Macy's (M)

Updated August 25th, 2021 by Jonathan Weber

Key Metrics

Current Price:	$23	**5 Year CAGR Estimate:**	5.1%	**Market Cap:**	$7.0B
Fair Value Price:	$25	**5 Year Growth Estimate:**	1.0%	**Ex-Dividend Date:**	09/14/21
% Fair Value:	91%	**5 Year Valuation Multiple Estimate:**	1.8%	**Dividend Payment Date:**	10/01/21
Dividend Yield:	2.6%	**5 Year Price Target**	$26	**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 second quarter earnings results on August 19. The company reported that its revenues totaled $5.7 billion during the quarter, which was ahead of what the analyst community forecasted, beating the consensus by $650 million. Macy's revenues were up by 59% versus the previous year's quarter, which had seen a large pandemic impact. The revenue increase can be explained by the easing coronavirus pandemic in Macy's home market, the US, where economic reopening efforts allow Macy's to operate more freely compared to the last couple of quarters. The steep revenue increase resulted in a major margin improvement compared to the previous year's quarter, which is why the company managed to get its profitability up significantly during the quarter.

Macy's generated earnings-per-share of $1.29 during the second quarter, which was way 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 $3.60 according to management's guidance, representing a steep recovery. The company has also reinstated its dividend at a level of $0.15 per quarter, or $0.60 a 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	***$3.60***	***$3.78***
DPS	$0.35	$0.70	$0.90	$1.13	$1.35	$1.48	$1.51	$1.51	$1.51	$0.38	***$0.60***	***$0.60***
Shares[1]	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 will not grow much in the long run, although they will recover most of the declines experienced in 2020, we believe, with 2021 profits being relatively close to pre-crisis levels already.

[1] In Millions

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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	NMF	***6.4***	***7.0***
Avg. Yld.	1.3%	1.8%	1.9%	1.9%	2.4%	4.0%	6.1%	5.0%	8.9%	3.2%	***2.6%***	***2.3%***

Macy's trades at a little more than 6 times this year's earnings 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 still an inexpensive valuation relative to how the company's shares were valued in the past, but we believe that double-digit earnings multiples from 2012-2016 are not coming back. Due to structural headwinds for the industry and an unconvincing track record, we believe that Macy's earnings multiple will not expand a lot from current levels.

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%	NMF	***16.7%***	***15.9%***

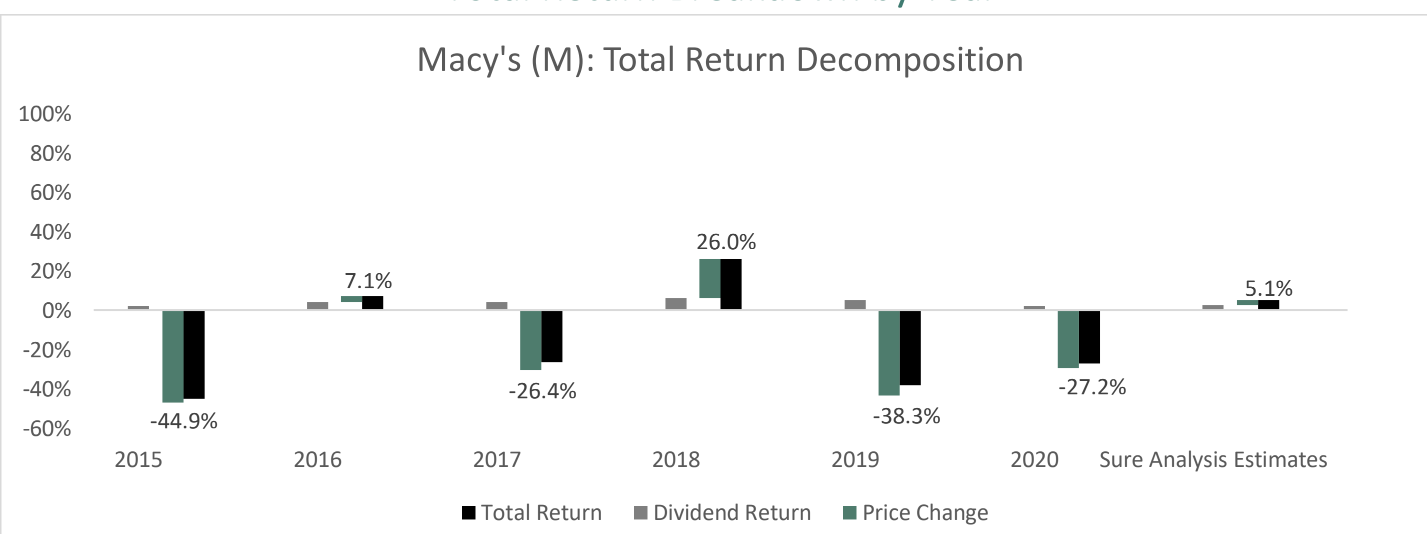
Macy's cut its dividend during the last financial crisis, but since 2010 the dividend had been trending upwards. In 2020, Macy's decided to suspend its dividend in order to preserve cash during the current pandemic.

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 believe that earnings growth will be hard to come by in the long run, even when the pandemic has ended. Macy's shares are not promising attractive returns from the current level, which is why we rate the stock a hold right here.

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	26,405	27,686	27,931	28,105	27,079	26,564	25,641	25,739	25,331	18,097
Gross Profit	10,667	11,148	11,206	11,242	10,583	10,898	10,460	10,524	10,160	5,811
Gross Margin	40.4%	40.3%	40.1%	40.0%	39.1%	41.0%	40.8%	40.9%	40.1%	32.1%
SG&A Exp.	8,281	8,482	8,440	8,355	8,468	9,257	8,954	9,039	8,998	6,767
D&A Exp.	1,085	1,049	1,020	1,036	1,061	1,058	991	962	981	959
Operating Profit	2,386	2,666	2,766	2,887	2,115	1,641	1,506	1,485	1,162	(956)
Op. Margin	9.0%	9.6%	9.9%	10.3%	7.8%	6.2%	5.9%	5.8%	4.6%	-5.3%
Net Profit	1,256	1,335	1,486	1,526	1,072	627	1,566	1,108	564	(3,944)
Net Margin	4.8%	4.8%	5.3%	5.4%	4.0%	2.4%	6.1%	4.3%	2.2%	-21.8%
Free Cash Flow	1,409	1,237	1,686	1,641	871	889	1,216	803	451	183
Income Tax	712	767	804	864	608	346	(39)	322	164	(846)

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	22,095	20,991	21,620	21,330	20,576	19,851	19,583	19,194	21,172	17,706
Cash & Equivalents	2,827	1,836	2,273	2,246	1,109	1,297	1,455	1,162	685	1,679
Acc. Receivable	368	371	438	424	558	522	363	400	409	276
Inventories	5,117	5,308	5,557	5,417	5,506	5,399	5,178	5,263	5,188	3,774
Goodwill & Int.	4,341	4,304	4,270	4,239	4,411	4,395	4,385	5,056	4,347	1,265
Total Liabilities	16,162	14,940	15,371	15,952	16,323	15,529	13,850	12,758	14,795	15,153
Accounts Payable	2,262	2,204	2,437	2,427	2,340	2,177	2,325	2,638	2,659	2,856
Long-Term Debt	7,699	6,881	7,137	7,273	7,602	6,835	5,835	4,719	4,160	4,859
Total Equity	5,933	6,051	6,249	5,378	4,250	4,323	5,745	6,436	6,377	2,553
D/E Ratio	1.30	1.14	1.14	1.35	1.79	1.58	1.02	0.73	0.65	1.90

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	5.9%	6.2%	7.0%	7.1%	5.1%	3.1%	7.9%	5.7%	2.8%	-20.3%
Return on Equity	21.9%	22.3%	24.2%	26.2%	22.3%	14.6%	31.1%	18.2%	8.8%	-88.3%
ROIC	9.5%	10.1%	11.3%	11.7%	8.7%	5.4%	13.8%	9.8%	5.2%	-43.9%
Shares Out.	414	388	365	341	310	304	305	307	309	311
Revenue/Share	61.35	67.17	72.59	77.70	81.32	85.47	83.58	82.66	81.35	58.17
FCF/Share	3.27	3.00	4.38	4.54	2.62	2.86	3.96	2.58	1.45	0.59

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