

The Michaels Companies

Q3 2020 Supplementary Slides



we put people first.



we do the right thing.



we're obsessed with our makers.



we're always improving our craft.



we hold ourselves accountable.



we find fun in the everyday.



we're better together.

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 December 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 December 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, adjusted diluted earnings per share, EBITDA, and adjusted EBITDA. The Company has reconciled each measure to the most directly comparable GAAP measure in the third quarter fiscal 2020 earnings release issued on December 3, 2020 and at the end of this presentation (appendix).

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Q3 FY20 Performance Overview, & Priorities



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Q3 Fiscal 2020 Financial Performance

Key Financial Metrics	Q3 2020	Q3 2019	Change vs. LY
Net Sales	\$1.41 billion	\$1.22 billion	+15.1%
Comparable Store Sales	16.3%	-2.2%	+18.5pts
Adjusted Operating Income*	\$201.6 million	\$117.4 million	+71.7%
Adjusted Diluted EPS*	\$0.86	\$0.40	+\$0.46

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

Strategic Priorities

1

Strengthen our RETAIL FOUNDATION & how we execute

- Improve retail execution- right product, right price, where and how customers expect it
- Store operational efficiencies

2

Modernize the OMNI-EXPERIENCE for Makers

- Rapidly evolving the omnichannel experience to transform Michaels into a leading omnichannel specialty retailer

3

Re-establish our brand position as THE EXPERT for Makers

- Inspire and drive further customer engagement through marketing and by leveraging CRM, Loyalty and Community

Q3 FY20 Financial Discussion



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Q3 Financial Performance

Metric	Q3 Fiscal 2020	Q3 Fiscal 2019
Net Sales	\$1,406.2M	\$1,222.0M
Gross Profit <i>Margin</i>	\$581.7M 41.4%	\$441.6M 36.1%
SG&A	\$373.2M	\$322.8M
Adjusted Operating Income* <i>Margin</i>	\$201.6M 14.3%	\$117.4M 9.6%
Interest Expense	\$37.4M	\$38.8M
Effective Tax Rate	20.3%	22.5%
Adjusted Net Income*	\$129.3M	\$60.1M
Adjusted Diluted EPS*	\$0.86	\$0.40

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

- **Sales increase driven by:**
 - 128.0% e-commerce growth (+)
 - Higher basket size (+)
 - Decrease in customer transactions (-)
- **Gross Margin increase driven by:**
 - Occupancy cost leverage (+)
 - Lower promotional cadence (+)
 - Benefit from ongoing pricing and sourcing initiatives (+)
 - Impact of tariffs on inventory purchased from China(-)
 - Change in sales mix to e-commerce (-)
- **SG&A increase driven by:**
 - Higher incentive compensation (-)
 - Costs associated with strategic initiatives (-)
 - Sanitation and other supply expenses (-)

Balance Sheet/Cash Flow

Metric	Q3 Fiscal 2020	Change vs. LY or FQ3 2019
Cash	\$852.0M	+\$733.6M
Merchandise Inventory	\$1.2B	(17.8%)
Total Debt, Excluding Leases	\$2.5B	(\$174.3M)
Total Debt, Including Leases	\$4.1B	(\$215.0M)
TTM Total Debt/EBITDA	3.4x	No change
Interest Coverage LTM	3.5x	(0.6x)
Cash from Operating Activities	\$413.1M	+\$304.6M
Free Cash Flow*	\$380.0M	+\$303.6M
Capital Expenditures	\$33.1M	+\$1.0M

- Successfully refinanced term loan in September, with maturities extended to 2027.
- As part of that refinancing and as a demonstration of the commitment to de-lever the business over the long-term, paid down \$150 million in debt.
- Balanced capital allocation going forward prioritizing growth investments followed by paying down debt, opportunistically repurchasing shares and then potential acquisitions aligned with our growth strategy

* Free Cash Flow defined as cash flow from operating activities less capital expenditures.

Appendix



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

The Michaels Companies, Inc.

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

	13 Weeks Ended		39 Weeks Ended	
	October 31, 2020	November 2, 2019	October 31, 2020	November 2, 2019
<i>(In thousands, except per share)</i>				
Operating income	\$ 198,951	\$ 76,049	\$ 191,547	\$ 240,079
Restructure and impairment charges (a)	9,388	41,376	9,388	48,332
Darice liquidation (income) charges (b)	(6,775)	—	45,711	—
CEO severance costs	—	—	—	5,569
Adjusted operating income	\$ 201,564	\$ 117,425	\$ 246,646	\$ 293,980
Net income	\$ 111,122	\$ 28,705	\$ 39,860	\$ 90,943
Restructure and impairment charges (a)	9,388	41,376	9,388	48,332
Darice liquidation (income) charges (b)	(6,775)	—	45,711	—
CEO severance costs	—	—	—	5,569
Write-off of investment (c)	—	—	—	5,036
Losses on early extinguishments of debt and refinancing costs	22,044	161	22,044	1,316
Interest on 2020 senior subordinated notes (d)	—	—	—	1,748
Tax adjustment for above items (e)	(6,489)	(10,139)	(19,348)	(14,232)
Adjusted net income	\$ 129,290	\$ 60,103	\$ 97,655	\$ 138,712
Earnings per common share, diluted	\$ 0.74	\$ 0.19	\$ 0.27	\$ 0.58
Restructure and impairment charges (a)	0.06	0.27	0.06	0.31
Darice liquidation (income) charges (b)	(0.05)	—	0.31	—
CEO severance costs	—	—	—	0.04
Write-off of investment (c)	—	—	—	0.03
Losses on early extinguishments of debt and refinancing costs	0.15	—	0.15	0.01
Interest on 2020 senior subordinated notes (d)	—	—	—	0.01
Tax adjustment for above items (e)	(0.04)	(0.07)	(0.13)	(0.09)
Adjusted earnings per common share, diluted	\$ 0.86	\$ 0.40	\$ 0.66	\$ 0.89

- (a) Fiscal 2020 excludes impairment of operating lease assets and leasehold improvements related to the relocation of our support center. Fiscal 2019 exclude charges related to the closure of our Pat Catan's stores and impairment charges recorded as a result of lower than expected operating performance in our wholesale business.
- (b) Excludes (income) charges related to the closure of the Darice wholesale business.
- (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 and impairment charges, the Darice liquidation (income) 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.

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

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

<i>(in thousands)</i>	13 Weeks Ended		39 Weeks Ended	
	October 31,	November 2,	October 31,	November 2,
	2020	2019	2020	2019
Net cash provided by operating activities	\$ 413,111	\$ 108,475	\$ 712,860	\$ 106,367
Non-cash operating lease expense	(79,498)	(81,397)	(241,040)	(244,258)
Depreciation and amortization	(31,292)	(31,295)	(95,382)	(94,025)
Share-based compensation	(6,571)	(6,658)	(19,759)	(18,664)
Debt issuance costs amortization	(875)	(970)	(2,757)	(3,509)
Loss on write-off of investment	—	—	—	(5,036)
Accretion of long-term debt, net	(349)	(67)	(480)	195
Restructure impairment charges	(9,388)	(41,376)	(9,388)	(48,332)
Impairment of intangible assets	—	—	(3,500)	—
Deferred income taxes	(2,690)	10,023	289	9,984
Gain on sale of building	—	—	101	—
Losses on early extinguishments of debt and refinancing costs	(22,044)	(161)	(22,044)	(1,316)
Changes in assets and liabilities	(149,282)	72,131	(279,040)	389,537
Net income	111,122	28,705	39,860	90,943
Interest expense	37,370	38,781	112,233	116,274
Income taxes	28,284	8,324	18,836	28,615
Depreciation and amortization	31,292	31,295	95,382	94,025
Interest income	(144)	(297)	(1,426)	(2,012)
EBITDA	207,924	106,808	264,885	327,845
Adjustments:				
COVID-19 expense ⁽¹⁾	632	—	19,158	—
Losses on early extinguishments of debt and refinancing costs	22,044	161	22,044	1,316
Share-based compensation	6,571	6,658	19,759	18,664
Restructure charge and impairment charges	9,388	41,376	9,388	48,332
Darice liquidation charges	(6,775)	—	45,711	—
Severance costs	667	1,683	5,537	5,175
Store pre-opening costs	184	1,402	1,528	4,370
Store remodel costs	1,226	174	1,675	242
Foreign currency transaction losses (gains), net	8	192	(322)	659
Store closing costs	96	478	907	(469)
Consulting costs	9,240	—	14,149	—
CEO severance costs	—	—	—	5,569
Other ⁽²⁾	1,981	1,788	7,644	4,489
Adjusted EBITDA	\$ 253,186	\$ 160,720	\$ 412,063	\$ 416,192

⁽¹⁾ Includes costs attributable to the COVID-19 pandemic including hazard pay for team members, costs associated with furloughed employees, certain 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 center move.

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