



Macy's (M)

Updated September 23rd, 2022 by Jonathan Weber

Key Metrics

Current Price:	\$16	5 Year CAGR Estimate:	9.8%	Market Cap:	\$4.5B
Fair Value Price:	\$25	5 Year Growth Estimate:	-2.0%	Ex-Dividend Date:	09/14/22
% Fair Value:	65%	5 Year Valuation Multiple Estimate:	9.0%	Dividend Payment Date:	10/03/22
Dividend Yield:	3.9%	5 Year Price Target	\$22	Years Of Dividend Growth:	1
Dividend Risk Score:	C	Retirement Suitability Score:	C	Rating:	Hold

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 26. The company reported that its revenues totaled \$5.6 billion during the quarter, which was ahead of what the analyst community forecasted, beating the consensus by \$100 million. Macy's revenues were down by 1% versus the previous year's quarter. That was a reversal from previous trends, as Macy's had reported a double-digit revenue gain for the previous quarter. The COVID impact in Q2 2021 was much smaller than in Q1 2021, which is why the year-over-year comparison for the most recent quarter was a tougher one compared to the previous quarter.

Macy's generated earnings-per-share of \$1.00 during the second quarter, which was better than what the analyst community had expected. 2021 was a way stronger year for Macy's compared to 2020, but it looks like this year will be somewhat weaker again, as consumer sentiment is worsening on the back of rising interest rates and higher costs for energy, food, etc. For 2022, earnings-per-share are forecasted between \$4.00 and \$4.20 according to management's current guidance, which represents a decline versus the company's very strong profits in 2021. The tough macro environment is to blame for that, management believes. That being said, Macy's will likely still generate the second-best results over the last decade in the current year.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$3.45	\$4.00	\$4.40	\$3.77	\$3.13	\$3.77	\$4.18	\$2.91	-12.70	\$5.31	\$4.10	\$3.71
DPS	\$0.70	\$0.90	\$1.13	\$1.35	\$1.48	\$1.51	\$1.51	\$1.51	\$0.38	\$0.60	\$0.63	\$0.70
Shares¹	388	365	341	310	304	305	307	309	311	305	290	260

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 decline going forward, especially during an economic downturn. The company's buybacks could offset some of the macro headwinds if a solid buyback pace is maintained.

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	11.1	11.7	13.4	15.2	11.9	6.6	7.2	5.8	NMF	4.9	3.9	6.0
Avg. Yld.	1.8%	1.9%	1.9%	2.4%	4.0%	6.1%	5.0%	8.9%	3.2%	2.3%	3.9%	3.1%

Macy's trades at around 4 times this year's earnings right now, following a steep share price declines since our last update. This is a very 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 long-term business growth track record, we believe that Macy's earnings multiple will not expand to a high absolute earnings multiple going forward, especially ahead of an economic slowdown.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	20.3%	22.5%	25.7%	35.8%	47.3%	40.1%	36.1%	51.9%	NMF	11.3%	15.4%	18.8%

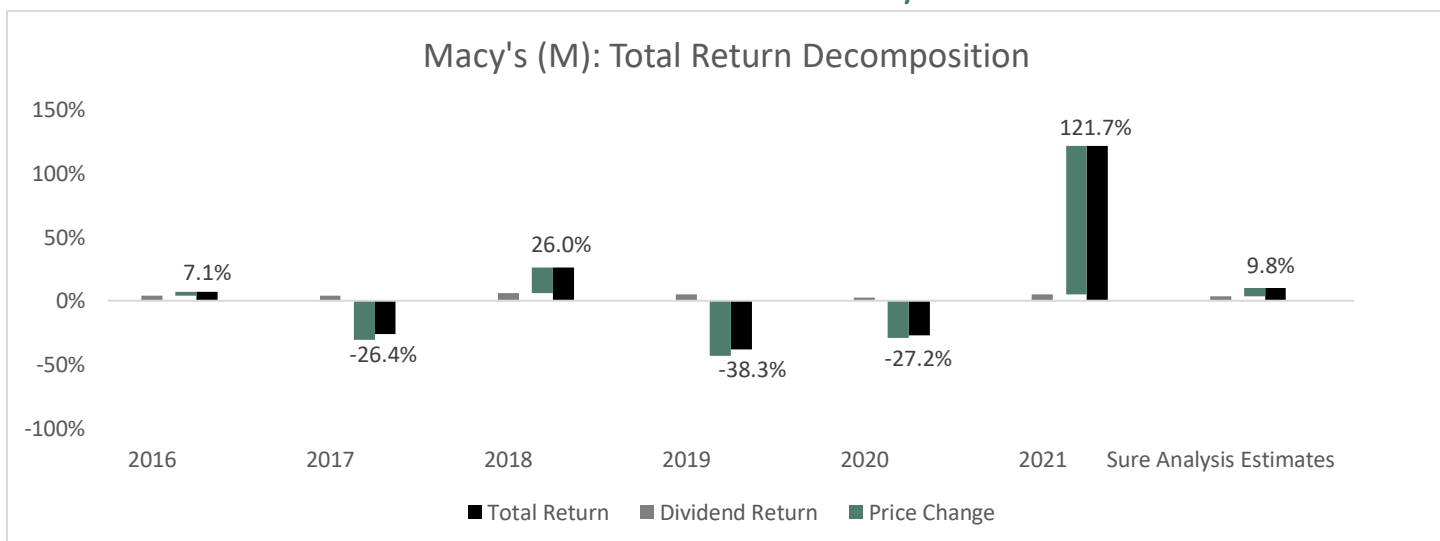
In 2020, Macy's decided to suspend its dividend in order to preserve cash during the current pandemic. The company then initiated a new dividend, but at a reduced level. The payout looks very sustainable for now.

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 reliable long-term business growth in the past. Margin initiatives and buybacks should be beneficial for the company's earnings-per-share, but due to macro headwinds we nevertheless believe that earnings growth will be hard to come by in the long run. Macy's shares are promising attractive returns at current prices. We thus rate Macy's a hold today.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	27,686	27,931	28,105	27,079	26,564	25,641	25,739	25,331	18,097	25,292
Gross Profit	11,148	11,206	11,242	10,583	10,898	10,460	10,524	10,160	5,811	10,336
Gross Margin	40.3%	40.1%	40.0%	39.1%	41.0%	40.8%	40.9%	40.1%	32.1%	40.9%
SG&A Exp.	8,482	8,440	8,355	8,468	9,257	8,954	9,039	8,998	6,767	8,047
D&A Exp.	1,049	1,020	1,036	1,061	1,058	991	962	981	959	874
Operating Profit	2,666	2,766	2,887	2,115	1,641	1,506	1,485	1,162	(956)	2,289
Op. Margin	9.6%	9.9%	10.3%	7.8%	6.2%	5.9%	5.8%	4.6%	-5.3%	9.1%
Net Profit	1,335	1,486	1,526	1,072	627	1,566	1,108	564	(3,944)	1,430
Net Margin	4.8%	5.3%	5.4%	4.0%	2.4%	6.1%	4.3%	2.2%	-21.8%	5.7%
Free Cash Flow	1,237	1,686	1,641	871	889	1,216	803	451	183	2,115
Income Tax	767	804	864	608	346	(39)	322	164	(846)	436

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	20,991	21,620	21,330	20,576	19,851	19,583	19,194	21,172	17,706	17,590
Cash & Equivalents	1,836	2,273	2,246	1,109	1,297	1,455	1,162	685	1,679	1,712
Acc. Receivable	371	438	424	558	522	363	400	409	276	297
Inventories	5,308	5,557	5,417	5,506	5,399	5,178	5,263	5,188	3,774	4,383
Goodwill & Int.	4,304	4,270	4,239	4,411	4,395	4,385	5,056	4,347	1,265	1,263
Total Liabilities	14,940	15,371	15,952	16,323	15,529	13,850	12,758	14,795	15,153	13,969
Accounts Payable	2,204	2,437	2,427	2,340	2,177	2,325	2,638	2,659	2,856	5,308
Long-Term Debt	6,881	7,137	7,273	7,602	6,835	5,835	4,719	4,160	4,859	3,295
Total Equity	6,051	6,249	5,378	4,250	4,323	5,745	6,436	6,377	2,553	3,621
LTD/E Ratio	1.14	1.14	1.35	1.79	1.58	1.02	0.73	0.65	1.90	0.91

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	6.2%	7.0%	7.1%	5.1%	3.1%	7.9%	5.7%	2.8%	-20.3%	8.1%
Return on Equity	22.3%	24.2%	26.2%	22.3%	14.6%	31.1%	18.2%	8.8%	-88.3%	46.3%
ROIC	10.1%	11.3%	11.7%	8.7%	5.4%	13.8%	9.8%	5.2%	-43.9%	20.0%
Shares Out.	388	365	341	310	304	305	307	309	311	305
Revenue/Share	67.17	72.59	77.70	81.32	85.47	83.58	82.66	81.35	58.17	80.55
FCF/Share	3.00	4.38	4.54	2.62	2.86	3.96	2.58	1.45	0.59	6.74

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

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