Macy's Inc. (M)

Updated November 15th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$32	**5 Year CAGR Estimate:**	13.4%	**Volatility Percentile:**	94.2%
Fair Value Price:	$43	**5 Year Growth Estimate:**	2.6%	**Momentum Percentile:**	98.4%
% Fair Value:	74%	**5 Year Valuation Multiple Estimate:**	6.1%	**Growth Percentile:**	9.7%
Dividend Yield:	4.7%	**5 Year Price Target**	$50	**Valuation Percentile:**	88.4%
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Total Return Percentile:**	78.3%

Overview & Current Events

Macy's is a department store company that operates brick and mortar stores as well as online stores under the Macy's, Bloomingdale's and Bluemercury brands. Macy's was founded in 1929, is headquartered in Cincinnati, Ohio, and currently has a market cap of $10.2 billion.

Macy's reported its third quarter earnings results on November 14. The company generated revenues of $5.4 billion during Q3, which represented an increase of 2.3% compared to the prior year's quarter. Comparable store sales were quite strong, as those rose by 3.1% on an owned basis (by 3.3% on an owned + licensed basis). Revenue growth was negatively impacted by the closing of some stores. Since Macy's is only closing stores that are underperforming, investors should not worry about this. Closing non-profitable stores will be positive for Macy's margins and profits.

Macy's earned $0.27 per share during Q3 and the company has also raised its guidance for 2018's earnings-per-share. Macy's now expects EPS of $4.10 to $4.30, which would mean an 11.4% increase versus fiscal 2017. We have increased our estimate for 2018 to reflect the updated guidance for this year's profits.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$1.29	$1.41	$2.03	$2.88	$3.45	$4.00	$4.40	$3.77	$3.13	$3.77	***$4.20***	***$4.78***
DPS	$0.35	$0.20	$0.20	$0.35	$0.70	$0.90	$1.13	$1.35	$1.48	$1.50	***$1.51***	***$1.65***
Shares	420	421	423	414	388	365	341	310	304	305	***305***	***290***

Macy's earnings-per-share grew every year coming out of the Great Recession until 2014. After earnings-per-share peaked in 2014 they declined considerably, which is primarily due to the struggles the brick-and-mortar retail industry has seen since. Online competition from companies such as Amazon has led to sales declines in many cases.

This has led to earnings declines for department stores such as Macy's, but more recently things are pointing upwards again. During the first nine months of 2018 Macy's grew its profits considerably, and the company is making strategic moves to stabilize its business. Macy's is expanding its own online business and moving towards an omni-channel approach, coupling online and brick-and-mortar sales. Macy's has been successful in this approach (compared to other brick-and-mortar focused retailers), which is one of the reasons why Macy's comps sales are rising once again.

With the economy doing well and disposable incomes rising significantly Macy's also benefits from a macro tailwind going forward. Macy's has stated that it will continue to close down the least profitable stores to focus on the most profitable locations, which will help increase margins going forward. At the same time the sale of less profitable assets produces additional cash flows that Macy's is currently using to reduce its debt, which, in turn, is also beneficial for its earnings due to lower interest expenses.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	13.9	9.9	10.7	9.7	11.1	11.7	13.4	15.2	11.9	6.6	***7.6***	***10.5***
Avg. Yld.	2.9%	1.4%	0.9%	1.3%	1.8%	1.9%	1.9%	2.4%	4.0%	6.1%	***4.7%***	***3.5%***

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Macy's share price has recovered considerably from the lows that were set during 2017, but shares have fallen under pressure during fall 2018 once again. Macy's valuation has declined considerably over the last couple of months, and shares look quite undervalued at current prices. The fall in Macy's share price is somewhat surprising, as Q3 results were stronger than what analysts had expected, and as Macy's has raised its guidance for the current fiscal year.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	44.6%	44.7%	49.3%	48.3%	53.1%	51.9%	52.7%	51.4%	51.2%	49.9%	***50.0%***	***50.0%***
Debt/A	78.8%	77.9%	73.3%	73.2%	70.9%	71.3%	75.1%	79.1%	77.9%	70.6%	***65.0%***	***58.0%***
Int. Cov.	-	1.9	3.3	5.5	4.8	6.9	6.8	5.7	3.6	6.1	***6.5***	***7.0***
Payout	27.3%	14.2%	9.9%	12.2%	20.3%	22.5%	25.7%	35.8%	47.3%	40.1%	***35.9%***	***34.5%***
Std. Dev.	70.2%	36.8%	32.1%	23.4%	21.3%	17.4%	28.4%	38.3%	47.1%	45.6%	***36.0%***	***32.0%***

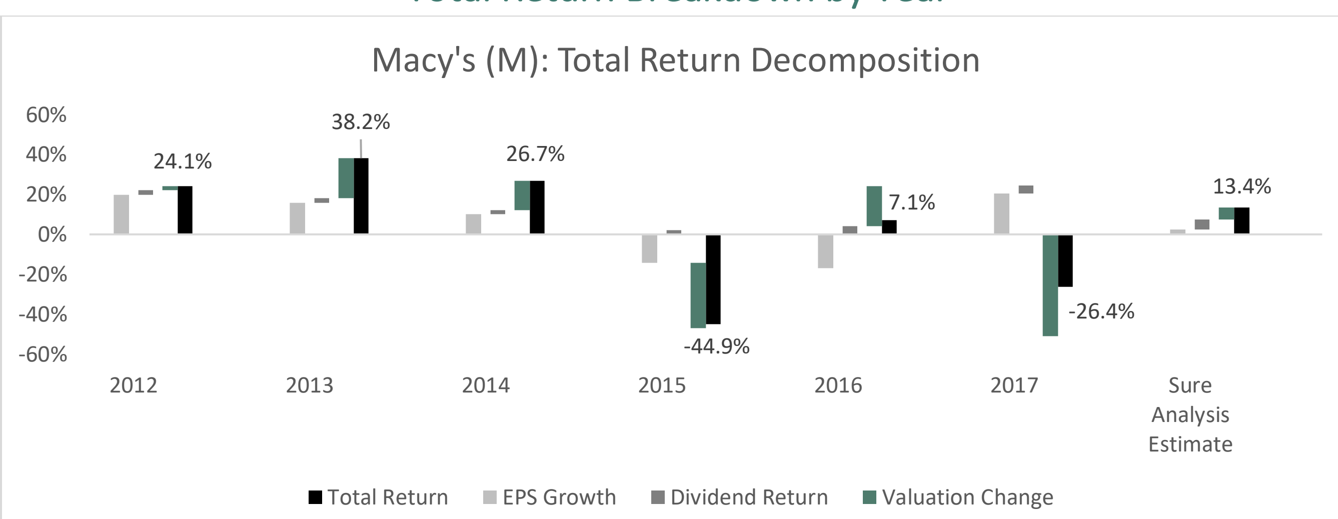
Macy's produces a high amount of gross profits relative to the assets it owns, which is, at least partially, due to the fact that its assets are significantly depreciated on its balance sheet. Debt to assets are at a relatively high level, but Macy's has started reducing its debt in 2016. Since Macy's produces high cash flows, and only pays out ~$460 million in dividends each year, Macy's has a lot of surplus cash flows that can be used for share repurchases or debt reduction.

Macy's is a renowned brand, and 50% of Americans shop at Macy's at least once a year. There is a Macy's store in the majority of grade A malls, and macys.com gets more than 1.5 billion visits annually. This shows that Macy's has a strong position in the department store industry. Competitors therefore will have a hard time taking market share from Macy's. Online competition is another issue, but Macy's own e-commerce presence and omni-channel strategy should help soften the impact Amazon and others will have on Macy's going forward. From 2007 to 2009 Macy's earnings declined by 35%, but the company remained highly profitable and cash flow positive.

Final Thoughts & Recommendation

Macy's has gotten under pressure during the last couple of years, and profits are still below the peak level that was set during 2014. More recently, Macy's has recorded strong results. Even if earnings-per-share grow at a low rate, Macy's would still be able to produce compelling total returns going forward, due to multiple expansion and a high dividend yield. With all this in mind, Macy's earns a buy recommendation from Sure Dividend at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	24892	23489	25003	26405	27686	27931	28105	27079	25778	24837
Gross Profit	9883	9516	10179	10667	11148	11206	11242	10583	10157	9685
Gross Margin	39.7%	40.5%	40.7%	40.4%	40.3%	40.1%	40.0%	39.1%	39.4%	39.0%
SG&A Exp.	8481	8062	8260	8281	8482	8440	8355	8468	8474	8131
D&A Exp.	1278	1210	1150	1085	1049	1020	1036	1061	1058	991
Operating Profit	1402	1454	1919	2386	2666	2766	2887	2115	1683	1554
Op. Margin	5.6%	6.2%	7.7%	9.0%	9.6%	9.9%	10.3%	7.8%	6.5%	6.3%
Net Profit	-4803	329	847	1256	1335	1486	1526	1072	619	1547
Net Margin	-19.3%	1.4%	3.4%	4.8%	4.8%	5.3%	5.4%	4.0%	2.4%	6.2%
Free Cash Flow	969	1290	1001	1409	1237	1686	1641	871	889	1184
Income Tax	-135	178	473	712	767	804	864	608	341	-29

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	22145	21300	20631	22095	20991	21620	21330	20576	19851	19381
Cash & Equivalents	1385	1686	1464	2827	1836	2273	2246	1109	1297	1455
Acc. Receivable	N/A	N/A	338	368	371	438	424	558	522	363
Inventories	4769	4615	4758	5117	5308	5557	5417	5506	5399	5178
Goodwill & Int.	4462	4421	4380	4341	4304	4270	4239	4411	4395	4385
Total Liabilities	17499	16647	15101	16162	14940	15371	15952	16323	15529	13720
Accounts Payable	1893	1796	1980	2262	2204	2437	2427	2340	2177	2325
Long-Term Debt	9699	8698	7367	7699	6881	7137	7273	7602	6835	5835
Total Equity	4646	4653	5530	5933	6051	6249	5378	4250	4323	5673
D/E Ratio	2.09	1.87	1.33	1.30	1.14	1.14	1.35	1.79	1.58	1.03

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	-19.2%	1.5%	4.0%	5.9%	6.2%	7.0%	7.1%	5.1%	3.1%	7.9%
Return on Equity	-66.0%	7.1%	16.6%	21.9%	22.3%	24.2%	26.2%	22.3%	14.4%	31.0%
ROIC	-28.2%	2.4%	6.5%	9.5%	10.1%	11.3%	11.7%	8.7%	5.4%	13.7%
Shares Out.	420	421	423	414	388	365	341	310	304	305
Revenue/Share	59.10	55.50	58.51	61.35	67.17	72.59	77.70	81.32	82.94	80.96
FCF/Share	2.30	3.05	2.34	3.27	3.00	4.38	4.54	2.62	2.86	3.86

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.