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Michaels Stores looks towards IPO

By Telis Demos and Dan McCrum in New York

Michaels Stores, the subject of a leveraged buyout by a private equity consortium at the height of the credit boom, is now looking to tap buoyant equity markets to return to public control.

The US retailer of arts and crafts products was taken private in a $6bn deal led by Blackstone Group and Bain Capital in 2006.

It has been preparing to file paperwork with the Securities and Exchange Commission as soon as next week, according to people familiar with the company's plans. It was expected to name JPMorgan Chase and Goldman Sachs as lead underwriters, these people also said. The size of the offering was not yet known, nor its sought-for valuation.

Michaels' public debut would mark a revival of large private equity exits. Following a surge of big exits at the beginning of last year, which included IPOs by HCA, Kinder Morgan and Nielsen, the market quieted for much of the remainder of the year.

There are still dozens of deals waiting for public debuts, including Toys R Us, the US children's retailer. Caesars Entertainment made a nominal float earlier this year, but is still waiting for a larger sale and an exit for its largest investors.

But last week's debut of Allison Transmission, which produces engine components for large vehicles, was successful, with the number of shares sold expanded after strong interest during the company's investor roadshow, and that has raised hopes for more. Allison raised $600m, pricing in the middle of its range, at $23 a share. The stock was trading at $24 at the close on Monday.

Rexnord, a maker of transmissions controlled by Apollo Global Management, is set to sell shares this week. It is seeking to raise as much as $500m, which would value the business at as much as $1.9bn. It was taken private for $1.9bn in 2006.

Michaels survived difficult years during the financial crisis, losing money in 2008 and 2009 and strained under heavy financial leverage, according to non-audited financial statements the company publicly releases.

Earnings have rebounded in recent years, with the company producing net income of $176m last year, versus $103m the previous year. Net sales in 2011 were $4.2bn, up 4.4 per cent from the prior year.

"Michaels represents an affordable luxury," said Gary Stibel, chief executive of the New England Consulting Group. "But with gasoline prices going higher and the potential for inflation, this may represent the best window for a deal."

The deal was initially reported by Reuters.

Michaels' debt load is still heavy. The company carries $3.5bn in net debt versus adjusted earnings before interest, taxes, depreciation and amortisation of $622m. That is a leverage ratio of roughly 5.7 times, below the company's peak level of over 12 times in 2007.

However, it is producing cash flow to cover the cost of debt. It produced $357m in free cash flow last year, against $276m in interest expense.