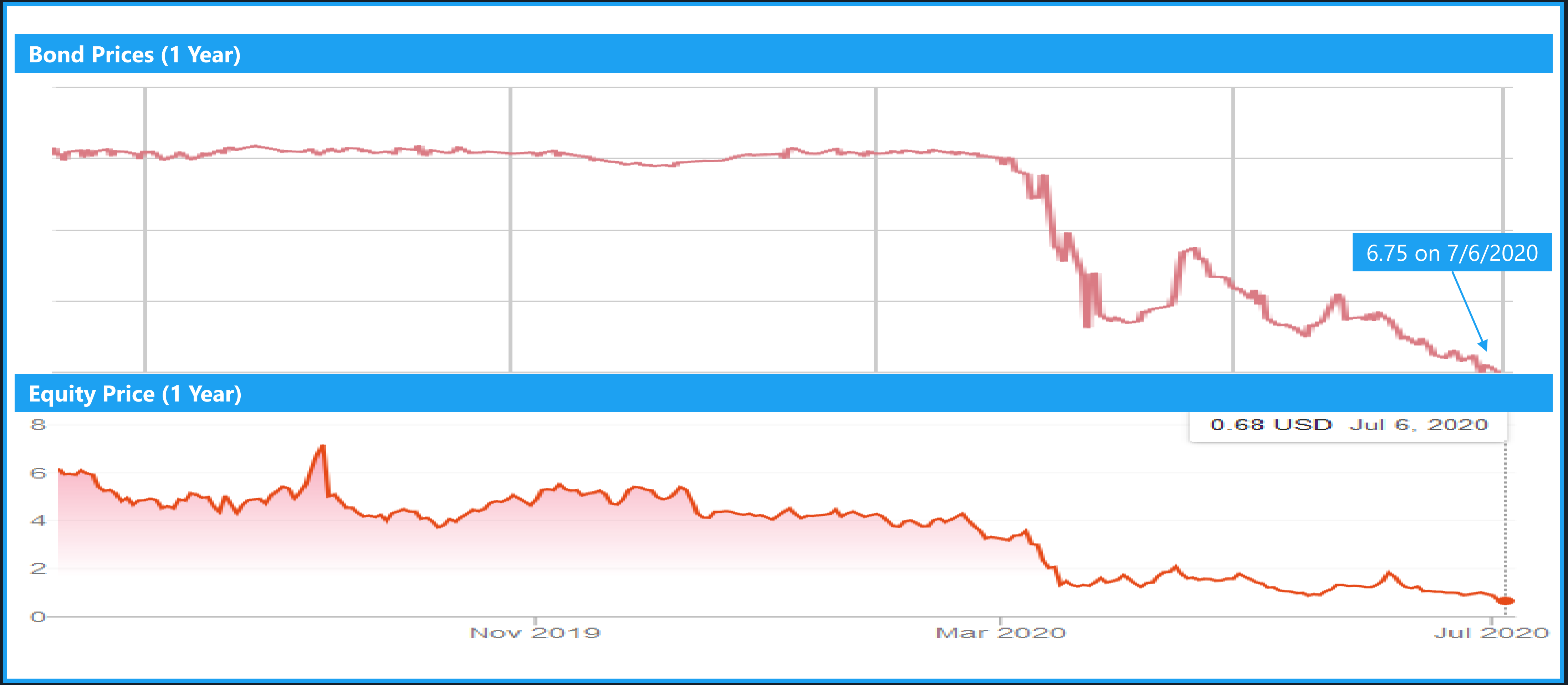
Introduction: Executive Summary

- What happened?
  - Net Investment
    - Lost about 31%
  - Equity Investment
    - Bought TLRD Equity at $1.37 (weighted average)
    - Sold at $1.05 for ~25% loss
  - Bond Investment
    - Bought TLRD 7s due 2022 at 32
    - Sold at 19 for ~40% loss
  - Key Mistakes
    - Brokerage Transfer 6/5; Too Casual on COVID-19; Too Concentrated; Didn’t Recognize Cash Flow Impact of Stretching Receivables Fast Enough

Introduction: Key Errors

- Before
  - Acted on assumptions outside my circle of competence
    - Cash burn reduction
    - COVID-19 length of impact
  - Treated the company like a small cap
  - Ignored short interest
- During
  - Didn’t estimate the impact from stretching receivables & form a balance sheet cash expectation
  - Brokerage transfer was incredibly stupid

Introduction: High-Level Timeline



Introduction: Detailed Timeline

- The following slide lays out the incremental information (from the company, from its shareholders, and from third-party sources) as it was released
- My key position management error was failing to look for the cash flow impact from stretching receivables. If I acted on the day of the 8-K's release, I could have exited the position near my cost basis.

Introduction: Detailed Timeline

	2/1/20	Δ - Q1	5/2/20	Δ - May	6/5/20
Balance Sheet ($ million)					
Total Cash	14.420		338.700		294.800
Asset Sales (1)		114.000		13.400	
DPO Extended by 90 (3/31)		106.667		106.667	
Inventory down		33.000			
Revolver Draw		310.000			
Operational CF		(239.387)		(163.967)	

(1) $114 for Joseph Abboud; $13.4 for the DC and owned store

	2/1/20	Δ - Q1	5/2/20	Δ - May	6/5/20
Free Cash	14.420		244.200		201.300
Restricted Cash	0.000		94.500		93.500
Total Cash	14.420		338.700		294.800

Income Statement ($ million)	2/1/20	Δ - Q1	5/2/20	Δ - May	6/5/20
E-Commerce Sales					
Store Sales					
Total Sales		286.700			
-COGS		(155.900)			
-Occupancy		(101.100)			
Gross Margin		29.700			
Advertising		(22.700)			
SG&A		(157.700)			
Adj. EBIT(2)		(150.700)			

(2) Not accounting for expected intangible impairments ($165-200 million)

Explicit data
Calculated data
Notes

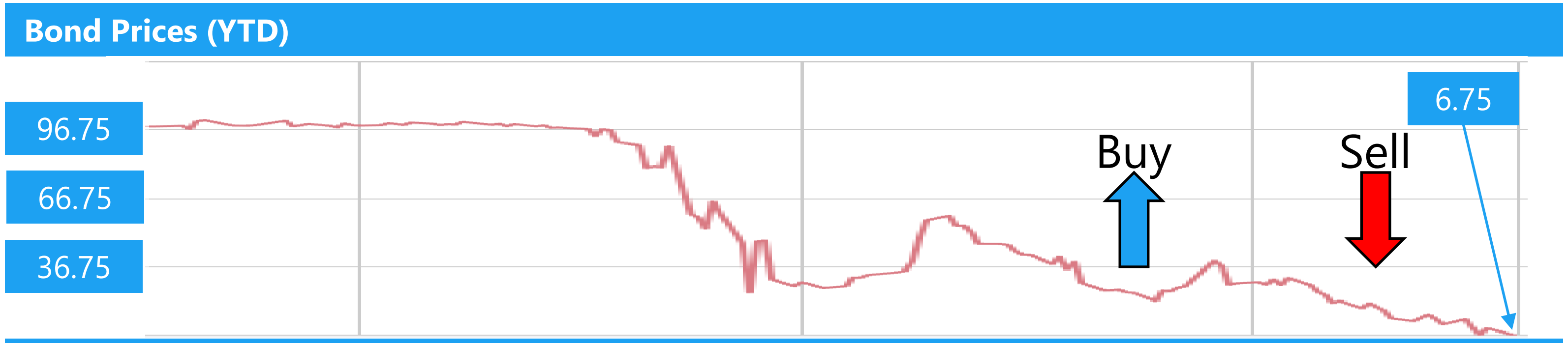
Timeline and ancillary facts	Share Price Close-1	Share Price Close	% Change	Volume (Avg 2.5)
February				
Comp sales +2.4% vs February 2019				
All brands had positive comp sales vs February 2019				
March				
3/17 - All stores close				
3/20 - E-Commerce fulfillment centers close				
3/26 - Michael Burry reports that Scion holds 4 million shares (8.3%) after hours				
3/27 - Market reacts to Burry news	$ 1.44	$ 1.49	3%	2.5
3/31 - E-Commerce fulfillment centers re-open				
3/31 - Management stretches payables by 90 days (from 52)				
3/31 - Poison pill is enacted	$ 1.55	$ 1.74	12%	3.1
April				
4/8 - Management reports board members David Edwab and Sheldon Stein have resigned as of 4/5 and 4/8, respectively. Edwab was the Vice Chairman of the Men's Wearhouse board during its 2014 acquisition of Jos. A. Bank. Stein was also a member of the board during the acquisition. This acquisition is generally considered the reason for TLRD's current debt trouble. (8am)	$ 1.44	$ 1.70	18%	4.9
May				
5/2 - $39.1 million of additional cash can be drawn from the ABL facility before triggering the fixed charge coverage ratio covenant.				
5/2 - Total store fleet is 1,445 (8-K)				
5/2 - Inventories are down $33.3 million (-4.3%) compared to 1Q19				
5/7 - Stores begin to reopen				
5/7 - Michael Burry reports his sale of 2.3 million shares after hours				
5/8 - Market reacts to Burry news	$ 1.24	$ 1.09	-12%	7.5
5/14 - 19 stores open (3)				
5/16 - 209 stores open (3)				
5/23 - 325 stores open (3)				
5/30 - 446 stores open (3)				
June				
6/5 - 634 stores open (per 8-K)				
6/5 - Store fleet total is 1,440 (=634/44%)				
6/8 - $/Sh from $2.40 at 3pm to $1.41 after article says "TLRD mulls BK"	*$ 2.40	$ 1.41	-41%	14.7
6/13 - 770 stores open (3)				
6/26 - Shareholders' meeting scheduled				
Full Q1				
E-Commerce sales down 31.9% vs 1Q19				

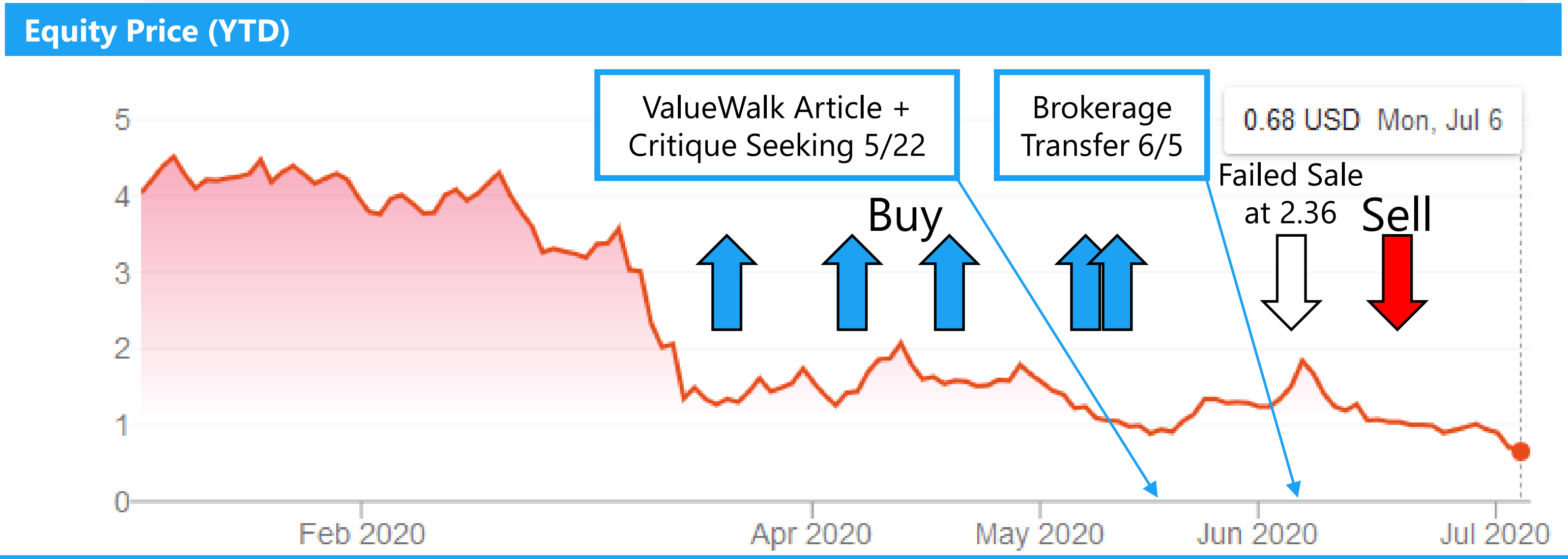
Introduction: Investment Decisions + Writing

BOND PURCHASES			SALE	RETURN
Date	Price Level	% of Invested		
6/5/2020	$0.32	28%		
6/8/2020	$0.33	12%		
Total	$0.32	40%	$0.19	**-40%**

EQUITY PURCHASES			SALE	RETURN
Date	Price Level	% of Invested		
3/29/2020	$1.47	12%		
4/3/2020	$1.24	8%		
4/17/2020	$1.69	10%		
5/5/2020	$1.39	11%		
5/6/2020	$1.26	19%		
Total	$1.39	60%	$1.05	**-25%**

BLENDED RETURNS		
Security	% of Invested	Return
Equity	60%	-25%
Bonds	40%	-40%
Total	**100%**	**-31%**





Introduction: What I'm Not Saying

- I'm not saying this is a zero
- I'm saying this is currently in the "too hard" pile.
  - I'd re-enter the position if (1) there were no imminent default risk *and* (2) the company returned to cash flow positive *and* (3) COVID-19 concerns abated *and* (4) the price opportunity persisted
  - I don't care about flip-flopping (a la John Kerry)
    - https://www.cbsnews.com/pictures/memorable-campaign-ads/16/
    - Jason Karp said that he sought people who would change their minds when presented with contradictory data—that's what I'm trying to do

What I Did Right: Overview

- Analytical Fundamentals
- Execution Methodology
- Psychology & Behavior

What I Did Right: Analytical Fundamentals

- I did my own work
  - Read all the SEC Filings
  - Listened to earnings calls
  - Put together my thesis presentation
  - Conducted scuttlebutt diligence
  - Read credit documents
  - Laid out my thoughts on cash burn mitigation

What I Did Right: Execution Methodology

- Chose an understandable business with predictable cash flows
- Exited the investment when the thesis broke
- Sought critical feedback
- Fell on my face in public
  - Hopefully this instills commitment to true learning—not "rightness"
- Didn't use leverage
- Didn't short
- Didn't use options

What I Did Right: Psychology & Behavior

- Averaged down as the price dropped and the thesis continued
- Reversed course once I understood things had changed
- Simultaneously maintained the short and long theses
  - Actively engaged with the short thesis, looking for ways to break my initial assumptions
  - Acted once I saw the short thesis emerge

What I Did Wrong: Overview

- Analytical Fundamentals
- Execution Methodology
- Psychology & Behavior

What I Did Wrong: Analytical Fundamentals

- Only did an extremely short premortem
- Didn’t respect the enormous short interest
- Failed to consider management incentives
  - Bankruptcy filing would make their lives much, much easier
  - Didn’t understand that management doesn’t have to burn all the cash out before filing
- Painted too rosy a picture on cost reduction
  - Overly relied on my aggressive estimates
- Didn’t respect the possibility of COVID-19 being so protracted
- Overestimated the scuttlebutt data (much too small a sample)

What I Did Wrong: Execution Methodology

- Started a brokerage transfer with an open position
  - Unbelievably stupid decision
  - I could have exited +70% in the equity if I didn’t do this
  - Should never restrict my trading options
  - Should always understand the consequences of account management decisions

What I Did Wrong: Psychology & Behavior (1 of 2)

- Became addicted to checking the stock price
  - This literally ate up most of my days
- Became addicted to checking message boards
  - Extremely marginal benefit here—almost no good information gained; could easily have replaced this with a Google Alert for SEC filings
- FAR too concentrated given the downside risk
  - Got greedy and over-invested
- Too stubborn waiting on the sale
  - Affected by wishful thinking after Bloomberg BK article

What I Did Wrong: Psychology & Behavior (2 of 2)

- Allowed the investment to dominate my life
  - 90% of the time, I was either thinking of Tailored Brands or running through the analysis in my head
  - I became a terrible person to spend time with
  - I was completely miserable
- Neglected my physical & mental health
  - No exercise, limited sunlight, terrible eating, limited human contact, terrible sleep quality and duration, didn’t make time for music (in retrospect this is an important source of dopamine for me), way too much caffeine

Takeaways: Overview

- The Right Lessons
- The Wrong Lessons
- What I’m Not Sure About

Takeaways:
The Right Lessons (1 of 2)

- Let the downside scenario drive position sizing
  - Two people told me this, and I ignored them both. Obviously a mistake.
- Beware of high short interest
  - Markets aren't perfect, but they're usually right, and short sellers aren't dumb.
- Beware of distressed pricing
  - The bond markets should have been a huge warning to me
- Scrutinize management more
  - They gave shamefully scant information on their earnings calls, and their segment data was terrible

Takeaways: The Right Lessons (2 of 2)

- Let the TEV inform your decision to call it a small cap
  - $50m market cap vs $1,400m TEV? TEV should win. This was a well-followed name
- Sleeping well is important
  - I think it's okay to invest in situations like these (asymmetric upside with chance of material loss) as long as it's a small position size
  - But the truth is that I can't operate with the stress of a large position size when the consequences of being wrong are so dire
  - This was perhaps a good option investment. Could have recreated a protective put by using a call option, capping my downside in a situation that was likely to resolve itself in a few months.
- Research F-Score and Z-Score … then use them!

Takeaways:
The Wrong Lessons

- I can't do this
  - I believe failure is temporary
  - I have the mental capacity and the drive to learn to invest well
- Don't buy as the price drops
  - I still believe that if the thesis is intact, a price drop is an opportunity
- I shouldn't write about my ideas
  - I think I've been able to reverse my course. I don't seem to be THAT affected by embarrassment
  - I made great connections and received valuable insight from people I spoke to
  - It's painful and embarrassing to be wrong, but it will make me grow

Takeaways: What I'm Not Sure About

- How much concentration can I stomach?
  - These levels were clearly way too high
- What rules can I use to make life easier?
  - Maximum position concentration?
  - Maximum position quantity?
  - Momentum-based rules?
  - Limitations on incremental purchasing?

Conclusion

- My investment in Tailored Brands was an extremely painful, extremely expensive lesson
  - My concentration should have been much lower given the risk
  - I should scrutinize management much more harshly
  - I should recognize when my bets rely on uninformed guesses, and I shouldn’t invest when I recognize this
    - Example: My guess about when COVID-19 reopenings would happen
    - Example: My guess about how much cash burn management could eliminate
    - I should do a better job of explicitly laying out my driving assumptions so that I can evaluate the probability that I’m right.
- I need to shake this off and continue learning