# Macy's (M)

*Updated June 13th, 2019 by Jonathan Weber*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $21 | **5 Year CAGR Estimate:** | 16.8% | **Volatility Percentile:** | 94.8% |
| **Fair Value Price:** | $30 | **5 Year Growth Estimate:** | 2.6% | **Momentum Percentile:** | 4.6% |
| **% Fair Value:** | 70% | **5 Year Valuation Multiple Estimate:** | 7.2% | **Growth Percentile:** | 11.6% |
| **Dividend Yield:** | 7.0% | **5 Year Price Target** | $34 | **Valuation Percentile:** | 93.0% |
| **Dividend Risk Score:** | F | **Retirement Suitability Score:** | C | **Total Return Percentile:** | 89.9% |

## 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 $6.8 billion.

Macy's reported its first quarter earnings results on May 15. The company reported that its sales totaled $5.5 billion during the first quarter. This was slightly less than what the analyst community forecasted, and Macy's revenues were also down 0.7% versus the previous year's quarter. Sales on a comparable store basis were up 0.7%, easily beating the analyst consensus, as the analyst community had expected a comps sales growth rate of just 0.3%. Macy's closed a number of stores during the last year, which explains why total company-wide sales were down slightly, despite comparable store sales being up versus the previous year's quarter.

Macy's gross margins fell 80 basis 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 $0.44 during the first quarter, which was down slightly from $0.48 during the previous year's quarter, but which was more than the analyst consensus estimate.

Macy's believes that the company will likely generate earnings-per-share of $3.05 to $3.25 during fiscal 2019. This is less than Macy's earnings-per-share during fiscal 2018, but it has been clear for a while that this year's profits would be lower than those from 2018. Management points out that e-commerce sales grew by double-digits once again, and that mobile sales were the fastest-growing channel during the first quarter.

## 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 whole department store industry is facing. Online competition from companies such as Amazon has pressured sales and margins 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 is 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 six 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 profitability due to declining 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 | ***6.7*** | ***9.5*** |
| Avg. Yld. | 1.4% | 0.9% | 1.3% | 1.8% | 1.9% | 1.9% | 2.4% | 4.0% | 6.1% | 5.0% | ***7.0%*** | ***4.4%*** |

Macy's trades at less than 7 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, and investors get a very high dividend yield of 7% 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%*** |

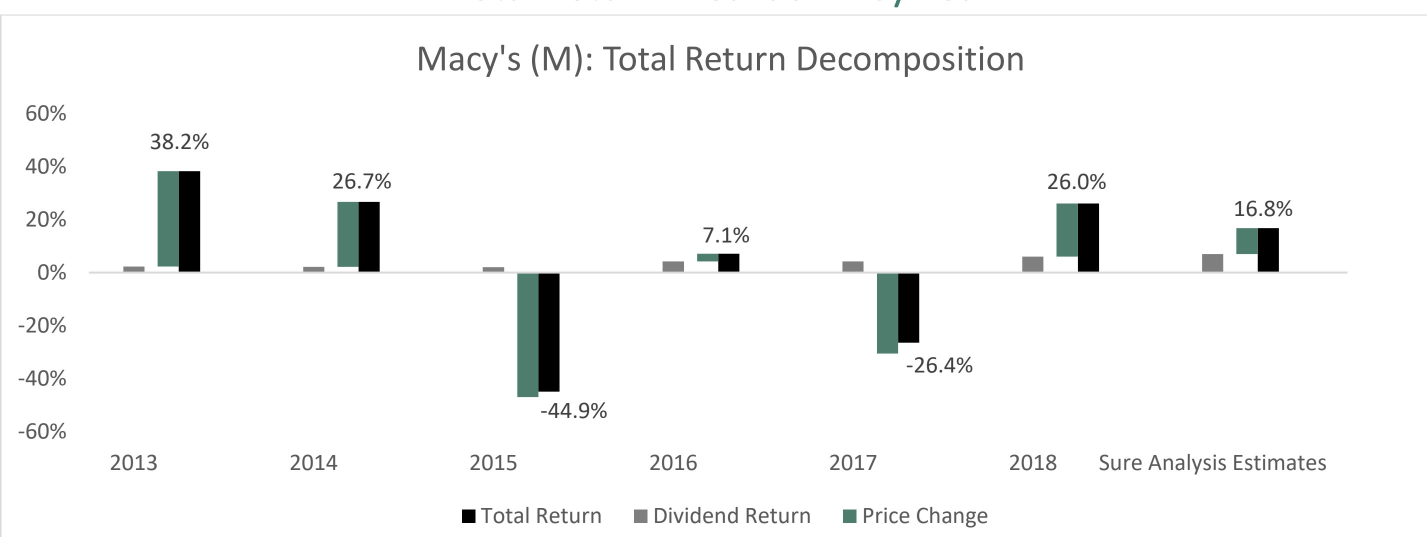
Macy's cut its dividend during the last financial crisis, but since 2010 the dividend has been increased regularly. The company has kept the payout stagnant since 2017, though, in order to have more cash for other purposes, with the most important one being Macy's debt reduction efforts. The company 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 every year. 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 during the financial crisis.

## Final Thoughts & Recommendation

Macy's is a department store company that has struggled to generate growth over the last couple of years, but thanks to ongoing debt reduction and its cost savings plan, Macy's should be able to produce some growth beyond 2019. Shares promise compelling total returns from the current level, 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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*Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.*

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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.*