Macy's (M)

Updated July 3rd, 2020 by Jonathan Weber

Key Metrics

Current Price:	$6.80	**5 Year CAGR Estimate:**	4.9%	**Market Cap:**	$2.1B
Fair Value Price:	$9.00	**5 Year Growth Estimate:**	-3.0%	**Ex-Dividend Date:**	N/A
% Fair Value:	76%	**5 Year Valuation Multiple Estimate:**	5.8%	**Dividend Payment Date:**	N/A
Dividend Yield:	0.0%	**5 Year Price Target**	$8	**Years Of Dividend Growth:**	0
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	N/A

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 first quarter earnings results on July 1. The company reported that its sales totaled $3.0 billion during the quarter, which was below what the analyst community forecasted, missing the consensus by $700 million. Macy's revenues were down 45% versus the previous year's quarter. The steep revenue drop can be explained by the coronavirus pandemic, which forced the company to close many of its stores temporarily. Even during times when stores were not closed, traffic at these locations was down compared to previous periods, as shoppers were more reluctant to go to malls and were showing more conservative spending habits due to recession worries. The steep revenue decline resulted in a major margin squeeze, as fixed costs did not decline in line with sales.

Macy's generated a net loss-per-share of $2.03 during the first quarter, which was better than what the analyst community had feared. Macy's management has withdrawn its previous guidance for the current year, but it seems very likely that 2020 will not be a profitable year for the department store company. The negative headwind that the coronavirus has on Macy's will not be an everlasting one, however, and we see a recovery in Macy's earnings over the coming years, although profits will, we believe, not climb back to 2018 levels due to structural headwinds. We calculate Macy's fair value using an earnings power estimate of $1.50 for the current year.

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	***-$4.00***	***$1.29***
DPS	$0.20	$0.35	$0.70	$0.90	$1.13	$1.35	$1.48	$1.51	$1.51	$1.51	***$0.00***	***$0.50***
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 2020 will be even worse, mainly due to the coronavirus pandemic.

The company has been making strategic moves to stabilize its business over the last couple of years, although it is not yet 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. Due to adverse macro trends, we nevertheless believe that earnings could continue to decline over the coming years, even when the impact of the current pandemic is backed out. In case there are signs of a successful turnaround, our opinion might change.

[1] In Million

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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	***4.5***	***6.0***
Avg. Yld.	0.9%	1.3%	1.8%	1.9%	1.9%	2.4%	4.0%	6.1%	5.0%	8.9%	***0.0%***	***6.5%***

Macy's trades at just 4.5 times this year's earnings power estimate right now. 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 some multiple expansion potential from the current level, although we don't believe that shares will ever trade at double-digits again, unless Macy's is able to successfully turn around its business in a meaningful way.

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%	---	***38.9%***

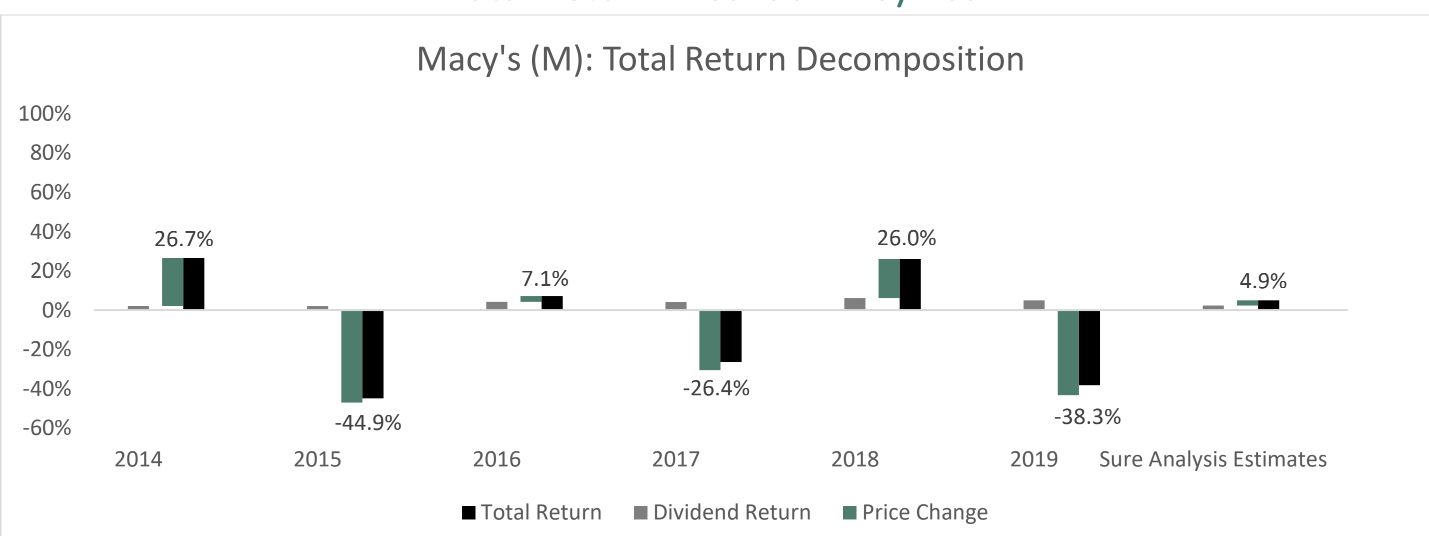
Macy's cut its dividend during the last financial crisis, but since 2010 the dividend had been trending upwards. In 2020, Macy's decided to suspend its dividend in order to preserve cash during the current pandemic, and it is not yet known when, and at what level, the dividend will be reinstated.

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 a big issue, however, but Macy's own e-commerce presence and omni-channel strategy may help soften the Amazon impact. Macy's business is vulnerable to economic downturns, with the current crisis being an especially hurtful scenario for the company due to the forced store closures during the last couple of months. Thanks to a large cash position of more than $1.5 billion, Macy's should be able to weather this period.

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 – even when the pandemic impact is backed out. Macy's valuation is very low, but we rate Macy's a hold.

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	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.