# Macy's (M)

*Updated December 14th, 2022 by Jonathan Weber*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $22 | **5 Year CAGR Estimate:** | 3.4% | **Market Cap:** | $5.5 B |
| **Fair Value Price:** | $25 | **5 Year Growth Estimate:** | -2.0% | **Ex-Dividend Date:** | 12/14/22 |
| **% Fair Value:** | 88% | **5 Year Valuation Multiple Estimate:** | 2.6% | **Dividend Payment Date:** | 01/03/23 |
| **Dividend Yield:** | 2.9% | **5 Year Price Target** | $23 | **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 third quarter earnings results on November 17. The company reported that its revenues totaled $5.2 billion during the quarter, which was ahead of what the analyst community forecasted, beating the consensus by $30 million. Macy's revenues were down by 4% versus the previous year's quarter. That was a reversal from previous trends, as Macy's had reported flat or increasing revenues during the last couple of quarters. The COVID impact in Q3 2021 was much smaller than in Q1 and Q2 of 2021, which is why the year-over-year comparison for the most recent quarter was a tougher one compared to the previous quarters.

Macy's generated earnings-per-share of $0.52 during the third 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 $4.07 and $4.27 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 states. 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 | ***$4.17*** | ***$3.77*** |
| **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*** |
| **Shares[1]** | 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

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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 | ***5.3*** | ***6.0*** |
| **Avg. Yld.** | 1.8% | 1.9% | 1.9% | 2.4% | 4.0% | 6.1% | 5.0% | 8.9% | 3.2% | 2.3% | ***2.9%*** | ***3.1%*** |

Macy's trades at around 5 times this year's earnings right now, following a share price increase since our last update. This is an inexpensive valuation relative to how the company's shares were valued in the past, but we believe that the 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% | ***15.1%*** | ***18.5%*** |

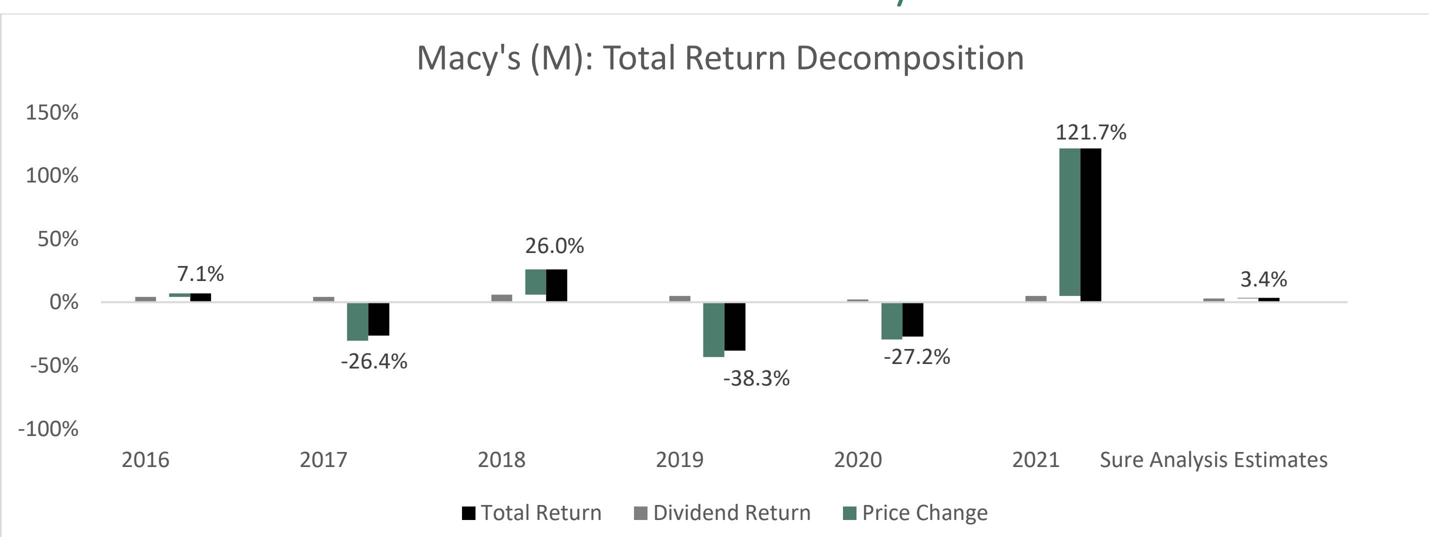
In 2020, Macy's decided to suspend its dividend in order to preserve cash during the current pandemic. The company then initiated a new dividend, but at a reduced level. The payout looks very sustainable for now.

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 do not promise attractive returns from the current level. We thus rate Macy's a hold today.

## 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 | 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.*