Macy's (M)

Updated December 19th, 2023 by Jonathan Weber

Key Metrics

Current Price:	$20	**5 Year CAGR Estimate:**	-0.3%	**Market Cap:**	$5.3B
Fair Value Price:	$18	**5 Year Growth Estimate:**	-2.0%	**Ex-Dividend Date:**	12/14/23
% Fair Value:	111%	**5 Year Valuation Multiple Estimate:**	-2.1%	**Dividend Payment Date:**	01/02/24
Dividend Yield:	3.3%	**5 Year Price Target**	$16	**Years Of Dividend Growth:**	3
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Rating:**	Sell

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 in November. The company reported that its revenues totaled $4.9 billion during the quarter, which was ahead of what the analyst community forecasted. Macy's revenues were down by 7% versus the previous year's quarter. That was slightly better compared to the previous trend, as Macy's had reported a larger revenue decline during the previous quarter. The baseline numbers from the previous year were not impacted by COVID to a meaningful degree any longer, which made for a tougher comparison. Macy's is, like other retailers, feeling headwinds from an ongoing economic slowdown.

Macy's generated earnings-per-share of $0.21 during the third quarter, which was way better than what the analyst community had expected. Macy's rebounded massively in 2021, but results weren't as strong in 2022, due to headwinds for consumer spending such as high inflation. The same headwinds remain in place for now, with a potential recession being an additional macro headwind for Macy's in the coming quarters. For 2023, earnings-per-share are forecasted between $2.88 and $3.13 according to management's current guidance. Macy's got a takeover offer from a private equity group, valuing the company at $5.8 billion, which is why the stock has risen quite a lot since our last update. Whether that takeover offer will be accepted is not yet known, thus there is considerable uncertainty.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$4.00	$4.40	$3.77	$3.13	$3.77	$4.18	$2.91	-12.70	$5.31	$4.48	***$3.00***	***$2.71***
DPS	$0.90	$1.13	$1.35	$1.48	$1.51	$1.51	$1.51	$0.38	$0.60	$0.63	***$0.66***	***$0.69***
Shares[1]	365	341	310	304	305	307	309	311	305	279	***265***	***240***

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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	11.7	13.4	15.2	11.9	6.6	7.2	5.8	NMF	4.9	4.7	***6.7***	***6.0***
Avg. Yld.	1.9%	1.9%	2.4%	4.0%	6.1%	5.0%	8.9%	3.2%	2.3%	3.0%	***3.3%***	***4.3%***

Macy's trades at close to 7 times this year's earnings right now, following a big 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 is more likely to decline than to increase from the current level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	22.5%	25.7%	35.8%	47.3%	40.1%	36.1%	51.9%	NMF	11.3%	14.1%	***22.0%***	***25.6%***

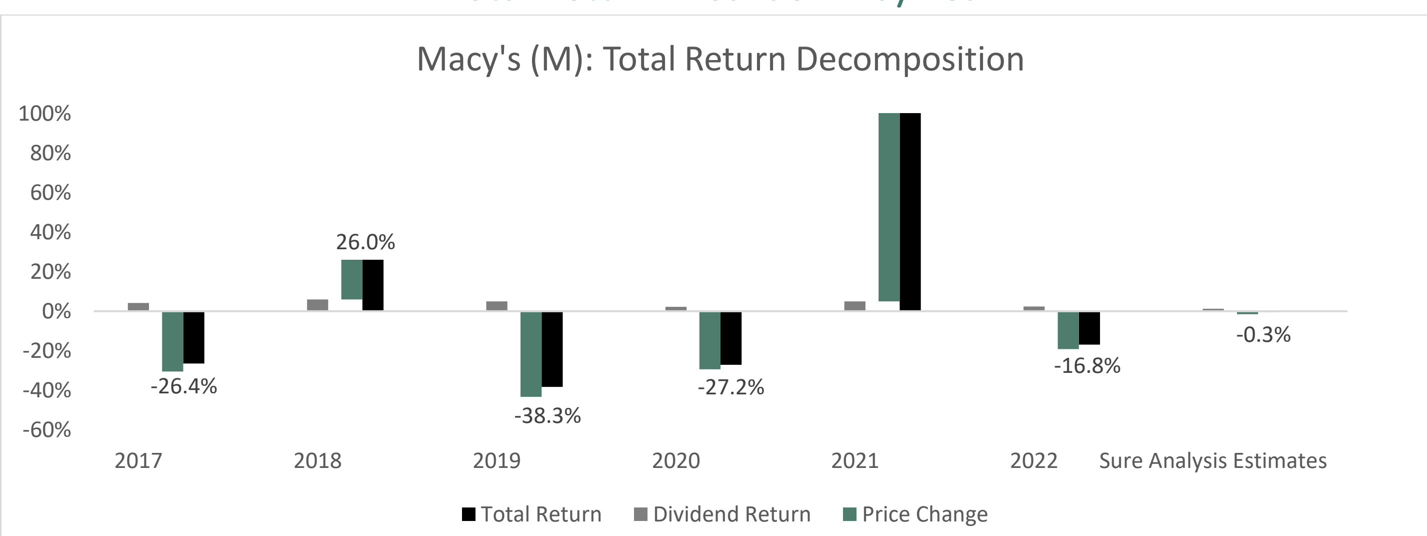
In 2020, Macy's decided to suspend its dividend in order to preserve cash during the current pandemic. The company then initiated a new dividend, but at a reduced level. The payout looks very sustainable for now.

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 should be beneficial for the company's earnings, but due to macro headwinds, we nevertheless believe that earnings growth will be hard to come by in the long run. Following takeover-speculation-fueled gains, Macy's does not present an attractive buying opportunity any longer, which is why we rate it Sell at current prices.

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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	27,931	28,105	27,079	26,564	25,641	25,739	25,331	18,097	25,292	25,305
Gross Profit	11,206	11,242	10,583	10,898	10,460	10,524	10,160	5,811	10,336	9,999
Gross Margin	40.1%	40.0%	39.1%	41.0%	40.8%	40.9%	40.1%	32.1%	40.9%	39.5%
SG&A Exp.	8,440	8,355	8,468	9,257	8,954	9,039	8,998	6,767	8,047	8,317
D&A Exp.	1,020	1,036	1,061	1,058	991	962	981	959	874	857
Operating Profit	2,766	2,887	2,115	1,641	1,506	1,485	1,162	(956)	2,289	1,682
Op. Margin	9.9%	10.3%	7.8%	6.2%	5.9%	5.8%	4.6%	-5.3%	9.1%	6.6%
Net Profit	1,486	1,526	1,072	627	1,566	1,108	564	(3,944)	1,430	1,177
Net Margin	5.3%	5.4%	4.0%	2.4%	6.1%	4.3%	2.2%	-21.8%	5.7%	4.7%
Free Cash Flow	1,686	1,641	871	889	1,216	803	451	183	2,115	320
Income Tax	804	864	608	346	(39)	322	164	(846)	436	341

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	21,620	21,330	20,576	19,851	19,583	19,194	21,172	17,706	17,590	16,866
Cash & Equivalents	2,273	2,246	1,109	1,297	1,455	1,162	685	1,679	1,712	862
Acc. Receivable	438	424	558	522	363	400	409	276	297	300
Inventories	5,557	5,417	5,506	5,399	5,178	5,263	5,188	3,774	4,383	4,267
Goodwill & Int.	4,270	4,239	4,411	4,395	4,385	5,056	4,347	1,265	1,263	1,260
Total Liabilities	15,371	15,952	16,323	15,529	13,850	12,758	14,795	15,153	13,969	12,784
Accounts Payable	2,437	2,427	2,340	2,177	2,325	2,638	2,659	2,856	5,308	4,803
Long-Term Debt	7,137	7,273	7,602	6,835	5,835	4,719	4,160	4,859	3,295	2,996
Total Equity	6,249	5,378	4,250	4,323	5,745	6,436	6,377	2,553	3,621	4,082
LTD/E Ratio	1.14	1.35	1.79	1.58	1.02	0.73	0.65	1.90	0.91	0.73

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	7.0%	7.1%	5.1%	3.1%	7.9%	5.7%	2.8%	-20.3%	8.1%	6.8%
Return on Equity	24.2%	26.2%	22.3%	14.6%	31.1%	18.2%	8.8%	-88.3%	46.3%	30.6%
ROIC	11.3%	11.7%	8.7%	5.4%	13.8%	9.8%	5.2%	-43.9%	20.0%	16.8%
Shares Out.	365	341	310	304	305	307	309	311	305	279
Revenue/Share	72.59	77.70	81.32	85.47	83.58	82.66	81.35	58.17	80.55	90.02
FCF/Share	4.38	4.54	2.62	2.86	3.96	2.58	1.45	0.59	6.74	1.14

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