Macy's (M)

Updated February 27th, 2019 by Jonathan Weber

Key Metrics

Current Price:	$25	**5 Year CAGR Estimate:**	14.6%	**Volatility Percentile:**	95.0%
Fair Value Price:	$33	**5 Year Growth Estimate:**	2.6%	**Momentum Percentile:**	21.7%
% Fair Value:	76%	**5 Year Valuation Multiple Estimate:**	5.9%	**Growth Percentile:**	9.9%
Dividend Yield:	6.1%	**5 Year Price Target**	$38	**Valuation Percentile:**	91.6%
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Total Return Percentile:**	86.2%

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 capitalization of $7.5 billion.

Macy's reported its fourth quarter and full year earnings results on February 26. The company reported that its sales totaled $8.46 billion during the fourth quarter. This was more than what the analyst community had forecasted, but still 2.4% less than the revenues that Macy's generated during the fourth quarter of the previous year. Sales on a comparable store basis were up 0.7%. This is not an overly strong result, but it is still a positive that Macy's remains able to grow its sales at existing locations. The company has closed a number of stores over the last year, which explains why total company-wide sales were down, whereas comparable store sales were up year over year.

Macy's gross margins fell 110 base points compared to the prior year's quarter, which, coupled with lower sales, resulted in lower net profits for the company. Macy's generated earnings-per-share of $2.73 during the fourth quarter, which was down slightly from $2.82 during the previous year's fourth quarter.

Macy's has stated that the company will likely generate earnings-per-share of $3.05 to $3.25 during fiscal 2019. This is slightly less than what the analyst community had expected, and also less than Macy's earnings-per-share during fiscal 2018. Macy's has announced a new $100 million cost savings program during the fourth quarter earnings call, these cost savings should positively impact Macy's results beyond 2019.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$1.41	$2.03	$2.88	$3.45	$4.00	$4.40	$3.77	$3.13	$3.77	$4.18	***$3.15***	***$3.58***
DPS	$0.20	$0.20	$0.35	$0.70	$0.90	$1.13	$1.35	$1.48	$1.50	$1.50	***$1.50***	***$1.50***
Shares	421	423	414	388	365	341	310	304	305	307	***310***	***318***

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. 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 looking up. During fiscal 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 have risen during the last five quarters.

With the economy doing well and disposable incomes rising, Macy's also benefits from the macro tailwind of growing consumer spending. Macy's has stated that it will continue to close down the least profitable stores to focus on the most profitable locations, which should help increase the company's 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 net profits due to lower interest expenses.

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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	9.9	10.7	9.7	11.1	11.7	13.4	15.2	11.9	6.6	7.2	***7.9***	***10.5***
Avg. Yld.	1.4%	0.9%	1.3%	1.8%	1.9%	1.9%	2.4%	4.0%	6.1%	5.0%	***6.1%***	***4.1%***

Macy's trades at marginally less than 8 times this year's net profits today, using the midpoint of management's earnings-per-share guidance range. This is a low valuation relative to how the company's shares were valued in the past, although a single-digit price to earnings ratio was the norm in 2017 and 2018 as well. We see considerable multiple expansion potential from the current level, investors get a very high dividend yield in excess of 6% on top of that.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	14.2%	9.9%	12.2%	20.3%	22.5%	25.7%	35.8%	47.3%	40.1%	35.9%	***47.6%***	***41.9%***

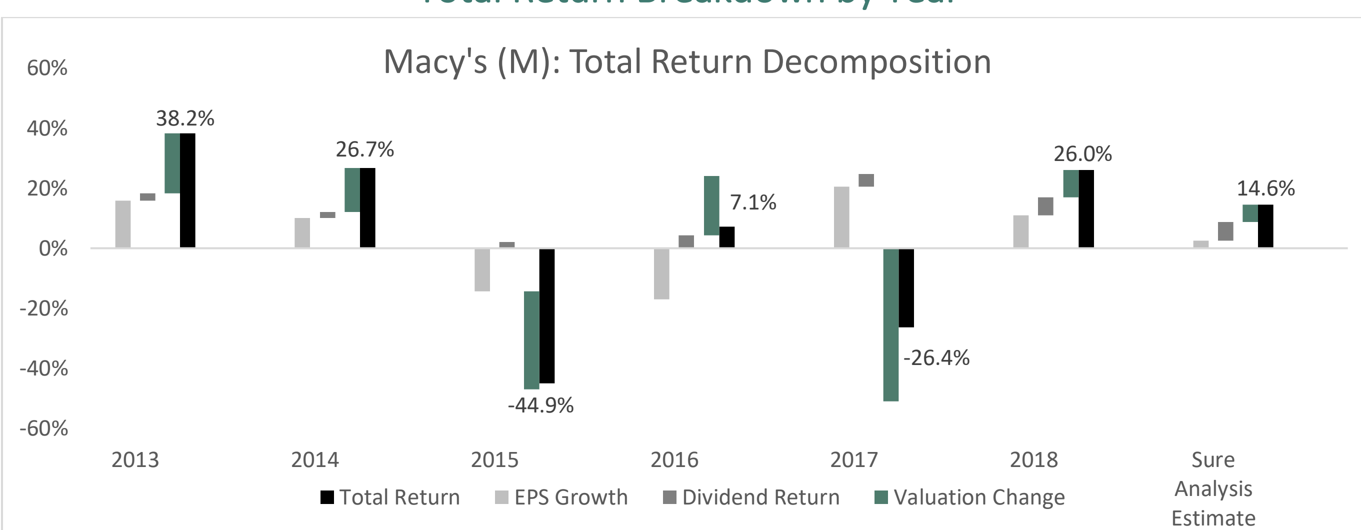
Macy's cut its dividend during the last financial crisis, but since 2010 the dividend has been increased regularly. The company has kept the payout stagnant since 2017, though, in order to have more cash for other purposes, with the most important one being Macy's debt reduction efforts. The company will pay out less than half of its net profits in the form of dividends this year, which makes the dividend look relatively safe.

Macy's is a renowned brand; 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. Competitors 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 outlook for 2019 is not as positive as the strong results from 2018 would suggest, but thanks to ongoing debt reduction and a new cost savings plan, Macy's should be able to produce some growth beyond 2019. Shares promise compelling total returns and are thus rated a buy. We see Macy's producing mid-teens total returns in the years to come thanks to its compelling combination of dividend yield, earnings growth, and value.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	23489	25003	26405	27686	27931	28105	27079	25778	24837	24971
Gross Profit	9516	10179	10667	11148	11206	11242	10583	10157	9685	9756
Gross Margin	40.5%	40.7%	40.4%	40.3%	40.1%	40.0%	39.1%	39.4%	39.0%	39.1%
SG&A Exp.	8062	8260	8281	8482	8440	8355	8468	8474	8131	9039
D&A Exp.	1210	1150	1085	1049	1020	1036	1061	1058	991	962
Operating Profit	1454	1919	2386	2666	2766	2887	2115	1683	1554	1485
Op. Margin	6.2%	7.7%	9.0%	9.6%	9.9%	10.3%	7.8%	6.5%	6.3%	5.9%
Net Profit	329	847	1256	1335	1486	1526	1072	619	1547	1108
Net Margin	1.4%	3.4%	4.8%	4.8%	5.3%	5.4%	4.0%	2.4%	6.2%	4.4%
Free Cash Flow	1290	1001	1409	1237	1686	1641	871	889	1184	803
Income Tax	178	473	712	767	804	864	608	341	-29	322

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	21300	20631	22095	20991	21620	21330	20576	19851	19381	19194
Cash & Equivalents	1686	1464	2827	1836	2273	2246	1109	1297	1455	1162
Acc. Receivable	N/A	338	368	371	438	424	558	522	363	400
Inventories	4615	4758	5117	5308	5557	5417	5506	5399	5178	5263
Goodwill & Int.	4421	4380	4341	4304	4270	4239	4411	4395	4385	4386
Total Liabilities	16647	15101	16162	14940	15371	15952	16323	15529	13720	12758
Accounts Payable	1796	1980	2262	2204	2437	2427	2340	2177	2325	5021
Long-Term Debt	8698	7367	7699	6881	7137	7273	7602	6835	5835	4751
Total Equity	4653	5530	5933	6051	6249	5378	4250	4323	5673	6436
D/E Ratio	1.87	1.33	1.30	1.14	1.14	1.35	1.79	1.58	1.03	0.74

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	1.5%	4.0%	5.9%	6.2%	7.0%	7.1%	5.1%	3.1%	7.9%	5.7%
Return on Equity	7.1%	16.6%	21.9%	22.3%	24.2%	26.2%	22.3%	14.4%	31.0%	18.3%
ROIC	2.4%	6.5%	9.5%	10.1%	11.3%	11.7%	8.7%	5.4%	13.7%	9.8%
Shares Out.	421	423	414	388	365	341	310	304	305	307
Revenue/Share	55.50	58.51	61.35	67.17	72.59	77.70	81.32	82.94	80.96	80.19
FCF/Share	3.05	2.34	3.27	3.00	4.38	4.54	2.62	2.86	3.86	2.58

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