

# COVID-19 AND LACK OF ECOMMERCE CREATES RETAIL NIGHTMARE

**BUYER:**  
**TUESDAY MORNING CORPORATION**

**SECTOR:**  
**RETAIL**

Tuesday Morning is an American off-price retailer with stores in 39 states that focuses on domestic and international, designer, and name-brand closeout merchandise. Founded in 1974, the company offers products across various categories including home textiles, home furnishings, housewares, gourmet food, toys, and seasonal décor.

Leading into 2020, the company's operational performance had been struggling due to a poor merchandising strategy, a highly promotional environment that eroded gross margins, and the consumer shift away from shopping at brick-and-mortar to online. Despite this consumer trend, Tuesday Morning continued to operate without offering e-commerce.

As a result, the company was significantly impacted by COVID-19 as stores were required to close to comply with government mandates. With stores closed, all revenue stopped, and Tuesday Morning announced it had filed for Chapter 11 bankruptcy protection on May 27, 2020.

## RED FLAGS

-  No e-commerce presence despite a consumer shift to online shopping
-  Significant operating leases, with many stores underperforming due to lower foot traffic

-  Several quarters of poor performance, particularly in merchandise assortment and seasonal product offerings
-  Departure from the core value proposition of offering a "treasure hunt" experience to bargain shoppers

## FINAL STRAW

While an e-commerce presence is not always part of the off-price business model, not having an omnichannel approach meant that revenue generation was impossible when brick-and-mortar locations closed as a result of COVID-19. Tuesday Morning reached out to landlords to defer rent payments, but this was largely unsuccessful. Many landlords sent notices of default or filed lawsuits to lock the company out or terminate leases.

The retailer furloughed 95% of its employees, ceased new orders, and indicated to vendors it would not be making payments to secure liquidity. At the time of the bankruptcy, the company had \$47.9M in outstanding debt with another \$8.8M in letters of credit. Additionally, the company owed \$91M to suppliers and vendors according to Chapter 11 filings.

## CONCLUSIONS

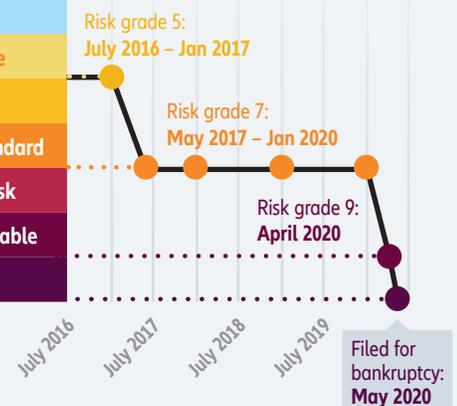
Although the company had few debt obligations, Tuesday Morning had limited revenue opportunities due to a lack of e-commerce and could not shore up working capital. Tuesday Morning plans to emerge from bankruptcy as a leaner organization. As part of the restructuring, the company intends to close 133 underperforming stores. Initial sales post-reopening have been better than expected.

Euler Hermes maintained regular dialogue with this retailer over several years and monitored its performance closely. Trade credit insurance policyholders thus had visibility into Tuesday Morning's risk rating degradation and were empowered to adjust trade with the retailer as they deemed necessary to reduce their exposure. As a result, we were able to wind down our coverage over time while alerting policyholders of our concerns due to Tuesday Morning's weakening operations. This enabled policyholders to avoid a much larger bad debt situation. For those Euler Hermes customers with coverage that were negatively impacted by this bankruptcy, they were able to submit claims, helping to better insulate their businesses from the COVID-19 fueled bankruptcy filing.

## RISK RATING

EH Risk Rating	Generic Description
1	Exceptional
2	Excellent
3	Strong
4	Good
5	Average
6	Watch
7	Substandard
8	High Risk
9	Uninsurable
10	Failed

Euler Hermes' 1-to-10 risk ratings are reliably based on multiple sources of information and crosschecked thoroughly by our team of expert risk underwriters. **This chart shows how the risk rating for Tuesday Morning progressed leading up to its bankruptcy.**



Last updated September 2020