

The Michaels Companies

Q2 2020 Supplementary Slides



THE MICHAELS COMPANIES

Forward-Looking Statements

This presentation contains forward-looking statements and are made pursuant to and within the meaning of the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995, as amended.

While these statements address plans or events which we expect will or may occur in the future, a number of factors could cause actual results to differ materially from our expectations. We refer you to and specifically incorporate the cautionary and risk statements contained in our press release issued September 3, 2020 and in our SEC filings. You are cautioned not to place undue reliance on these forward-looking statements which speak only as of September 3, 2020. We have no obligation to update or revise our forward-looking statements except as required by law, and you should not expect us to do so.

We also reference non-GAAP financial measures, including adjusted operating income, adjusted net income (loss), adjusted diluted earnings per share (loss), EBITDA and adjusted EBITDA. The Company has reconciled each measure to the most directly comparable GAAP measure in the second quarter fiscal 2020 earnings release issued on September 3, 2020 and at the end of this presentation (appendix).



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make people happy



do the right thing



keep it simple



have fun



give back



innovate and learn




spend smart



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The background features a central graphic consisting of two concentric circles. Surrounding this central graphic are numerous small, scattered shapes, including solid dots and hollow circles of varying sizes, creating a dynamic, particle-like effect.

Q2 FY20
Performance
Overview, Progress
& Priorities

Q2 Fiscal 2020 Financial Performance

Key Financial Metrics	Q2 2020	Q2 2019
Net Sales	\$1.15 billion	\$1.03 billion
Comparable Store Sales	12.0%	0.3%
Adjusted Operating Income*	\$105.8 million	\$75.2 million
Adjusted Diluted EPS*	\$0.30	\$0.19

*Please refer to appendix for reconciliation of non-GAAP financial measures to the respective GAAP measures.



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Progress on Safety Measures, Financial Position and Omnichannel Capabilities

* Safety & well-being of our employees and customers

- Store protocols implemented earlier this year remain in place.
- Protocols include social distancing, increased cleaning and sanitation measures, plexiglass shields at check-out, mask requirements, and more.

* Solidified & improved financial position

- Repaid \$300 million outstanding balance on revolving credit facility in late July.
- Ended the period with approximately \$1.3 billion of liquidity, **a record for Michaels**.
- Total liquidity has **increased approximately \$100 million** since the beginning of the fiscal year.

* Expanded & improved digital and omnichannel capabilities

- Enhanced curbside offering to further smoothen Michaels' contactless pickup experience.
- Optimized store network.
- Introduced product bundling for ecommerce orders to make customer purchasing easier.
- Began internal testing of Shop & Scan – a contactless app-run in-store shopping experience.
- Launched MichaelsPro as a critical extension of our assortment, making bulk buying easier for Makers



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Update on Strategic Priorities

Pillars of Maker Strategy

* Strengthen our retail foundation

- Improving retail execution to provide the right product at the right price where and how customers expect it.
- Optimizing merchandise flow to ensure inventory availability and limit out-of-stocks.
- Enhancing visual merchandising and product placement.
- Simplifying associate tasks to increase efficiency and redeploying more free hours to customer facing activities.
- Plan to open acquired AC Moore stores as Michaels stores in 2021 and capitalize on the sales transfer opportunity.

* Modernize the omnichannel experience

- Rapidly evolving the omnichannel experience for a more frictionless customer experience.
- Q2 initiatives included enhancing curbside, optimizing the store network, introducing product bundling, testing Shop & Scan, and launching MichaelsPro.

* Establish our position as the Expert for the Makers

- Well-received “Made by You” marketing campaign and increased efforts to educate and inspire Maker community.
- Growing online content – more than 6x as many weekly classes to be offered in September compared to April.
- Increased personalized emails sent out to 70% in July, up from 20% at the end of 2019.
- Launched revamped Michaels Rewards loyalty program in early August.



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**Q2 FY20 Financial
Discussion**

Q2 Financial Performance

Metric	Q2 Fiscal 2020	Q2 Fiscal 2019
Net Sales	\$1,148.2M	\$1,033.7M
Gross Profit	\$342.5M	\$367.0M
<i>Margin</i>	29.8%	35.5%
SG&A	\$289.1M	\$290.1M
Adjusted Operating Income*	\$105.8M	\$75.2M
<i>Margin</i>	9.2%	7.3%
Interest Expense	\$36.7M	\$40.1M
Effective Tax Rate	151.1%	18.9%
Adjusted Net Income*	\$44.7M	\$29.6M
Adjusted Diluted EPS*	\$0.30	\$0.19

*Please refer to appendix for reconciliation of non-GAAP financial measures to the respective GAAP measures.

- **Sales increase driven by:**
 - 353% e-commerce growth (+)
 - 13 net additional Michaels stores opened (+)
 - Temporary store closures (-)
 - Decrease in wholesale revenue due Darice closure (-)
- **Gross Margin decline driven by:**
 - One-time charge related to Darice closure (-)
 - Increased e-commerce sales (-)
 - Change in sales mix (-)
 - Tariffs (-)
- **SG&A improvement driven by:**
 - Decrease in payroll-related costs as a result of store closures (+)
 - Wage subsidies resulting from U.S. COVID-19 relief legislation (the "CARES Act") (+)
 - Incremental COVID-related costs (-)
 - One-time charge related to Darice closure (-)
 - Higher incentive compensation (-)
- **Effective Tax Rate higher due primarily** to the cumulative impact of a change in estimated net operating losses and the related carryback provisions associate with the CARES Act in the second quarter of fiscal 2020 and a tax benefit associated with a state income tax settlement in the second quarter of 2019

Balance Sheet/Cash Flow

Metric	Q2 Fiscal 2020	Change vs. LY
Cash	\$651.1M	+\$520.1M
Merchandise Inventory	\$1.0B	(18.7%)
Total Debt, Excluding Leases	\$2.7B	(\$22M)
Total Debt, Including Leases	\$4.3B	(\$51M)
TTM Total Debt/EBITDA	4.2x	+0.9x
Interest Coverage LTM	2.9x	(1.3x)
Cash from Operating Activities	\$355.3M	+\$391M
Free Cash Flow	\$331M	+\$399M
Capital Expenditures	\$24.6M	(\$8M)

- Ended the second quarter with a cash balance of \$651.1 million.
- Repaid \$300 million on our Revolving Credit Facility, resulting in full availability on revolving bank facility.
- Ended Q2 with \$1.3 billion of liquidity, approximately \$100 million higher compared to the beginning of the fiscal year.
- Very confident in ability to invest in the business and satisfy all debt obligations going forward.



Appendix

Reconciliation of non-GAAP financial measures to the respective GAAP measures

Reconciliation of Adjusted EBITDA

The Michaels Companies, Inc.
Reconciliation of Adjusted EBITDA
(Unaudited)

(in thousands)	13 Weeks Ended		26 Weeks Ended	
	August 1, 2020	August 3, 2019	August 1, 2020	August 3, 2019
Net cash provided by (used in) operating activities	\$ 355,276	\$ (35,906)	\$ 299,749	\$ (2,108)
Non-cash operating lease expense	(80,371)	(81,490)	(161,542)	(162,861)
Depreciation and amortization	(31,247)	(31,241)	(64,090)	(62,730)
Share-based compensation	(4,653)	(4,755)	(13,188)	(12,006)
Debt issuance costs amortization	(942)	(1,302)	(1,882)	(2,539)
Loss on write-off of investment	—	—	—	(5,036)
Accretion of long-term debt, net	(65)	132	(131)	262
Restructure charges	—	(3,869)	—	(6,956)
Impairment of intangible assets	(3,500)	—	(3,500)	—
Deferred income taxes	118	101	2,979	(39)
Gain on sale of building	—	—	101	—
Losses on early extinguishments of debt and refinancing costs	—	(1,155)	—	(1,155)
Changes in assets and liabilities	(242,373)	184,032	(129,758)	317,406
Net (loss) income	(7,757)	24,547	(71,262)	62,238
Interest expense	36,740	40,134	74,863	77,493
Income taxes	22,925	5,716	(9,448)	20,291
Depreciation and amortization	31,247	31,241	64,090	62,730
Interest income	(259)	(904)	(1,282)	(1,715)
EBITDA	82,896	100,734	56,961	221,037
Adjustments:				
COVID-19 expense ⁽¹⁾	3,679	—	18,527	—
Losses on early extinguishments of debt and refinancing costs	—	1,155	—	1,155
Share-based compensation	4,653	4,755	13,188	12,006
Restructure charges	—	3,869	—	6,956
Darice liquidation charges	52,486	—	52,486	—
Severance costs	4,072	950	4,870	3,491
Store pre-opening costs	186	1,743	1,345	2,969
Store remodel costs	234	2	449	68
Foreign currency transaction losses (gains), net	1,516	541	(330)	468
Store closing costs	142	(126)	811	(947)
Consultant costs	4,909	—	4,909	—
CEO severance costs	—	—	—	5,569
Other ⁽²⁾	2,916	1,736	5,661	2,700
Adjusted EBITDA	\$ 157,689	\$ 115,359	\$ 158,877	\$ 255,472

⁽¹⁾ Includes costs attributable to the COVID-19 pandemic including hazard pay for team members, costs associated with furloughed employees, certain inventory charges and sanitation supplies.

⁽²⁾ Other adjustments primarily relate to items such as moving and relocation expenses, franchise taxes, sign-on bonuses, director's fees, search costs and the support center move.



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Reconciliation of non-GAAP financial measures to the respective GAAP measures

Reconciliation of GAAP basis to Adjusted operating income, Adjusted net income and Adjusted diluted EPS

The Michaels Companies, Inc.

Reconciliation of GAAP basis to Adjusted operating income, Adjusted net income and Adjusted earnings per share (Unaudited)

	13 Weeks Ended		26 Weeks Ended	
	August 1,	August 3,	August 1,	August 3,
	2020	2019	2020	2019
<i>(In thousands, except per share)</i>				
Operating income (loss)	\$ 53,273	\$ 71,300	\$ (7,405)	\$ 164,030
Restructure charges (a)	—	3,869	—	6,956
Darice liquidation charges (b)	52,486	—	52,486	—
CEO severance costs	—	—	—	5,569
Adjusted operating income	\$ 105,759	\$ 75,169	\$ 45,081	\$ 176,555
Net (loss) income	\$ (7,757)	\$ 24,547	\$ (71,262)	\$ 62,238
Restructure charges (a)	—	3,869	—	6,956
Darice liquidation charges (b)	52,486	—	52,486	—
CEO severance costs	—	—	—	5,569
Write-off of investment (c)	—	—	—	5,036
Losses on early extinguishments of debt and refinancing costs	—	1,155	—	1,155
Interest on 2020 senior subordinated notes (d)	—	1,748	—	1,748
Tax adjustment for above items (e)	(12,859)	(1,703)	(12,859)	(4,093)
Change in estimated tax impact of CARES Act (f)	12,875	—	—	—
Adjusted net income (loss)	\$ 44,745	\$ 29,616	\$ (31,635)	\$ 78,609
(Loss) earnings per common share, diluted	\$ (0.05)	\$ 0.16	\$ (0.48)	\$ 0.39
Restructure charges (a)	—	0.02	—	0.04
Darice liquidation charges (b)	0.35	—	0.36	—
CEO severance costs	—	—	—	0.04
Write-off of investment (c)	—	—	—	0.03
Losses on early extinguishments of debt and refinancing costs	—	0.01	—	0.01
Interest on 2020 senior subordinated notes (d)	—	0.01	—	0.01
Tax adjustment for above items (e)	(0.09)	(0.01)	(0.09)	(0.03)
Change in estimated tax impact of CARES Act (f)	0.09	—	—	—
Adjusted earnings (loss) per common share, diluted	\$ 0.30	\$ 0.19	\$ (0.22)	\$ 0.50

(a) Excludes charges related to the closure of our Pat Catan's stores.

(b) Excludes charges related to the closure of the Darice wholesale business which consist primarily of a \$45.5 million charge in gross profit related to the liquidation of inventory and \$7.0 million included in selling, general and administrative associated with the write-off of indefinite-lived intangible assets and employee-related expenses.

(c) Excludes the write-off of an investment in a liquidated business.

(d) Excludes interest paid on our 2020 Senior Subordinated notes during the period between the issuance of our 2027 Senior Notes and when the proceeds from that issuance were used to redeem the 2020 Senior Subordinated Notes.

(e) Adjusts for the tax impact of the restructure charges, the Darice liquidation charges, the CEO severance costs, the write-off of an investment in a liquidated business, early extinguishments of debt and refinancing costs and interest on a portion of our 2020 senior subordinated notes.

(f) Excludes a change in the estimated impact of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act").



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