

# The Michaels Companies

## Q1 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 June 4, 2020 and in our SEC filings. You are cautioned not to place undue reliance on these forward-looking statements which speak only as of June 4, 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, adjusted diluted earnings per share, EBITDA and adjusted EBITDA. The Company has reconciled each measure to the most directly comparable GAAP measure in the first quarter fiscal 2020 earnings release issued on June 4, 2020 and at the end of this presentation (appendix).



**THE MICHAELS COMPANIES**

Michaels | Darice® | DSI | ARTISTREE®

# Contents

1. Q1 FY20 Financial Performance & Priorities
2. FY 2020 Commentary
3. Appendix



make people happy



do the right thing



keep it simple



have fun



give back



innovate and learn



spend smart



**THE MICHAELS COMPANIES**

Michaels | Darice® | DSI | ARTISTREE®

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.

**Q1 FY20 Financial  
Performance &  
Priorities**

# Q1 Fiscal 2020 Financial Performance

Key Financial Metrics	Q1 2020	Q1 2019
Net Sales	\$799.9 million	\$1.09 billion
Comparable Store Sales	(27.6%)	(2.9%)
Adjusted Operating (loss) Income*	(\$60.7) million	\$101.4 million
Adjusted Diluted (loss) EPS*	(\$0.43)	\$0.31

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



**THE MICHAELS COMPANIES**

Michaels | Darice® | DSI | ARTISTREE®

# Q1 Fiscal 2020 Priorities

## \* Safety & well-being of our employees and customers

- Implemented health and safety measures across stores including limited hours, increased cleaning and sanitation, and social distancing protocols.
- Installed plexiglass shields at check-out to protect both customers and associates.
- Provided thermometers to associates and installed hand sanitizer dispensers throughout our stores.

## \* Strengthened Financial Health

- Took proactive cost and cash management actions to provide ample liquidity to comfortably weather the crisis.

## \* Aggressively Expanded Digital and Omni-Channel Capabilities

- In just 45 days, set the foundation for Michaels' next chapter as an omnichannel retailer with robust digital and fulfillment capabilities.
- Developing a number of additional customer facing capabilities to be rolled out over the remainder of the year.



**THE MICHAELS COMPANIES**

Michaels | Darice® | DSI | ARTISTREE™

# Expanded Digital and Omni-Channel Capabilities

Rolled out capabilities to give customers the ability to shop how and where they want while also reducing friction around transactions

- \* E-commerce growth accelerated throughout the quarter, YoY growth of nearly 300%.
- \* Rolled out **same day delivery** in April across ~750 of our stores, expanded to over 1,000 stores.
- \* Expanded our **ship from store** and **BOPIS offerings**.
  - Utilized over 80% of our stores for ship from store, BOPIS and curbside service as well as other fulfillment options during the quarter.
- \* Implemented **In-App purchases** on the Michaels mobile app.
  - Conversion rate improved 3x.
- \* Improved customer service experience and efficiency by introducing **chatbot**.
- \* In the months ahead, will **continue to introduce new capabilities** that will enhance and streamline customers' shopping experience across multiple interfaces including **increased personalization on the Michaels.com website, improvements to curbside pick-up, contactless shopping, as well as the ability to track shipments, initiate returns and more.**



THE MICHAELS COMPANIES

Michaels | Darice® | DSI | ARTISTREE®

# Q1 Financial Performance

Metric	Q1 Fiscal 2020	Q1 Fiscal 2019
Net Sales	\$799.9M	\$1,093.7M
Gross Profit <i>Margin</i>	\$221.8M 27.7%	\$417.6M 38.2%
SG&A	\$281.3M	\$320.6M
Adjusted Operating (Loss) Income* <i>Margin</i>	(\$60.7M) (7.6%)	\$101.4M 9.3%
Interest Expense	\$38.1M	\$37.4M
Effective Tax Rate	33.8%	27.9%
Adjusted Net (Loss) Income*	(\$63.5M)	\$49.0M
Adjusted Diluted (Loss) EPS*	(\$0.43)	\$0.31

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

- **Sales decline driven by:**
  - Temporary store closures (-)
  - Decrease in wholesale revenue (-)
  - 11 net additional Michaels stores opened (+)
  - 296% e-commerce growth (+)
- **Gross Margin decline driven by:**
  - Deleveraged occupancy costs due to temporary store closures (-)
  - Tariffs (-)
  - Inventory charges to sell through slow-moving merchandise (-)
  - Change in sales mix (-)
  - Ongoing pricing and sourcing initiatives (+)
- **SG&A improvement driven by:**
  - Decrease in payroll-related costs as a result of furloughed team members (+)
  - Wage subsidies resulting from COVID-19 relief legislation enacted in the U.S. and Canada (the "CARES Act") (+)
  - Lower marketing costs (+)
  - Lower credit card fees due primarily to lower sales (+)
- **Effective Tax Rate higher due to** the enactment of the CARES Act in March 2020 that allows us to carry back net operating losses and claim refunds in tax years with higher rates



# Balance Sheet/Cash Flow

Metric	Q1 Fiscal 2020	Change vs. LY
Cash	\$926.8M	+\$680.1M
Merchandise Inventory	\$1.1B	+0.8%
Total Debt, Excluding Leases	\$3.3B	+\$0.6M
Total Debt, Including Leases	\$4.9B	+\$0.6B
TTM Total Debt/EBITDA	5.5x	3.3x
Interest Coverage LTM	2.7x	4.3x
Cash from Operating Activities	(\$55.5)M	(\$89.3)M
Free Cash Flow	(\$77)M	(\$86)M
Capital Expenditures	\$21.9M	(\$3.2)M

- Entered the first quarter with \$410 million in cash.
- Proactively drew down \$600 million under Revolving Credit Facility in March.
- Ended the first quarter with a cash balance of \$926.8 million.
- Subsequent to the end of the first quarter, repaid \$300 million on our Revolving Credit Facility, retaining significant unused borrowing capacity.
- Expect sufficient liquidity to fund planned capital expenditures, working capital requirements, debt service requirements and anticipated growth for the foreseeable future.



FY 2020  
Commentary

# FY 2020 Commentary

Given the continued uncertainty associated with the COVID-19 pandemic, the Company is not providing additional financial outlook at this time.

## \* Q2 Trends

- Approximately 1,000 stores are fully open and operational as of June 4, 2020.
- Seeing solid trends at stores reopened in May; average of 11% comparable store sales.
- Currently expect to have all stores fully open and operational by the end of June 2020.

## \* Liquidity

- Based on current trends, the Company believes it will use cash in the fiscal second quarter.
- Expect to be cash flow positive during the second half of fiscal 2020.
- The Company has sufficient liquidity to fund planned capex, working capital requirements, debt repayment and service payments and anticipated growth.

## \* Darice Wholesale Closure

- Following the end of the first quarter, the Company announced its intent to close the Darice wholesale operations though it will retain the sourcing-related offices in China.
- Expect this process to be substantially completed by the end of November 2020 and anticipate incurring between \$46 million to \$52 million in after-tax charges, which will be primarily non-cash.



**THE MICHAELS COMPANIES**

Michaels | Darice® | DSI | ARTISTREE®



# 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)			
	13 Weeks Ended		
	May 2, 2020	May 4, 2019	
<i>(in thousands)</i>			
<b>Net cash (used in) provided by operating activities</b>	\$ (55,527)	\$ 33,798	
Non-cash operating lease expense	(81,171)	(81,371)	
Depreciation and amortization	(32,843)	(31,489)	
Share-based compensation	(8,535)	(7,251)	
Debt issuance costs amortization	(940)	(1,237)	
Loss on write-off of investment	—	(5,036)	
Accretion of long-term debt, net	(66)	130	
Restructure charges	—	(3,087)	
Deferred income taxes	2,861	(140)	
Gain on sale of building	101	—	
Changes in assets and liabilities	112,615	133,374	
<b>Net (loss) income</b>	<b>(63,505)</b>	<b>37,691</b>	
Interest expense	38,122	37,359	
Income taxes	(32,373)	14,575	
Depreciation and amortization	32,843	31,489	
Interest income	(1,023)	(811)	
<b>EBITDA</b>	<b>(25,936)</b>	<b>120,303</b>	
Adjustments:			
COVID-19 expense <sup>(1)</sup>	14,848	—	
Share-based compensation	8,535	7,251	
Restructure charges	—	3,087	
Severance costs	798	2,542	
Store pre-opening costs	1,159	1,226	
Store remodel costs	215	66	
Foreign currency transaction gains	(1,846)	(74)	
Store closing costs	669	(821)	
CEO severance costs	—	5,569	
Other <sup>(2)</sup>	2,746	964	
<b>Adjusted EBITDA</b>	<b>\$ 1,188</b>	<b>\$ 140,113</b>	

<sup>(1)</sup>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.

<sup>(2)</sup>Other adjustments primarily relate to items such as moving and relocation expenses, franchise taxes, sign-on bonuses, director's fees and search costs.



**THE MICHAELS COMPANIES**

Michaels | Darice® | DSI | ARTISTREE®

# 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 (loss) income, Adjusted net (loss) income and Adjusted (loss) earnings per share, diluted				
(Unaudited)				
	13 Weeks Ended			
	May 2,		May 4,	
(In thousands, except per share)	2020		2019	
<b>Operating (loss) income</b>	\$ (60,678)		\$ 92,730	
Restructure charges (a)	—		3,087	
CEO severance costs	—		5,569	
<b>Adjusted operating (loss) income</b>	<b>\$ (60,678)</b>		<b>\$ 101,386</b>	
<b>Net (loss) income</b>	<b>\$ (63,505)</b>		<b>\$ 37,691</b>	
Restructure charges (a)	—		3,087	
CEO severance costs	—		5,569	
Write-off of investment (b)	—		5,036	
Tax adjustment for above items (c)	—		(2,390)	
<b>Adjusted net (loss) income</b>	<b>\$ (63,505)</b>		<b>\$ 48,993</b>	
<b>(Loss) earnings per common share, diluted</b>	<b>\$ (0.43)</b>		<b>\$ 0.24</b>	
Restructure charges (a)	—		0.02	
CEO severance costs	—		0.04	
Write-off of investment (b)	—		0.03	
Tax adjustment for above items (c)	—		(0.02)	
<b>Adjusted (loss) earnings per common share, diluted</b>	<b>\$ (0.43)</b>		<b>\$ 0.31</b>	

(a) Fiscal 2019 excludes charges related to the closure of our Pat Catan's stores.

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

(c) Adjusts for the tax impact of the restructure charges, the CEO severance costs and the write-off of an investment in a liquidated business.



**THE MICHAELS COMPANIES**

Michaels | Darice® | DSI | ARTISTREE®