



Macy's (M)

Updated February 23rd, 2021 by Jonathan Weber

Key Metrics

Current Price:	\$15	5 Year CAGR Estimate:	-4.4%	Market Cap:	\$4.8B
Fair Value Price:	\$13	5 Year Growth Estimate:	-1.0%	Ex-Dividend Date:	N/A
% Fair Value:	119%	5 Year Valuation Multiple Estimate:	-3.4%	Dividend Payment Date:	N/A
Dividend Yield:	0.0%	5 Year Price Target	\$12	Years Of Dividend Growth:	0
Dividend Risk Score:	N/A	Retirement Suitability Score:	N/A	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 fourth quarter earnings results on February 23. The company reported that its revenues totaled \$6.8 billion during the quarter, which was ahead of what the analyst community forecasted, beating the consensus by \$280 million. Macy's revenues were still down by 19% versus the previous year's quarter, however. The revenue drop can be explained by the coronavirus pandemic, which reduces the amount of shoppers that frequent Macy's locations, while some forced store closures in some regions further impacted Macy's ability to sell to consumers. The steep revenue decline resulted in a major margin squeeze, as fixed costs did not decline in line with sales, which hurt Macy's profitability significantly during the quarter, as it did during other pandemic-impacted quarters.

Macy's generated earnings-per-share of \$0.80 during the fourth quarter, which was better than what the analyst community had expected. 2020 was a weak year for the retailer, as was expected due to the large impact the pandemic had on its business model. The negative headwind that the coronavirus has on Macy's will not be an everlasting one, however, and we expect that the company will see its profits improve meaningfully in coming years. For 2021, earnings-per-share are forecasted at around \$0.65 according to management's guidance, but we calculate Macy's fair value using an earnings power estimate of \$1.80 for the current year.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$2.88	\$3.45	\$4.00	\$4.40	\$3.77	\$3.13	\$3.77	\$4.18	\$2.91	-\$12.70	\$0.65	\$1.71
DPS	\$0.35	\$0.70	\$0.90	\$1.13	\$1.35	\$1.48	\$1.51	\$1.51	\$1.51	\$0.38	\$0.00	\$0.00
Shares¹	414	388	365	341	310	304	305	307	309	311	312	320

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 was, impacted by the pandemic, a disastrous year for the company.

Macy's 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 eventually. 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 in the long run, although they will likely recover to a higher level in 2022, once the pandemic has ended. From then on, a lingering decline seems like a plausible scenario, however.

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	9.7	11.1	11.7	13.4	15.2	11.9	6.6	7.2	5.8	---	8.3	7.0
Avg. Yld.	1.3%	1.8%	1.9%	1.9%	2.4%	4.0%	6.1%	5.0%	8.9%	3.2%	0.0%	0.0%

Macy's trades at ~8 times this year's earnings power estimate right now, following share price gains over the last couple of months, mainly thanks to encouraging vaccine news that made the market bid up retailers. This is an inexpensive valuation relative to how the company's shares were valued in the past, but we believe that it nevertheless is too high. Due to structural headwinds for the industry and an unconvincing track record even before the current crisis, we believe that the current valuation leaves downward risk going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	12.2%	20.3%	22.5%	25.7%	35.8%	47.3%	40.1%	36.1%	51.9%	---	---	---

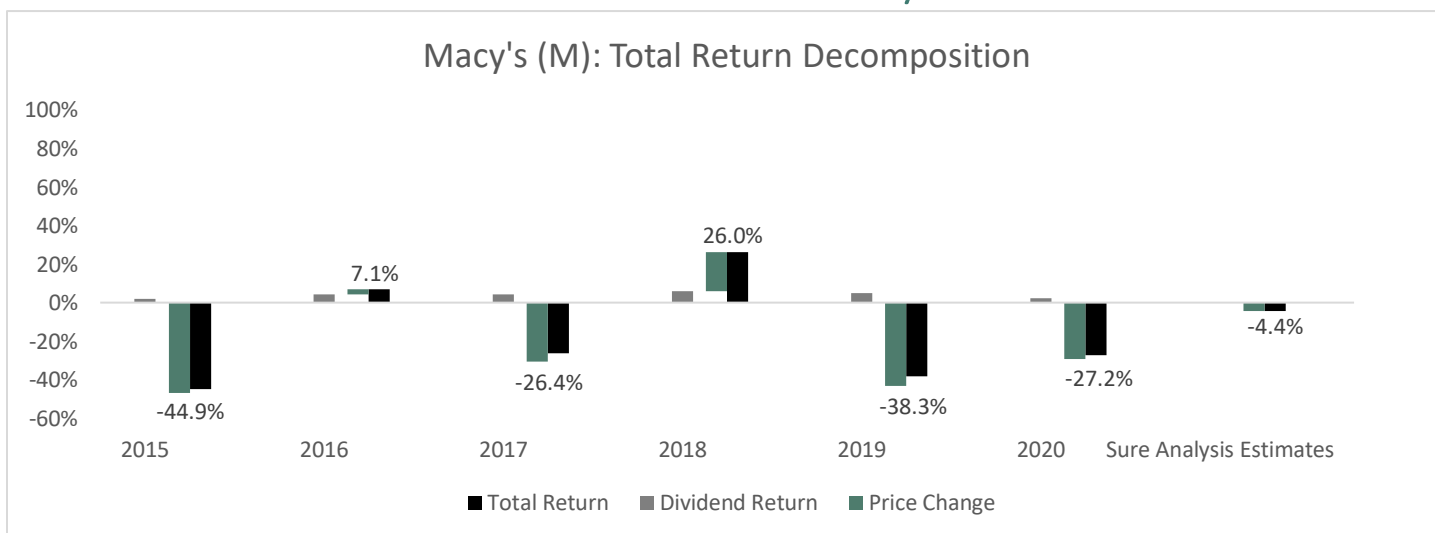
Macy's cut its dividend during the last financial crisis, but since 2010 the dividend had been trending upwards. In 2020, Macy's decided to suspend its dividend in order to preserve cash during the current pandemic.

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 its ecommerce business platform has enjoyed attractive growth in recent years. Online competition remains 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 forced store closures and consumers moving towards online shopping. Macy's should be able to weather this period, but a recovery to pre-crisis profits seems unlikely.

Final Thoughts & Recommendation

Macy's is a department store company that has struggled to generate growth, even before the current crisis. The closing of underperforming stores and margin initiatives should be beneficial, but due to macro headwinds we nevertheless fear that earnings will decline in the long run, even when the pandemic impact is backed out. Macy's shares are not promising attractive returns from the current level, which is why we rate the stock a sell right here.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
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	5,056	4,989
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	2,659
Long-Term Debt	7,367	7,699	6,881	7,137	7,273	7,602	6,835	5,835	4,719	4,154
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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
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.	414	388	365	341	310	304	305	307	309	311
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.

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