

Starting Out

After tackling some difficult industries lately, I wanted to research something easy to understand. I decided Specialty Retail would hold my interest. I like to start with an industry so I can take advantage of the S&P Industry Surveys available at most libraries (or online through your local library). These can be found on the S&P Net Advantage website. They cover 52 industry topics—certainly not all, but more than enough to keep me busy.

I read the survey and reviewed the stocks listed in the back. After completing a series of preliminary Stock Selection Guides (SSGs) in Toolkit 5, I chose to report on Michaels Stores, Inc., a company in the Arts and Crafts arena. As a crafter, I found it interesting that Arts and Crafts is a \$25 billion industry, and 60% of all households participate in some form of hobby or craft. I looked at several competitors to make sure I had the best of breed.

Preliminary SSG

I liked my preliminary SSG (using OPS data). There were obviously some problems in 1995-96 which would make them anomalies, but after that, the company began raking in EPS at a rate double that of sales—to the point where Pre-Tax Profit actually converged with sales growth in 2004! Hmmm. The quarter-over-quarter box showed that same trend.

By clicking on the sales and EPS estimate box, I noted that S&P analysts were projecting EPS growth of 18% going forward. However, 10-year sales and EPS growth rates were 13.5% and 28.2%, respectively (after removing 1995-96 as outliers). I reasoned that Sales drives EPS, and Pre-Tax Profit can only increase for so long. Further, if this company could only grow sales 13.5% in the last 10 years, how could EPS grow 18% in the next 5 years? I chose 13.5% going forward for both sales and EPS. I'll revisit my judgments later on.

Pre-tax Profit Margin as depicted in Section 2A was heading straight North, as was Return on Equity in Section 2B.

In Section 3, I appreciated seeing reasonable and stable historical P/E Ratios, for a change. The 5-year average high and low P/Es were 21.9 and 10.7, respectively. The signature P/E (or 5 year average) was 16.3. I didn't see any reason to modify the P/Es. I also noted in Section 3 that the price trading range was fairly tight. The high and low prices for the entire year were only about 30% apart. Most stocks run 50% or more.

Looking at Section 4, I could see the EPS used to calculate the Low P/E was based on the default of last year's EPS, rather than the most recent 4 quarters (shown at the very bottom right corner of Section 3). I chose to upgrade to this figure by using ALT-Q. I could have done it by hand, as well.

I chose the first option for Estimated Low Price, the default for a growth company. My preliminary SSG displayed an upside potential of 2.4 to 1, and a Projected Average Return of

10.1%. (I don't consider the Total Return unless I'm trying to pare an over-valued stock in my current portfolio. Total Return is best-case scenario, and my luck usually isn't that good!)

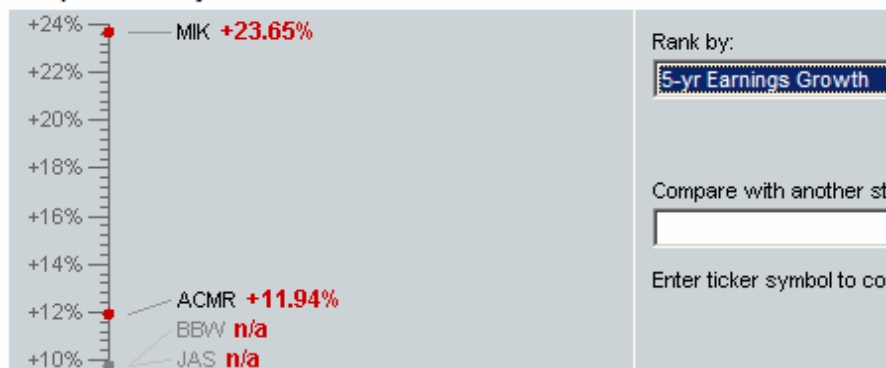
Competitors

Before I get into the nuts and bolts of company, I like to make sure I have the best one. I already found some competitors in the S&P Survey, but I quickly perused the company's SEC 10K filing at Edgarscan (<http://edgarscan.pwcglobal.com/recruit/other.html>) by searching for "competitors". This yielded 2 public and 2 private companies. Then I visited the SmartMoney.com website where I entered my ticker and clicked on Competitors. I found one more. By entering all the public competitors I found, I could see how they compared by Annual Sales, 5-year EPS growth, and Forward P/E.

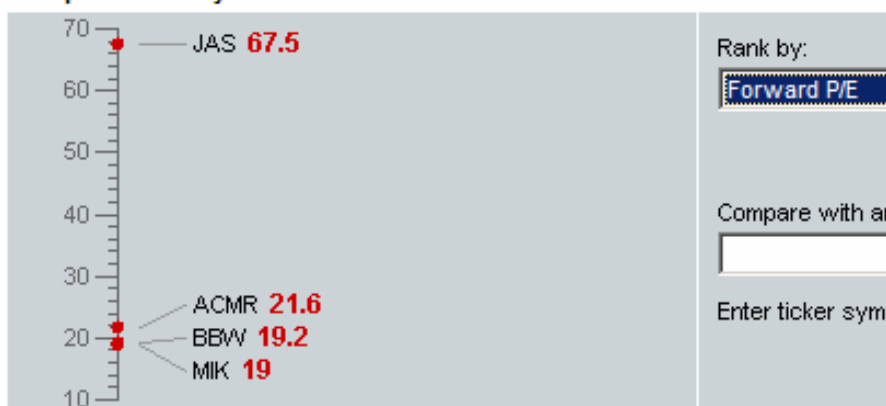
Competitive Analysis



Competitive Analysis



Competitive Analysis



As you can see, Michaels' sales are nearly double that of its closest competitor, Jo-Ann Stores, Inc. And even though A.C. Moore Arts & Crafts and Build-A-Bear, Inc. are smaller and more nimble, Michaels has displayed significantly better growth—at a better value!

I compared these companies on the Stock Comparison Guide, and while Build-A-Bear won on high-growth measures, it didn't meet my minimum of 5 years as a public company. Plus, I saw it as a one-product fad company. Therefore, Michaels' was still in contention.

Deeper Research

Now it was time to get elbow-deep in research. I opened a new Word document and titled it Michaels Stores Report. It would be my goal to copy and paste all information I found informative into this document.

I had already downloaded the S&P Industry Survey on Specialty Retail. I went to Michaels' website at www.michaelsstores.com and assessed each page for signs of pertinent and shareholder-friendly information. I downloaded the 2004 annual report, 2004 10K Filing, the latest 10Q Filing, the Proxy (DEF14A) Filing and a webcast presentation from the 2005 Johnson Rice & Co. LLC 5th Annual Consumer Conference. I figured I could always go back and listen to past conference calls if I was confused by what I read.

As I reviewed each document, I used the highlighter tool to highlight information that I deemed pertinent, at the time. Later, I went back to edit, copy and paste it into my report. Here's what I learned about Michaels Stores:

Introduction to Michaels Stores, Inc.

In 1984, with only 16 stores located primarily in Texas, Michaels Stores, Inc. became a publicly held company. Shortly thereafter, they embarked on an aggressive national expansion program. By 1995, through a series of new store openings and acquisitions, they had increased their holdings to 500 stores.

Michaels Stores, Inc. is now the nation's largest retailer of arts and crafts materials with 886 stores, doing \$3.4 billion in annual sales. They can be found in 48 states and Canada and they offer a large selection of arts, crafts, floral, wall décor, and seasonal merchandise. They also provide the ideas and education to complete an array of artistic, leisure, and home décor projects for beginners and experts. Stores average 18,500 square feet and those open longer than 36 months yield \$4 million in revenue per year. Other operations include:

Aaron Brothers

Ready-made frames & mats for the do-it-yourselfers; quality art supplies for students and professionals; custom framing services.

5,800 square feet average floor plan

166 stores in 11 states

ReCollections

Devoted exclusively to scrap booking and paper crafting.

11 stores

Star Decorators Wholesale Warehouse

Caters to interior designers and decorators; party and event planners; and professional caterers.

4 stores

Artistree

Vertically-integrated frame and moulding in-house manufacturing operation

3 facilities

Over 9 million square feet

In addition to these retail and wholesale divisions, Michaels Stores, Inc. also operates seven distribution centers strategically located throughout the United States to serve its ever-growing network of operations.

The company has a centralized purchasing system, which enables it to acquire products on favorable terms. Merchandise comes from over 1,300 suppliers. In fiscal 2004, the top 10 vendors accounted for approximately 23% of total purchases with no single vendor accounting for more than 4%.

Approximately 30% of the moulding sold is manufactured in-house. Another 35% is imported from quality manufacturers in Indonesia, Malaysia, Brazil, and Italy, and the balance is purchased from distributors.

Approximately 58% of all merchandise is shipped through the Michaels distribution system. Star Wholesale merchandise is received through direct vendor shipments. Michaels has spent a considerable amount of time and money improving the efficiency of merchandise deliveries. These improvements have gone directly to the bottom line.

The following table shows Michaels total store growth for the last five years:

Fiscal Year	2004	2003	2002	2001	2000
Stores open at beginning of year	804	754	694	627	558
Store openings	45	55	67	75	72
Stores relocated	30	16	18	17	17
Stores closed (during the year)	(5)	(5)	(7)	(8)	(3)
Stores closed	<u>(30)</u>	<u>(16)</u>	<u>(18)</u>	<u>(17)</u>	<u>(17)</u>
Total Store count at year end	1019	967	904	835	748

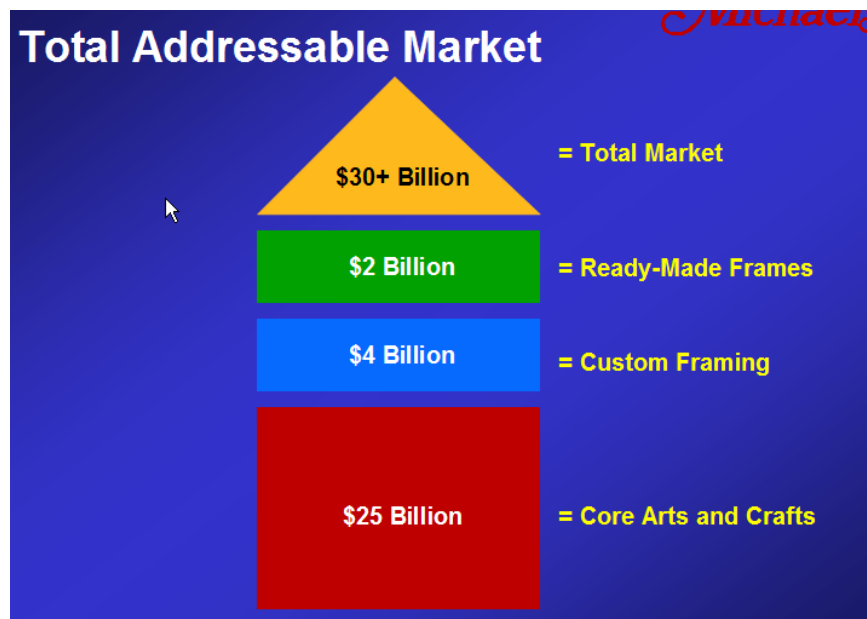
All international business comes from Canada and accounted for approximately 5% of total sales in fiscal 2004.

During fiscal 2004, Michaels achieved same-store sales growth of 5% and opened 58 new stores. Operating margin improved from 9.8% of net sales in fiscal 2003 to 10.0% of net sales in fiscal 2004. This has resulted in a stronger financial position. Per Value Line, there is no long-term debt.

Company vs. Industry Outlook

Based on a survey published in 2002, Michaels' typical customer is a married female, 35 to 54, with a college education, and half have a household income in excess of \$60,000 per year. These women are loyal, too. 53% shop in the store at least 2 times per month; 24% shop at least one time per month.

The company competes across many highly fragmented industries. Recently published research reports estimate that the size of the markets in which it competes totals approximately \$30 billion annually.



Michaels believes there are only four other major arts and crafts retailers in the United States with annual sales in excess of \$200 million. As stated earlier, fiscal 2004 sales were twice as much as those of its largest direct competitor.

Hobby Lobby is a private company that operates approximately 351 stores in 28 states. A.C. Moore Arts & Crafts, Inc., (NASDAQ: ACRM) operates approximately 96 stores nationwide. Jo-Ann Stores, Inc. (NYSE: JAS) operates approximately 114 superstores nationwide. And Garden Ridge Corporation, another private company, operates approximately 35 stores in 13 states. There are also an abundance of Mom & Pop arts and crafts retailers, plus mass merchandisers, of which the most powerful is Wal-Mart Stores.

Here's how Michaels stacks up to other Specialty Retailers:

Growing Store Base		Michael's
	886 Stores	
	819 Stores	
	728 Stores	
	686 Stores	
	621 Stores	
	516 Stores	
	511 Stores	

Michael's is well positioned to benefit from some favorable trends:

- A high concentration of affluent baby boomers continue to invest in their homes;
- There's an increasing focus on home-based family activities since 9/11; and
- There's a new interest in scrap booking and knitting by both men and women.

From Past to Future

In 1995, due to inadequate information systems and infrastructure to support the rapid growth, financial performance weakened. This marked the beginning of a multi-faceted plan to improve the company's profitability. Michael's announced a shift in focus from store growth to higher returns on capital through investments in technology. Over the years they have improved their point-of-sale computer systems, inventory, and distribution/transportation systems which have resulted in extraordinary Pre-Tax Profit Margins through 2004. Going forward, it plans to do the following:

- Increase revenues at the flagship stores from \$4 million to \$5 million per store, per year;
- Increase revenues at Aaron Brothers from \$1.2 million to \$1.5 million per store, per year;
- Improve product mix, the timing of deliveries and faster checkouts;
- Increase the in-store demonstrations and classes; and
- Expand direct importing of lower-cost products.

Below is a graph depicting the total store count, along with the total number of stores management believes the US and Canadian markets can support:



They plan to expand the wholesale business concept, targeted at interior decorators/designers, wedding/event planners, florists, hotels, restaurants, and commercial display companies, too.

Notables from the Proxy:

The Proxy Statement (DEF14A Filing) revealed two notable items. First—the board of directors. Two men have managed the company since 1984, Mr. Charles Wyly, Jr., Chairman of the Board, and his brother, Sam Wyly. Both men have backgrounds in technology. Charles founded Sterling Software Company, and Sam founded University Computing which became one of the first computer utility networks, and one of the first software companies. Together, they founded an oil refining and silver mining business.

There are only 6 members on the board, of whom 4 are independent. These outsiders have impressive backgrounds. They are executives from communications companies (AOL Time Warner), investment banking, retail clothing (including Neiman Marcus), and retail groceries. These directors are sit on board at Zales, Brinker and, previously, the Federal Reserve. The brothers own 7.9% of common stock, while all insiders and directors own 9%. Further, there are no personal relationships between the board and the company.

The other notable item pertains to the legal issues that surround the company. There seems to be a lot of lawsuits pending right now. The majority revolve around employment issues, such as overtime pay and coffee breaks, not uncommon to other large retail chains.

In 2002, the company revised earnings guidance downward in the 4th quarter. A lawsuit alleges that defendants made misrepresentations and failed to disclose negative information about the financial condition of Michaels while individual defendants were selling shares of Michaels Common Stock.

There are two complaints where a plaintiff asserts claims against individual defendants for breach of fiduciary duties, abuse of control, gross mismanagement, waste of corporate assets, and unjust enrichment. If you look at the numbers, you see that 2003 was a pivotal year for

sales and earnings. To me, management had a plan and certain shareholders simply did not have the patience to see it through. In hindsight, they may have misjudged.

Beyond the Basic Research:

One of my favorite pit stops is Fool.com to search for current articles. I appreciate the foolish, down-to-earth commentary I find on that site. I found several articles that help put the company in perspective.

My next stop was the Thomson Gale Business & Resource Center, available online through my local library. This is a one-stop source for articles from hundreds of publications.

Finally, I turned to MSN, Morningstar and DeMarche for their stock ratings. I lack the inclination and financial prowess to decipher debt ratings and governing practices. I don't look at these ratings in a vacuum. I simply look for ratings that seem out of line. This can be a red flag that might escape me elsewhere in my research. If all is well, (which in Michaels' case, it was) I head back to my SSG to reconsider my judgments.

Back to the SSG

So what did I learn? Michaels sees 2,100 stores as a saturation point. At 1,019 stores today, and 55 various store openings scheduled per year, the company has 38 years of growth ahead (provided management remains competent). In 5 years from now, management plans on having approximately 1,294 stores. Using Toolkit's Financial Calculator, I calculate this as a 4.89% compounded rate in store growth. That, plus the 5% average same-store sales comparisons (its 5-year average) equates to a sales rate of 9.89% which I rounded down to 9%.

Here's where I finally checked Value Line's figures. In the far right column in the statistical array, Value Line's analysts provide their estimates for 4-5 years in the future. Value Line is estimating \$5.2 billion in sales by 2008-2010. Again, using Toolkit's financial calculator, and the current annual sales of \$3.4 billion, I calculated an 8.87% compounded rate of growth. That gives me confidence in my sales figure of 9%.

Value Line shows the Average P/E in the future at 18. This compares favorably to the current signature P/E of 16.3. It's possible that we'll see some P/E expansion in the coming years.

Value Line shows shares outstanding at 137 million vs. the current 134.8 million. This gives me enough ammunition to calculate the Preferred Procedure.

I already entered my Sales at 9%. The current %PTP is 8.1%, and management is adamant about its continuing quest for larger margins. I don't think this can go much higher, but I increased it to 10% in favor of management. Since taxes always increase, I'll rounded up this number from 37.2% to 38%. That left me with shares outstanding, which I raised to 137 million. The Preferred Procedure gave me a future EPS rate of \$2.50, or 7.5% compounded annually. Value Line estimated \$2.85 which, entered into the PP "other" column, gave me 10.4% growth. S&P analysts are looking for \$3.59, or 15.6%.

Finally, a search for consensus growth gave me 17.5% from Yahoo, 18.4% from MSN, and 17.6% from Morningstar. In assessing all these choices, I decided I could live with 15% for EPS.

On the back of the SSG, the PEG ratio at the bottom right corner of Section 3 was 132%. Since I like to be at or below 150%, I didn't feel an initial need to change my choice for High P/E. However, I do like to double check the estimated high price. My January 26th current price was \$34.42. My estimated high price was \$76.60. Using the financial calculator, I noted this was a 17.4% growth rate. Call me conservative, but since all I needed was 15%, or \$69.23. I divided this price by my estimated EPS of \$3.50 and I got a P/E of 19.8. So I lowered my estimated High P/E. Why? Because (a) 19.8 was all I needed, and (b) it gave me some margin for safety just in case I'm wrong (which happens frequently!).

Then I checked Value Line's 2008-2010 Projections box in the top left corner. VL provides a "range" for the future high price. In this case it came to \$40-\$60. Typically, I'm more comfortable somewhere in the middle, but in this case, I feel that Value Line is substantially different from all other sources, so I chose to cautiously ignore it.

I'm comfortable with the 5-year average Low P/E, and thus my estimated low price, so I left them alone.

My Results:

My current price at the time of the research was \$34.42. My final projections have given me an upside potential of 2.2 to 1, with a compounded Projected Average Return of 10.1% (the same rate I started with.) Considering my projections are ultra conservative, and considering the 77-year stock market return is 10.4%, this isn't such a bad return for a stock bordering on a Large Cap. Besides, my best-case scenario is 15.8%. Based on the SSG at the time, I can see in the Zoning section (and better still with ALT-B) that I can still get a 15% return and a 3 to 1 upside potential by purchasing the stock under \$31.28.

This stock is currently in the HOLD range, but I would recommend it for my club portfolio, provided we wait for the right price.

If you have any questions about this report, you can contact me at garbagecop@foxinternet.net

Stock Selection Guide®

The most widely used aid to
good investment judgment

Company MICHAELS STORES INC Date 01/27/06

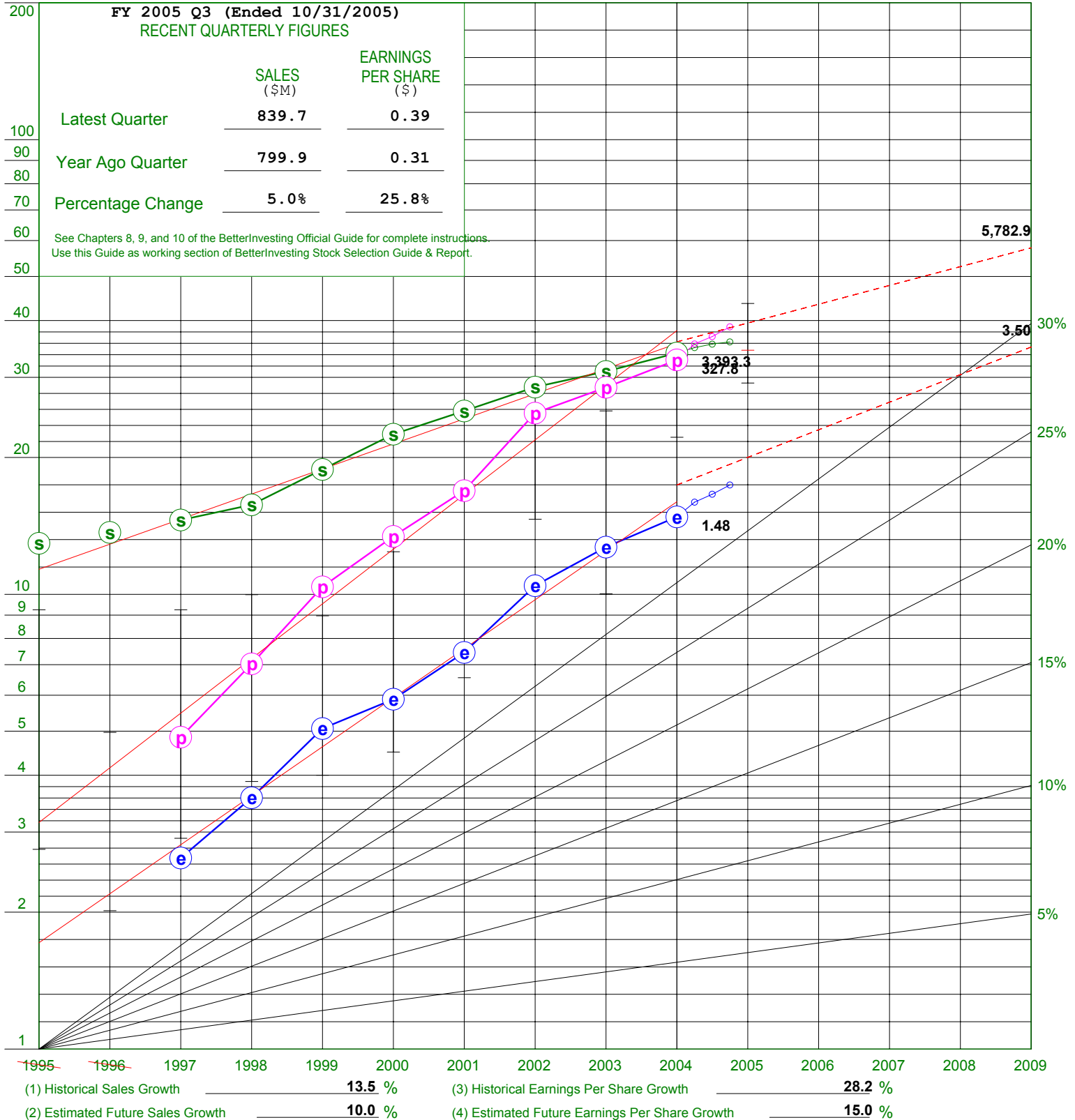
Prepared by Lynn Data taken from NAIC Data

Where traded NYSE Major product/service Specialty S

CAPITALIZATION --- Outstanding Amounts			Reference		
Preferred (\$M)	0.0		% Insiders	% Institution	
Common (M Shares)	134.8		0.0	0.0	
Debt (\$M)	0.0	% to Tot.Cap.	0.0	% Potential Dil.	None

1 VISUAL ANALYSIS of Sales, Earnings and Price

MIK



2 EVALUATING MANAGEMENT

Company

MICHAELS STORES INC

(MIK)

01/27/06

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	LAST 5 YEAR AVG.	TREND	
												UP	DOWN
A % Pre-tax Profit on Sales (Net Before Taxes ÷ Sales)	-2.7	-3.0	3.3	4.5	5.5	6.0	6.7	8.8	9.2	9.7	8.1	UP	
B % Earned on Equity (E/S ÷ Book Value)	-6.1	-9.5	6.9	8.5	10.1	10.6	11.9	13.9	14.8	15.5	13.3	UP	

3 PRICE-EARNINGS HISTORY as an indicator of the future

This shows how stock prices have fluctuated with earnings and dividends. It is a building block for translating earnings into future stock prices.

PRESENT PRICE		34.420		HIGH THIS YEAR		43.610		LOW THIS YEAR		29.150	
Year		PRICE		C Earnings Per Share	E Price Earnings Ratio		F Dividend Per Share	G % Payout F ÷ C X 100	H % High Yield F ÷ B X 100		
		HIGH	LOW		HIGH A ÷ C	LOW B ÷ C					
1	2000	12.4	4.5	0.59	21.1	7.7	0.000	0.0	0.0		
2	2001	17.5	6.6	0.75	23.5	8.9	0.000	0.0	0.0		
3	2002	24.7	14.6	1.05	23.6	14.0	0.000	0.0	0.0		
4	2003	25.3	10.0	1.27	19.9	7.9	0.150	11.8	1.5		
5	2004	31.4	22.2	1.48	21.2	15.0	0.260	17.6	1.2		
6	TOTAL		57.9		109.3	53.5		29.4			
7	AVERAGE		11.6		21.9	10.7		14.7			
8	AVERAGE PRICE EARNINGS RATIO			16.3		9	CURRENT PRICE EARNINGS RATIO			19.8	

4 EVALUATING RISK AND REWARD over the next 5 years

Assuming one recession and one business boom every 5 years, calculations are made of how high and how low the stock might sell. The upside-downside ratio is the key to evaluating risk and reward.

A HIGH PRICE -- NEXT 5 YEARS

Avg. High P/E ~~21.9~~ 19.8 X Estimate High Earnings/Share 3.50 = Forecast High Price \$ 69.3
(3D7 as adj.) (4A1)

B LOW PRICE -- NEXT 5 YEARS

(a) Avg. Low P/E 10.7 X Estimated Low Earnings/Share ~~1.48~~ 1.74 = \$ 18.6
(3E7 as adj.)
(b) Avg. Low Price of Last 5 Years = 11.6
(3B7)
(c) Recent Severe Market Low Price = 10.0
(d) Price Dividend Will Support Present Divd. = 0.400 = 26.7
High Yield (H) 0.015
Selected Estimate Low Price = \$ 18.6
(4B1)

C ZONING

69.3 High Forecast Price Minus 18.6 Low Forecast Price Equals 50.7 Range. 1/3 of Range = 12.7
(4A1) (4B1) (C) (4CD)
(4C2) Lower 1/3 = 18.6 to 31.3 (Buy) Note: Ranges changed to 25%/50%/25%
(4C3) Middle 1/3 = 31.3 to 56.6 (Maybe)
(4C4) Upper 1/3 = 56.6 to 69.3 (4A1) (Sell)
Present Market Price of 34.420 is in the Hold Range
(4C5)

D UP-SIDE DOWN-SIDE RATIO (Potential Gain vs. Risk of Loss)

High Price (4A1) 69.3 Minus Present Price 34.420
Present Price 34.420 Minus Low Price (4B1) 18.6 = 34.9 = 2.2 To 1
15.8 (4D)

E PRICE TARGET (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)

High Price (4A1) 69.3
Present Market Price 34.420 = (2.013) X 100 = (201.3) - 100 = 101.3 % Appreciation
(4E)

5 5-YEAR POTENTIAL

This combines price appreciation with dividend yield to get an estimate of total return. It provides a standard for comparing income and growth stocks.

Note: Results are expressed as a simple rate; use the table below to convert to a compound rate.

A Present Full Year's Dividend \$ 0.400
Present Price of Stock \$ 34.420 = 0.012 X 100 = 1.2 Present Yield or % Returned on Purchase Price
(5A)

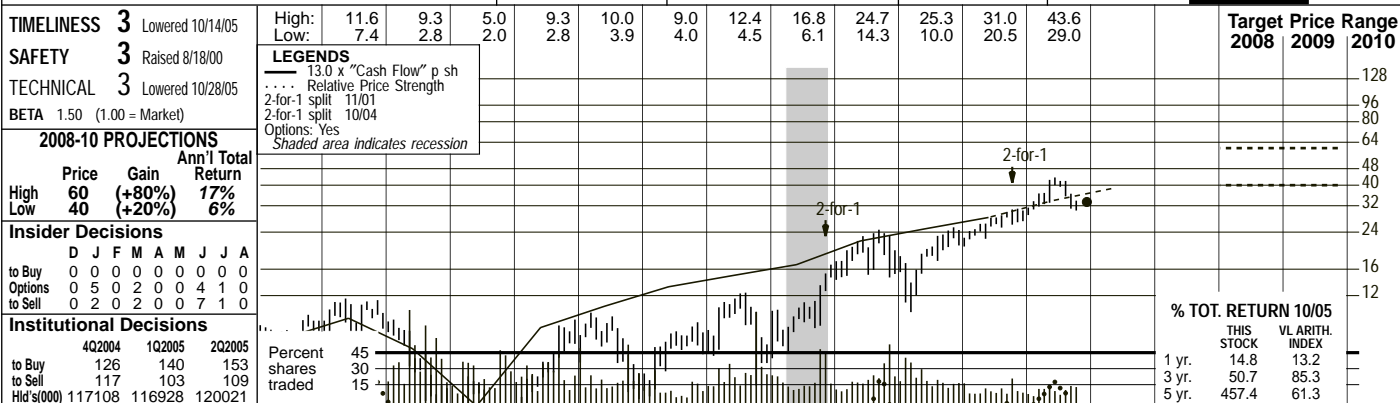
B AVERAGE YIELD OVER NEXT 5 YEARS

Avg. Earnings Per Share Next 5 Years 2.65 X Avg. % Payout (3G7) 14.7 = 39.0 = 1.1 %
(5B)

C ESTIMATED AVERAGE ANNUAL RETURN OVER NEXT FIVE YEARS

5 Year Appreciation Potential (4E) 101.3
5 20.3 %
Average Yield (5B) 1.1 %
Average Total Annual Return Over the Next 5 Years (5C) 21.4 %
Present Price \$ 34.420
P.A.R. Tot. Ret.
Average Yield 1.0% 0.7%
Annual Appreciation 9.2% 15.0%
% Compd Ann Rate of Ret 10.1% 15.8%

RECENT PRICE	33.39	P/E RATIO	17.8 (Trailing: 20.7 Median: 18.0)	RELATIVE P/E RATIO	0.98	DIV'D YLD	1.3%	VALUE LINE
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1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	© VALUE LINE PUB., INC.	08-10
7.37	9.15	6.82	7.48	9.28	11.64	15.05	14.54	12.54	13.78	15.65	17.66	19.26	21.17	22.63	25.00	27.35	30.00	Sales per sh ^A	37.95
.25	.35	.33	.46	.58	.72	.52	.15	.65	.82	1.02	1.15	1.29	1.68	1.91	2.17	2.60	3.00	"Cash Flow" per sh	3.75
.06	.14	.22	.30	.38	.49	.17	d.30	.26	.36	.51	.59	.75	1.05	1.27	1.47	1.85	2.20	Earnings per sh ^B	2.85
--	--	--	--	--	--	--	--	--	--	--	--	--	--	.15	.26	.37	.42	Div'ds Decl'd per sh ^F	.55
1.03	1.18	2.10	2.36	2.78	4.17	3.91	3.51	3.81	4.21	4.71	5.53	6.28	7.50	8.54	9.56	10.45	12.15	Book Value per sh ^C	18.00
39.29	39.56	60.24	65.90	66.79	85.42	86.02	94.76	116.14	114.25	120.26	127.35	131.39	134.93	136.62	135.73	135.20	135.00	Common Shs Outst'g ^D	137.00
28.4	8.0	12.6	19.6	20.8	19.9	32.7	--	23.1	19.7	13.5	15.4	14.5	18.2	14.9	18.4	<i>Value Line estimates</i>	<i>Value Line estimates</i>	Avg Ann'l P/E Ratio	18.0
2.15	.59	.80	1.19	1.23	1.31	2.19	--	1.33	1.02	.77	1.00	.74	.99	.85	.98			Relative P/E Ratio	1.20
--	--	--	--	--	--	--	--	--	--	--	--	--	--	.8%	1.0%			Avg Ann'l Div'd Yield	1.1%

CAPITAL STRUCTURE as of 7/30/05				1294.9	1378.3	1456.5	1574.0	1882.5	2249.4	2530.7	2856.4	3091.3	3393.3	3700	4050	Sales (\$mill) ^A	5200
Total Debt None				34.5%	30.5%	35.2%	36.4%	37.1%	36.5%	37.1%	39.6%	39.4%	39.4%	39.5%	40.0%	Gross Margin ^E	40.5%
				5.7%	1.8%	7.9%	8.9%	9.7%	9.5%	10.2%	12.2%	12.5%	12.6%	14.0%	14.3%	Operating Margin	14.5%
				514	525	526	574	654	748	851	904	970	1027	1075	1115	Number of Stores	1250
Leases, Uncapitalized Annual Rentals \$268.8 mill.				13.6	d27.7	30.1	43.6	63.2	80.4	100.7	147.7	177.8	204.8	255	305	Net Profit (\$mill)	400
No Defined Benefit Pension Plan Pfd Stock None				41.4%	--	38.0%	38.0%	39.2%	40.0%	40.1%	41.0%	37.6%	37.7%	38.0%	38.0%	Income Tax Rate	38.0%
				1.0%	NMF	2.1%	2.8%	3.4%	3.6%	4.0%	5.2%	5.8%	6.0%	6.9%	7.5%	Net Profit Margin	7.7%
Common Stock 135,437,312 shs. as of 8/30/05				229.0	239.8	358.7	391.2	452.0	440.8	598.9	766.9	913.9	1059.4	960	1170	Working Cap'l (\$mill)	2035
				184.1	221.9	221.9	221.9	221.9	125.0	200.0	200.0	200.0	200.0	Nil	Nil	Long-Term Debt (\$mill)	Nil
				336.0	332.8	441.9	481.0	566.8	704.6	824.6	1012.0	1167.3	1297.2	1640	1640	Shr. Equity (\$mill)	2540
MARKET CAP: \$4.5 billion (Mid Cap)				3.8%	NMF	6.0%	7.6%	9.2%	10.5%	10.6%	13.1%	13.7%	14.4%	19.0%	18.5%	Return on Total Cap'l	16.0%
				4.0%	NMF	6.8%	9.1%	11.2%	11.4%	12.2%	14.6%	15.2%	15.8%	18.0%	18.5%	Return on Shr. Equity	16.0%
CURRENT POSITION				4.0%	NMF	6.8%	9.1%	11.2%	11.4%	12.2%	14.6%	13.5%	13.8%	15.0%	15.5%	Retained to Com Eq	13.0%
(\$mill)				--	--	--	--	--	--	--	--	11%	13%	18%	18%	All Div'ds to Net Prof	18%

Cash Assets	341.8	586.2	182.2	BUSINESS: Michaels Stores, Inc. operates the largest chain of stores specializing in arts and crafts and home decor, picture-framing materials and services, needlecrafts, seasonal and holiday merchandise. Operates 870 Michaels stores in 48 states and Canada, 165 smaller Aaron Bros. stores, 11 Recollections stores and 4 wholesale stores (a/o 7/30/05). '04 depr. rate: 9.8%. Has 41,100 empl's. (28,550 part-time), 524 shrhldrs. of record (4/05). Cap'l Research owns 12.2% of common; Wellington Mgmt., 9.7%; Putnam, LLC, 6.2%; First Pacific Adv., 5.4%; Barclays Global Inv., 5.3%; off./dir., 9.0% (5/05 Proxy). Chrmn.: Charles Wyly. Pres. & CEO: R. Michael Rouleau. Inc.: DE. Addr.: 8000 Bent Branch Drive, Irving, TX 75063. Tel.: 972-409-1300. Internet: www.michaels.com.	
Receivables	-	-	-		
Inventory (Avg Cst)	892.9	936.4	1090.2		
Other	48.7	48.7	97.6		
Current Assets	1283.4	1571.3	1370.7		
Accts Payable	172.7	256.3	248.6		
Debt Due	-	-	-	Michaels Stores continues to deliver	
Other	196.8	255.6	232.4		sales. The company plans to remodel about
Current Liab.	369.5	511.9	481.0		

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '02-'04 to '08-'10
Sales	9.0%	10.5%	9.0%
"Cash Flow"	12.5%	18.0%	12.0%
Earnings	12.5%	27.5%	14.5%
Dividends	--	--	NMF
Book Value	10.5%	15.0%	13.5%

Fiscal Year Begins	QUARTERLY SALES (\$ mill.) ^A					Ful Fiscal Year
	Apr.Per	Jul.Per	Oct.Per	Jan.Per		
2002	603.2	576.6	704.6	972.0		2856.4
2003	656.4	616.5	755.2	1063.2		3091.3
2004	725.9	682.9	799.9	1184.6		3393.3
2005	821.0	745.5	839.7	1293.8		3700
2006	865	815	960	1410		4050

Fiscal Year Begins	EARNINGS PER SHARE ^{A B}				Full Fiscal Year
	Apr.Per	Jul.Per	Oct.Per	Jan.Per	
2002	.14	.15	.23	.53	1.05
2003	.15	.18	.27	.67	1.27
2004	.21	.21	.31	.74	1.47
2005	.33	.22	.38	.92	1.85
2006	.36	.34	.45	1.05	2.20

Calendar	QUARTERLY DIVIDENDS PAID ^F				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2001	--	--	--	--	--
2002	--	--	--	--	--
2003	--	--	.05	.05	.10
2004	.05	.06	.06	.07	.24
2005	.07	.07	.10	.10	