

Michaels Companies, Inc.  
Form 10-Q  
August 25, 2017  
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

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FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarterly period ended July 29, 2017

Commission file number 001-36501

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THE MICHAELS COMPANIES, INC.

A Delaware Corporation

IRS Employer Identification No. 37-1737959

8000 Bent Branch Drive

Irving, Texas 75063

(972) 409-1300

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The Michaels Companies, Inc. (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

The Michaels Companies, Inc. has submitted electronically and posted on its corporate website every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

The Michaels Companies, Inc. is a large accelerated filer.

The Michaels Companies, Inc. is not a shell company or emerging growth company (as defined in Rule 12b-2 of the Exchange Act).

As of August 17, 2017, 180,986,344 shares of The Michaels Companies, Inc.'s common stock were outstanding.

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THE MICHAELS COMPANIES, INC.

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## Part I—FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## THE MICHAELS COMPANIES, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands, except per share data)

(Unaudited)

	13 Weeks Ended		26 Weeks Ended	
	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
Net sales	\$ 1,072,593	\$ 1,060,353	\$ 2,231,156	\$ 2,219,233
Cost of sales and occupancy expense	670,082	669,656	1,361,012	1,363,785
Gross profit	402,511	390,697	870,144	855,448
Selling, general and administrative	313,867	302,712	641,263	620,512
Store pre-opening costs	662	908	1,640	2,534
Operating income	87,982	87,077	227,241	232,402
Interest expense	31,051	31,954	61,488	64,173
Losses on early extinguishments of debt and refinancing costs	—	405	—	405
Other expense (income), net	1,353	(515)	1,309	(69)
Income before income taxes	55,578	55,233	164,444	167,893
Income taxes	20,016	19,616	56,674	61,511
Net income	\$ 35,562	\$ 35,617	\$ 107,770	\$ 106,382
Other comprehensive income, net of tax:				
Foreign currency translation adjustment and other	13,944	(4,759)	8,672	9,450
Comprehensive income	\$ 49,506	\$ 30,858	\$ 116,442	\$ 115,832
Earnings per common share:				
Basic	\$ 0.19	\$ 0.17	\$ 0.57	\$ 0.51
Diluted	\$ 0.19	\$ 0.17	\$ 0.57	\$ 0.51
Weighted-average common shares outstanding:				
Basic	186,886	205,881	187,927	206,437
Diluted	187,931	207,547	189,171	208,269

See accompanying notes to consolidated financial statements.

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## THE MICHAELS COMPANIES, INC.

## CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

(Unaudited)

	July 29, 2017	January 28, 2017	July 30, 2016
<b>ASSETS</b>			
Current Assets:			
Cash and equivalents	\$ 134,119	\$ 298,813	\$ 114,849
Merchandise inventories	1,195,495	1,127,777	1,145,422
Prepaid expenses and other	87,176	87,175	85,482
Accounts receivable, net	24,311	23,215	26,920
Income taxes receivable	20,085	5,825	42,676
Total current assets	1,461,186	1,542,805	1,415,349
Property and equipment, at cost	1,530,622	1,488,136	1,724,291
Less accumulated depreciation and amortization	(1,122,928)	(1,074,972)	(1,325,603)
Property and equipment, net	407,694	413,164	398,688
Goodwill	119,074	119,074	119,074
Other intangible assets, net	22,736	23,702	23,703
Deferred income taxes	37,137	36,834	39,780
Other assets	12,202	12,061	12,387
Total assets	\$ 2,060,029	\$ 2,147,640	\$ 2,008,981

## LIABILITIES AND STOCKHOLDERS' DEFICIT

Current Liabilities:			
Accounts payable	\$ 510,818	\$ 517,268	\$ 462,099
Accrued liabilities and other	391,784	397,497	355,359
Current portion of long-term debt	112,125	31,125	66,900
Income taxes payable	823	78,334	—
Total current liabilities	1,015,550	1,024,224	884,358
Long-term debt	2,712,475	2,723,187	2,735,187
Other liabilities	99,997	98,655	97,232
Total liabilities	3,828,022	3,846,066	3,716,777

## Commitments and contingencies

## Stockholders' Deficit:

Common stock, \$0.06775 par value, 350,000 shares authorized;  
183,414 shares issued and outstanding at July 29, 2017; 193,311  
shares issued and outstanding at January 28, 2017; and 205,824  
shares issued and outstanding at July 30, 2016

	12,330	12,948	13,770
Additional paid-in-capital	59,099	233,129	493,096
Treasury stock	(11,361)	—	—
Accumulated deficit	(1,822,509)	(1,930,279)	(2,202,056)

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Accumulated other comprehensive loss	(5,552)	(14,224)	(12,606)
Total stockholders' deficit	(1,767,993)	(1,698,426)	(1,707,796)
Total liabilities and stockholders' deficit	\$ 2,060,029	\$ 2,147,640	\$ 2,008,981

See accompanying notes to consolidated financial statements.

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THE MICHAELS COMPANIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	26 Weeks Ended	
	July 29, 2017	July 30, 2016
Cash flows from operating activities:		
Net income	\$ 107,770	\$ 106,382
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	57,423	58,468
Share-based compensation	10,557	6,590
Debt issuance costs amortization		