Macy's (M)

Updated March 13th, 2020 by Jonathan Weber

Key Metrics

Current Price:	$8	**5 Year CAGR Estimate:**	13.0%	**Market Cap:**	$2.3 B
Fair Value Price:	$12	**5 Year Growth Estimate:**	-6.0%	**Ex-Dividend Date:**	03/12/20
% Fair Value:	67%	**5 Year Valuation Multiple Estimate:**	8.4%	**Dividend Payment Date:**	04/01/20
Dividend Yield:	18.9%	**5 Year Price Target**	$9	**Years Of Dividend Growth:**	0
Dividend Risk Score:	D	**Retirement Suitability Score:**	A	**Last Dividend Increase:**	-

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 and is headquartered in Cincinnati, Ohio. The company owns highly valuable real estate, such as the Herald square building in New York City.

Macy's reported its fourth quarter earnings results on February 25. The company reported that its sales totaled $8.3 billion during the quarter, which was above what the analyst community forecasted, beating the consensus by $20 million. Macy's revenues were down 1.4% versus the previous year's quarter. Sales on a comparable store basis were down 0.5% on an owned plus licensed basis, which was far better than the 2.3% comps sales decline analysts had forecasted. Macy's continued to close underperforming stores during the year, which explains why total company-wide sales were down more than what the comparable store sales number would suggest. Margin pressures were responsible for an earnings decline that was much higher than the small decline in Macy's revenues during 2019.

Macy's generated earnings-per-share of $2.12 during the fourth quarter, which was more than what the analyst community had expected, despite being down from a much higher level of $2.73 during the previous year's quarter. Macy's management stated that the company will generate earnings-per-share of $2.20 to $2.40 during fiscal 2020, which implies another decline in its net profits on a per-share basis. The negative headwind that the coronavirus will have on Macy's sales and profits is not yet included in this guidance range, which is why we have reduced our estimate further, to $2.00, in order to be on the conservative side.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$2.03	$2.88	$3.45	$4.00	$4.40	$3.77	$3.13	$3.77	$4.18	$2.91	***$2.00***	***$1.47***
DPS	$0.20	$0.35	$0.70	$0.90	$1.13	$1.35	$1.48	$1.51	$1.51	$1.51	***$1.51***	***$1.00***
Shares[1]	423	414	388	365	341	310	304	305	307	309	***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 Macy's, although in 2018, things were looking up. During 2019, however, earnings started to drop again, and the same is forecasted for the current year, even before the coronavirus impact became more apparent.

The company is making strategic moves to stabilize its business, 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. 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 offset at least some of the margin declines that have been a problem for Macy's in the past. 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, and we believe that dividend payments could decline as well. In case there are signs of a successful turnaround, our opinion might change.

[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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	10.7	9.7	11.1	11.7	13.4	15.2	11.9	6.6	7.2	5.8	***4.0***	***6.0***
Avg. Yld.	0.9%	1.3%	1.8%	1.9%	1.9%	2.4%	4.0%	6.1%	5.0%	8.9%	***18.9%***	***11.3%***

Macy's trades at just 4 times this year's net profits today, using our own estimate, which is lower than management's previous guidance. 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 since 2017. We see considerable multiple expansion potential from the current level, although we don't believe that shares will ever trade at double-digits again.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	9.9%	12.2%	20.3%	22.5%	25.7%	35.8%	47.3%	40.1%	36.1%	51.9%	***75.5%***	***67.8%***

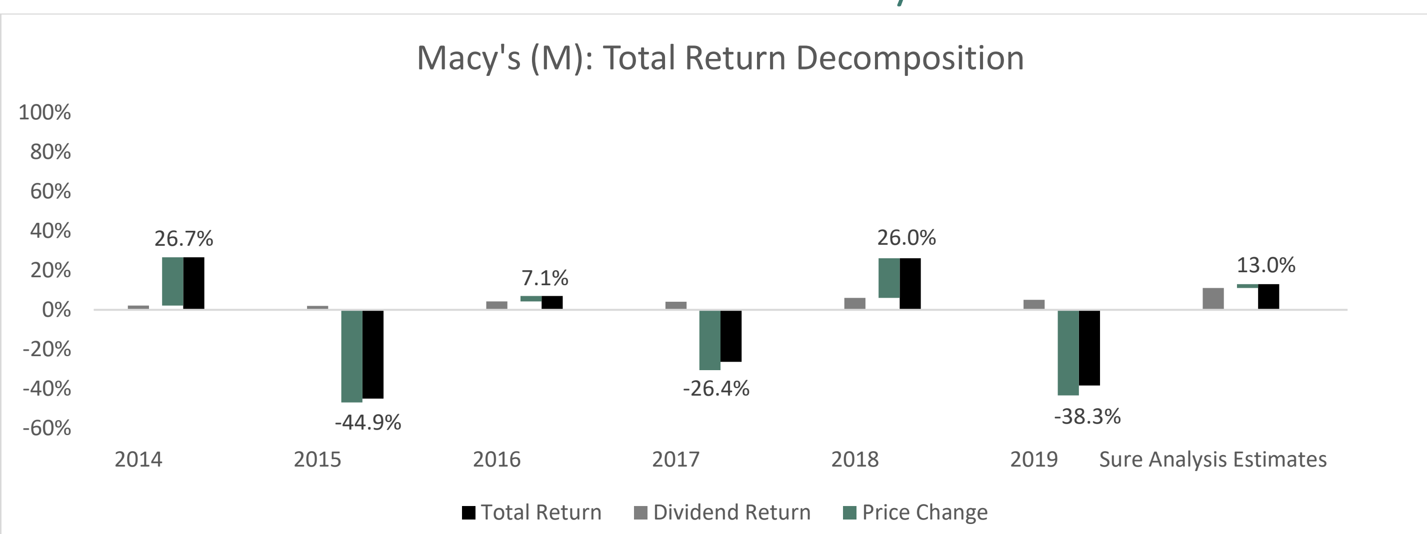
Macy's cut its dividend during the last financial crisis, but since 2010 the dividend has been trending upwards. The company has kept the payout stagnant since 2017, though, in order to have more cash for other purposes, with the most important use of cash being Macy's debt reduction efforts. The company will pay out more than 70% of its net profits this year, which is why we believe that a reduction in Macy's dividend looks somewhat likely.

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 may help soften the impact Amazon and others will have on Macy's. From 2007 to 2009 Macy's earnings declined by 35%, although earnings declines during a future recession would likely be larger due to Macy's other issues.

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, mainly due to its very high dividend yield. At current prices, we rate Macy's stock a hold for risk-hungry investors.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	25,003	26,405	27,686	27,931	28,105	27,079	26,564	25,641	25,739	25,331
Gross Profit	10,179	10,667	11,148	11,206	11,242	10,583	10,898	10,460	10,524	10,160
Gross Margin	40.7%	40.4%	40.3%	40.1%	40.0%	39.1%	41.0%	40.8%	40.9%	40.1%
SG&A Exp.	8,260	8,281	8,482	8,440	8,355	8,468	9,257	8,954	9,039	8,998
D&A Exp.	1,150	1,085	1,049	1,020	1,036	1,061	1,058	991	962	981
Operating Profit	1,919	2,386	2,666	2,766	2,887	2,115	1,641	1,506	1,485	1,162
Op. Margin	7.7%	9.0%	9.6%	9.9%	10.3%	7.8%	6.2%	5.9%	5.8%	4.6%
Net Profit	847	1,256	1,335	1,486	1,526	1,072	627	1,566	1,108	564
Net Margin	3.4%	4.8%	4.8%	5.3%	5.4%	4.0%	2.4%	6.1%	4.3%	2.2%
Free Cash Flow	1,001	1,409	1,237	1,686	1,641	871	889	1,216	803	451
Income Tax	473	712	767	804	864	608	346	(39)	322	164

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	20,631	22,095	20,991	21,620	21,330	20,576	19,851	19,583	19,194	21,172
Cash & Equivalents	1,464	2,827	1,836	2,273	2,246	1,109	1,297	1,455	1,162	685
Acc. Receivable	338	368	371	438	424	558	522	363	400	409
Inventories	4,758	5,117	5,308	5,557	5,417	5,506	5,399	5,178	5,263	5,188
Goodwill & Int.	4,380	4,341	4,304	4,270	4,239	4,411	4,395	4,385	4,386	4,347
Total Liabilities	15,101	16,162	14,940	15,371	15,952	16,323	15,529	13,850	12,758	14,795
Accounts Payable	1,980	2,262	2,204	2,437	2,427	2,340	2,177	2,325	2,638	5,130
Long-Term Debt	7,367	7,699	6,881	7,137	7,273	7,602	6,835	5,835	4,719	4,160
Total Equity	5,530	5,933	6,051	6,249	5,378	4,250	4,323	5,745	6,436	6,377
D/E Ratio	1.33	1.30	1.14	1.14	1.35	1.79	1.58	1.02	0.73	0.65

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	4.0%	5.9%	6.2%	7.0%	7.1%	5.1%	3.1%	7.9%	5.7%	2.8%
Return on Equity	16.6%	21.9%	22.3%	24.2%	26.2%	22.3%	14.6%	31.1%	18.2%	8.8%
ROIC	6.5%	9.5%	10.1%	11.3%	11.7%	8.7%	5.4%	13.8%	9.8%	5.2%
Shares Out.	423	414	388	365	341	310	304	305	307	309
Revenue/Share	58.51	61.35	67.17	72.59	77.70	81.32	85.47	83.58	82.66	81.35
FCF/Share	2.34	3.27	3.00	4.38	4.54	2.62	2.86	3.96	2.58	1.45

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