

Pandemic Trends and Online Sales Send Michaels' Stock Soaring

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Key Insights:

- The toy and hobby category performs well during recessions.
- People are also crafting to provide additional income.

Following a slow start to 2020, Michaels appears to be making up for lost time: The arts-and-crafts retailer's stock is up over 50% today compared to Friday's close.

The sharp ascent came as analysts at JP Morgan upgraded their outlook for the company, stating that Michaels' new CEO, Ashley Buchanan, could "turn the tide of share losses" by accelerating the retailer's digital shopping platforms. JP Morgan also noted that the toy and hobby category performed relatively well during the 2001 and 2009 recessions, implying Michaels is on solid ground for the coming months.

Last Thursday, Michaels reported that comparable store sales dropped 27.6% for the quarter ending May 2, resulting in a net loss of \$63.5 million, compared to a net gain of \$37.7 million during the same period last year.

In early May, fewer than 500 Michaels stores were open due to the pandemic. Several closed locations, however, continued to generate revenue via curbside pickup and items shipped directly from the store. At present, about 1,000 of the company's 1,273 stores are open. Michaels expects all of its

brick-and-mortar locations to be fully operational by the end of the month.

During the quarter, the company introduced new omnichannel capabilities such as curbside pick-up and same-day delivery, helping to drive the company's ecommerce sales up nearly 300%.

On an earnings call with analysts, Buchanan, who joined the company in January after serving as chief merchandising and chief operating officer for U.S. ecommerce at Walmart, said that reopened locations were seeing, on average, comparable year-over-year sales increase 11% when taking into account both in-store and online sales. Throughout the quarter, Michaels modified its marketing strategy to promote its enhanced digital and omnichannel offerings, Buchanan added.

"We feel really good about these sales trends, but it's early to acknowledge that craft pantry loading as well as the benefits from stimulus checks may also be contributing to these strong results, so it's something we'll continue to monitor," he said.

The economy is showing signs of recovery, too. In May, the unemployment rate improved to 13.3%, down from 14.7% in April. Experts had anticipated the jobless rate to get worse, not better.

Buchanan also stated that beyond looking for creative outlets and providing an activity for children, people are shopping at Michaels for supplies to make items they intend to sell.

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