



Macy's (M)

Updated November 21st, 2019 by Jonathan Weber

Key Metrics

Current Price:	\$15	5 Year CAGR Estimate:	8.0%	Volatility Percentile:	94.3%
Fair Value Price:	\$19	5 Year Growth Estimate:	-5.0%	Momentum Percentile:	1.2%
% Fair Value:	80%	5 Year Valuation Multiple Estimate:	4.5%	Growth Percentile:	0.6%
Dividend Yield:	10.1%	5 Year Price Target	\$14	Valuation Percentile:	94.9%
Dividend Risk Score:	D	Retirement Suitability Score:	A	Total Return Percentile:	59.4%

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 \$4.6 billion.

Macy's reported its third quarter earnings results on November 21. The company reported that its sales totaled \$5.17 billion during the third quarter, which was below what the analyst community forecasted, missing the consensus by \$140 million. Macy's revenues were down 4.3% versus the previous year's quarter. Sales on a comparable store basis were down 3.9% on an owned basis, and down 3.5% on an owned plus licensed basis compared to the previous year's quarter. Macy's closed a number of stores during the last year, which explains why total company-wide sales were down more than what the comparable store sales number would suggest. Macy's gross margins fell 30 basis points compared to the prior year's quarter, which, coupled with lower sales, resulted in substantially lower operating profits.

Macy's generated earnings-per-share of \$0.07 during the third quarter, which was still more than what the analyst community had expected, despite being down from a much higher level of \$0.27 during the previous year's quarter. Macy's believes that the company will likely generate earnings-per-share of \$2.57 to \$2.77 during fiscal 2019, another reduction versus the previous guidance range, which had also been the result of another reduction earlier this year. This is way 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. Macy's now forecasts company-wide sales to be down ~2% in 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	\$2.67	\$2.07
DPS	\$0.20	\$0.20	\$0.35	\$0.70	\$0.90	\$1.13	\$1.35	\$1.48	\$1.51	\$1.51	\$1.51	\$1.51
Shares¹	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 in 2018, things were looking up. During the last fiscal year, Macy's grew its profits considerably. The company is making strategic moves to stabilize its business further, although it is not known whether that will work out well. Macy's is expanding its own online business and is moving towards an omni-channel approach, coupling online and brick-and-mortar sales. 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. Paying down debt will also reduce Macy's interest burden. Due to adverse macro trends, we nevertheless believe that earnings could continue to decline over the coming years, at least until we see signs of a reversal in the margin pressures the company has been facing.

¹ In Millions

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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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	5.6	7.0
Avg. Yld.	1.4%	0.9%	1.3%	1.8%	1.9%	1.9%	2.4%	4.0%	6.1%	5.0%	10.1%	10.4%

Macy's trades at less than 6 times this year's net profits today, using the midpoint of management's most recent earnings-per-share guidance range. This is a very 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 10.1% 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%	36.1%	56.6%	73.1%

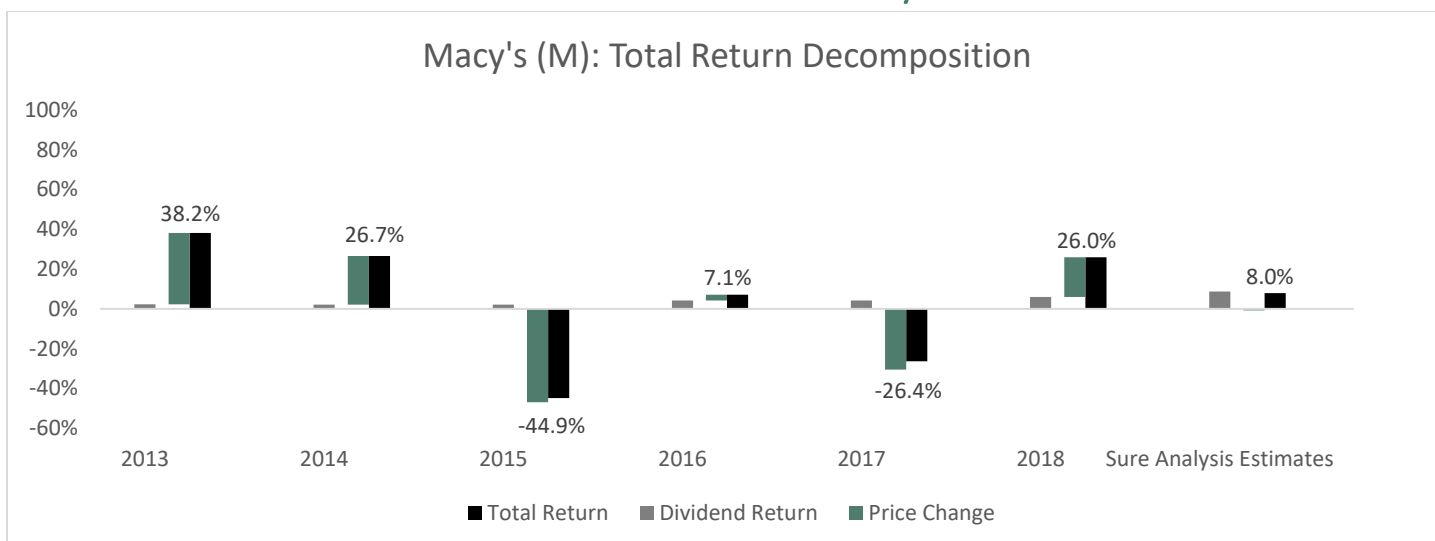
Macy's cut its dividend during the last financial crisis, but since 2010 the dividend has been trending upwards. The company has kept the payout stagnant since 2017, though, in order to have more cash for other purposes, with the most important use of cash being Macy's debt reduction efforts. The company will pay out half of its net profits in the form of dividends this year, but we believe that the dividend payout ratio will likely increase going forward.

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, which generates a small moat around its business. 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. The closing of underperforming stores and ongoing debt reduction should be beneficial, but due to macro headwinds we nevertheless fear that earnings will decline over the coming years. Macy's does not have a bad total return outlook, though, mainly due to its very high dividend yield. At current prices, we rate Macy's stock a hold.

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.

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