



THE MICHAELS COMPANIES

2019

sustainability report



who we are

With \$5.27 billion in sales in fiscal 2018, The Michaels Companies, Inc. (Michaels) is the largest arts and crafts specialty retailer in North America (based on store count), providing materials, project ideas and education for creative activities. Our vision is to inspire and enable customer creativity, create a fun and rewarding place to work, foster meaningful connections with our communities and lead the industry in growth and innovation.

We operate more than 1,200 Michaels stores in 49 states and Canada. Additionally, we serve customers through various digital platforms including Michaels.com, ConsumerCrafts.com, and AaronBrothers.com. Michaels also owns Artistree, a manufacturer of high-quality customer and specialty framing merchandise, and Darice, a premier wholesale distributor in the craft, gift and décor industry.

We believe anyone can make, and we're on a mission to inspire and encourage everyone to unleash his or her inner maker. With crafting classes, store events, project sheets, store displays, mobile applications and online videos, we offer a shopping experience that can inspire creativity and build confidence in our customer's artistic abilities.

our core values

Michaels operates by a set of core values every day. We believe we should:

- * **Make People Happy:** We're dedicated to making Michaels a fun and supportive place to work, as well as a great place to shop.
- * **Keep It Simple:** It sounds easy, but sometimes simple is hard! Nevertheless, most things work best if they aren't complicated.
- * **Innovate & Learn:** The world moves quickly, and we aren't looking just to keep up. We strive to think bigger, have the best ideas, move faster and work smarter.
- * **Give Back:** We are committed to giving back to the communities that support us, including through our partnership with the Boys & Girls Clubs of America and Canada.
- * **Spend Smart:** We try to be frugal and spend our money in the best possible ways so we can invest in what truly matters.
- * **Do The Right Thing:** At Michaels, integrity is of the utmost importance. We try each day to do what's right (not just what's easy) for each other and for our customers.
- * **Have Fun:** We take our work seriously, but ourselves? Not. At. All. After all, we sell glitter and googly eyes!

Our sustainability efforts relate to and reinforce our core values, especially the values of Innovate & Learn, Give Back, Spend Smart and Do The Right Thing.

environmental sustainability

We believe in the value of environmentally sound business practices throughout our operations, including energy conservation as well as recycling and waste reduction efforts. As part of our continued commitment to corporate responsibility, Michaels has long pursued initiatives that are good for the environment as well as our profitability.

Energy Efficiency

Using less energy when possible is a key component of our environmental sustainability program. We operate an Energy Management System from our Support Center in Irving, Texas that controls when and how much electricity is used by our retail stores. By controlling devices that use electricity - like the overhead lights, the heating and cooling system and even the vending machines - we have been able to decrease the amount of energy we utilize as a company (in fact, for 2018 to the tune of 4% average savings over the prior year kWh spend). To further decrease energy use and costs, we decided to “relamp” our stores by replacing traditional, higher use and cost light bulbs with lower-energy LED bulbs. Currently ninety percent of store light bulbs have been changed to LED bulbs, and all Michaels stores will only use LED bulbs by the end of 2020.

Recycling and Stewardship

Recycling what we have used is another key component of our environmental sustainability program. To encourage our Team Members to recycle, we have adopted a single-stream recycling program for our Support Center and have initiated cardboard recycling programs in our stores. To encourage recycling by customers, we also fund participation in the Multi Material Blue Box Recycling Programs in Ontario, Quebec, British Columbia, Saskatchewan and Manitoba. Our stewardship program also includes participation in the Household Hazardous Waste Programs across Canada, and the Electronic Products Programs in Quebec, British Columbia and Saskatchewan. Through these efforts, 122,169 tons of trash was recycled by our Company in 2018.

Disposal of Hazardous Materials

At times we use or sell hazardous materials in our stores, and we provide for a responsible way for Team Members to dispose of these items. Stericycle is an expert in the field and is our hazardous waste disposal vendor partner. The majority of our hazardous material waste is recycled or used to produce energy by Stericycle.

social sustainability

We care about people and want to make sure our customers, partners, and Team Members are treated fairly and with respect. We have implemented multiple policies and programs to foster communication with Team Members, customers and business partners in our supply chain. We operate ethically and expect our vendors to as well. We also believe in giving back to the community through our work with charitable organizations.

Code of Business Ethics and Conduct

We have adopted a written Code of Business Ethics and Conduct (Code of Ethics) that applies to our directors, officers and Team Members, and is designed to ensure that our business is conducted with integrity. The Code of Ethics covers professional conduct, conflicts of interest and the protection of confidential information, as well as adherence to laws and regulations applicable to the conduct of our business. We ask Team Members and vendors to report any potential violations of the Code of Ethics to a third-party hotline. A copy of the Code of Ethics is posted on our website at www.michaels.com.

Vendor Code of Conduct & Human Rights Policy

We have adopted a written Vendor Code of Conduct and Human Rights Policy (Vendor Code of Conduct) that includes the minimum standards we expect all of our merchandise vendors and their factories to follow. Merchandise vendors must agree in writing to comply with the Vendor Code of Conduct as a prerequisite to doing business with us. We have translated the Vendor Code of Conduct into the languages our vendor base primarily speaks and reads and have provided these translations to our vendors for their use. The Vendor Code of Conduct is an integral part of our Social Accountability Program, and we ask Team Members and vendors to report any potential violations of the Code of Conduct to a third-party hotline. The Code of Conduct is posted on our website at www.michaels.com.

Social Accountability Program

We have a robust sourcing initiative and many of the products we sell are under a private brand owned by Michaels. We have third parties audit the vendors and factories that produce Michaels-branded or private branded products against the principles described in the Vendor Code of Conduct. Those principles include, among others, respecting an employee's basic human rights, non-discriminatory hiring practices, fair compensation, prohibiting child or slave/forced labor and maintaining a safe working environment. Factories must earn satisfactory audit results before manufacturing Michaels-branded or private branded products for Michaels.

California Transparency in Supply Chains Act

We are dedicated to conducting business in a lawful and ethical manner. It is our expectation that our vendors also conduct themselves in such a manner. While we believe the risk of slavery or human trafficking in our supply chain is generally low, we have focused our compliance efforts in this area on our foreign vendors. We conduct training on the prevention of slavery and human trafficking for Team Members who do business internationally and expect Team Members to report any suspected violations. We are committed to the prevention of slavery and human trafficking in our supply chain.

Conflict Minerals Policy

We fully support the humanitarian goal of ending violent conflict in the Democratic Republic of the Congo (DRC) and adjoining countries by eliminating the use of conflict minerals mined from this region. We require all of our private brand vendors, and encourage our other vendors, to disclose whether their products include conflict minerals, to source raw materials from certified metal recyclers or certified smelters, and to provide documentation authenticating the chain of custody back to the original source if the vendor is not using a certified metal recycler or smelter. We encourage individuals or vendors to report any possible violations using a third-party hotline.

Health and Safety

We are strongly committed to providing a safe work environment for our Team Members as well as a safe shopping experience for our customers. It is our policy to safeguard the health, safety and welfare of our Team Members, the public and others who may be affected by our operations. High standards of safety and occupational health management are pursued in the same manner and with the same vigor as other managerial objectives. The Company will, at a minimum, comply with the requirements of the relevant safety and occupational health legislation in the countries in which it operates. No Team Member is required to work at a job he/she knows is not safe and has the right to refuse work if conditions warrant such an action.

Our Company is committed to:

- * Improving safety performance by setting meaningful, realistic objectives.
- * Providing adequate and appropriate resources to implement this policy.
- * Providing a smoke free work environment for Team Members and customers.
- * Working positively in partnership with our Team Members in order to develop and maintain a positive safety culture and encourage healthy lifestyles in the working environment.
- * Providing suitable, sufficient training to all Team Members as appropriate to their particular employment.
- * Ensuring competent professional advice on safety and occupational health will be made available to all parts of the Company.
- * Requiring cooperation in all safety and health matters, not only between supervisor and Team Member, but also between each Team Member and his/her co-workers.

Great Place to Work Certified

We are honored to be certified as a Great Place to Work for 2018-2019. Great Place to Work® is the global authority on high-trust, high-performance workplace cultures. Through proprietary assessment tools, advisory services, and certification programs, including Best Workplaces lists and workplace reviews, Great Place to Work® provides the benchmarks, framework and expertise needed to create, sustain, and recognize outstanding workplace cultures.

Michaels CARES

Michaels CARES is a Team Member funded charity serving our fellow Team Members in their times of need. Team Members can apply for an immediate cash grant to help cover costs while recovering from a difficult event, including loss of a residence due to natural disaster or crime, or death, a life-threatening illness or injury of a dependent family member or Team Member. Michaels CARES succeeds through the charitable contributions of our Team Members, corporate donations, and special events. Since its inception, Michaels CARES has assisted Team Members with \$2.3 million in grants.

Open Door Policy

We want to hear from our Team Members and believe that an open door fosters open communication. We believe the best way for us to succeed is through a direct one-on-one relationship between our Team Members and their supervisors. Issues and concerns are best solved through open, honest and direct communication. Team Members' calls and concerns can also be made to our 24-hour confidential hotline or reported online.

Diversity and Inclusion

As part of our culture journey, we've launched Michaels Resource Groups ("MRGs"), made up of individuals who join together based on similar interests, backgrounds and shared experiences. Aligned with the Great Place to Work initiative, these groups support diversity and inclusion. Each group is formed from a grassroots effort and led by Team Members who volunteer their time. All groups are open to allies so that anyone may join any group. The purpose of these groups is to create opportunities to build an inclusive culture; support business growth; provide a platform for Team Member engagement and development; support the company strategy, culture and values. We currently have four established MRGs: A Black/African American Group, a Hispanic Group, an LGBTQ Group and a Women's Group.

Veteran Hiring

We are proud to recruit and hire current military members, veterans and their families to work for Michaels. The training, discipline and leadership skills instilled through military service are outstanding, and we consider ourselves lucky to build upon that foundation of excellence and help veterans further their careers. Providing a clear path for development and growth potential for all Team Members - especially our military members - is important. We thank veterans for their service, and we're proud to be a part of their civilian careers.

Adoption Benefits

We will reimburse eligible Team Members up to \$5,000 per adoption to help cover adoption fees, attorney fees, court costs, travel expenses, medical fees (for the child) and temporary foster care.

Tuition Reimbursement Benefits

We believe an investment in our Team Members is an investment in our future. We offer tuition assistance to help eligible Team Members pay a portion of the cost for college tuition or language programs for professional and personal development. Most Team Members are eligible to receive up to \$2,000 per year in assistance.

Fuel for Growth & Next Big Item Team Member Engagement Program

We value our Team Member's opinions, and some of the best ideas for efficiency and new products have come from our talented co-workers. We've established two internal programs to collect great ideas from Team Members: Fuel for Growth and Next Big Item. Team Members are encouraged to submit their ideas for improving our efficiency as a business to the Fuel for Growth panel, and for new or innovative products to the Next Big Item team. Team Members are rewarded with cash payments for novel ideas that are implemented.

Charitable Contributions

At Michaels, we are proud of our involvement in helping build a better community. To maximize our impact, we focus our financial support on nationally recognized non-profit organizations that align with our giving goals.

Starlight Children's Foundation

From 2010 through 2019, we supported Starlight Children's Foundation as our U.S. and Canadian charity partner. Starlight is a leading global charity that improves the life and health

of kids and families in the U.S., Canada and around the world. Collaborating with innovators in pediatric healthcare, entertainment and technology, Starlight provides a unique blend of family-centered programs and services from hospital to home. We raised funding for Starlight through a wide range of programs that included corporate contributions, in-store promotions, customer donation programs, Team Member-driven events and giving, vendor engagement, product donations and more. We also participated in many Starlight programs that provided comfort and care for hospitalized children, including Starlight® Fun Center® mobile entertainment units, Starlight® Tablets and Starlight® Comfort Kits.

Partnership with Boys & Girls Clubs

In February 2019, we announced our partnership with the Boys & Girls Clubs of America and Boys & Girls Clubs of Canada as our exclusive charity partners. Our goal is to nourish critical youth development and provide opportunities for Club members to confidently explore and discover their creative voices to positively and significantly impact their lives. To encourage Club members' creative growth, Michaels and Boys & Girls Clubs are providing kids and teens with access to the tools to pursue creative thinking and the ability to make without limits, with a goal of improving all-around engagement and achievement. To help Club members and staff expand their boundaries, Michaels will transform select Club art spaces into ultimate craft rooms, complete with all the supplies—from paint and paper to easels, and everything in-between—needed for social and emotional creative expression. Our Team Members will also work with Boys & Girls Club teams annually to ensure that youth development professionals are armed with a robust, celebratory and comprehensive approach to training and development to further cultivate optimism, originality and, most importantly, the confidence to bring kids' and teens' visions to life.

Community Classroom

In March 2019, we announced the national launch of Community Classroom, an educational, collaborative workspace program designed to transform Michaels classrooms into true community “Making Spaces” for instructors and Makers across the country. Community Classroom will support local Makers and provide them with a new way to teach what they love and connect within their community. Makers are invited to submit potential class proposals online at www.michaels.com/instructors. All Community Classroom classes will utilize Michaels products that can be purchased either in-store or online, and customers will be able to sign up online to take Community Classroom classes in local markets.

corporate governance

Our Board is responsible for governing the business and affairs of Michaels. Highlights of our corporate governance practices are described below.

Board Independence

The Board evaluates any relationships of each director and nominee and makes an affirmative determination whether or not such director or nominee is independent. Under our Corporate Governance Guidelines, an “independent” director is one who meets the qualification requirements for being independent under applicable laws and the corporate governance listing standards of The Nasdaq Stock Market. Our Board reviews any transactions and

relationships between each non-management director or any member of his or her immediate family and the Company. The purpose of this review is to determine whether there were any such transactions or relationships and if so, whether they were inconsistent with a determination that the director was independent.

Board Expertise and Diversity

Our Corporate Governance Guidelines provide that the Board shall be committed to a diversified membership, in terms of both the individuals involved as well as their personal backgrounds, various experiences and areas of expertise. We also seek a Board that reflects a range of talents, ages, skills, viewpoints, professional experience, educational background and expertise to provide sound and prudent guidance with respect to our operations and interests. All of our directors are financially literate, and at least one member of our Audit Committee is an audit committee financial expert.

Board Annual Performance Reviews

Our Corporate Governance Guidelines and Nominating and Governance Committee charter provide that the Nominating and Governance Committee shall be responsible for periodically, and at least annually, conducting an evaluation of the Board as a whole, as well as each of the committees' performance, on an annual basis using criteria that it has developed and shall report to the Board on its findings. In fiscal 2018, this additionally included Individual director peer evaluations.

Board Nominees

Our Nominating and Governance Committee is responsible for recommending for Board approval the candidates for election to the Board at the Company's annual meeting of stockholders and for recommending individuals to fill vacancies on the Board that may occur between annual meetings of stockholders. It is the policy of the Nominating and Governance Committee to consider recommendations for director nominees from all sources, including stockholders, and to evaluate all recommendations under the same standards and criteria. The Corporate Governance Guidelines provide that nominees for director shall be selected on the basis of their character, wisdom, judgment, diversity, ability to make independent analytical inquiries, business experiences, understanding of the Company's industry and business environment, time commitment and acumen. Board members are expected to become and remain informed about the Company, its business and its industry and rigorously prepare for, attend and participate in all Board and applicable committee meetings. The Nominating and Governance Committee evaluates each individual in the context of the Board as a whole, with the objective of recommending a group that can best perpetuate the success of our business and represent stockholder interests through the exercise of sound judgment using its diversity of experience. In addition, the Nominating and Governance Committee considers, in light of our business, each director nominee's experience, qualifications, attributes and skills.

Policies Relating to Board Service

We expect each of our directors to attend the Annual Meeting of Stockholders. Under our Audit Committee Charter, members of the Audit Committee should serve on no more than three separate public company audit committees simultaneously without prior review and determination by the Board that such simultaneous service would not impair the ability of such member to effectively serve on the Audit Committee.

Attendance

Our Board of Directors held seven meetings in fiscal 2018. During fiscal 2018, each director attended at least 75% of the Board and committee meetings on which he or she served during the periods that he or she served. Our independent directors also met separately in executive session at each of our regularly scheduled Board meetings during the year.

Communications with Directors

Stockholders and other interested parties may communicate directly with the Board, the non-management directors or the independent directors as a group, or specified individual directors by writing to such individual or group c/o Office of the Corporate Secretary, The Michaels Companies, Inc., 8000 Bent Branch Drive, Irving, Texas 75063. The Secretary will forward such communications to the relevant group or individual at or prior to the next meeting of the Board.

Compensation Committee Interlocks and Insider Participation

None of our executive officers serves as a member of the board of directors or compensation committee of any other entity (other than a subsidiary of the Company) that has one or more executive officers who serve on our Board or Compensation Committee.