Macy’s (M)

Updated May 30th, 2024 by Jonathan Weber

Key Metrics

Current Price:	$20	**5 Year CAGR Estimate:**	-1.6%	**Market Cap:**	$5.5B
Fair Value Price:	$16	**5 Year Growth Estimate:**	-2.0%	**Ex-Dividend Date:**	06/14/24
% Fair Value:	122%	**5 Year Valuation Multiple Estimate:**	-3.9%	**Dividend Payment Date:**	07/01/24
Dividend Yield:	3.5%	**5 Year Price Target**	$15	**Years Of Dividend Growth:**	4
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 first quarter earnings results on May 21. The company reported that its revenues totaled $5.0 billion during the quarter, which was ahead of what the analyst community forecasted. Macy’s revenues were down by 3% versus the previous year’s quarter. That was slightly worse compared to the previous trend, as Macy’s had reported a smaller revenue decline during the previous quarter. The baseline numbers from the previous year were not impacted by COVID any longer, which made for a tougher comparison. Macy’s is, like other retailers, feeling headwinds from an uncertain economic outlook and weak consumer sentiment.

Macy’s generated earnings-per-share of $0.27 during the first quarter, which represents a decline compared to the previous year’s period. Results faded in 2023, relative to the two strong years we saw in 2021 and 2022. For 2024, earnings-per-share are forecasted between $2.55 and $2.90 according to management’s current guidance. Macy’s got a takeover offer from a private equity group, valuing the company at $5.8 billion, a couple of months ago. The investor group has raised its offer by around $1 billion not too long ago, but it is far from certain that the deal will close. If the deal were to close, current shareholders would see a substantial gain of around 20%, based on the current share price of $20 and a proposed buyout offer at $24 per share.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$4.40	$3.77	$3.13	$3.77	$4.18	$2.91	-12.70	$5.31	$4.48	$2.76	***$2.73***	***$2.47***
DPS	$1.13	$1.35	$1.48	$1.51	$1.51	$1.51	$0.38	$0.60	$0.63	$0.66	***$0.70***	***$0.74***
Shares[1]	341	310	304	305	307	309	311	305	279	278	***275***	***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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	13.4	15.2	11.9	6.6	7.2	5.8	NMF	4.9	4.7	7.3	***7.3***	***6.0***
Avg. Yld.	1.9%	2.4%	4.0%	6.1%	5.0%	8.9%	3.2%	2.3%	3.0%	3.3%	***3.5%***	***5.0%***

Macy's trades at a little more than 7 times this year's earnings right now, after having risen slightly since our last update. This is an inexpensive valuation relative to how the company's shares were valued a decade ago, 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	25.7%	35.8%	47.3%	40.1%	36.1%	51.9%	NMF	11.3%	14.1%	23.9%	***25.6%***	***29.8%***

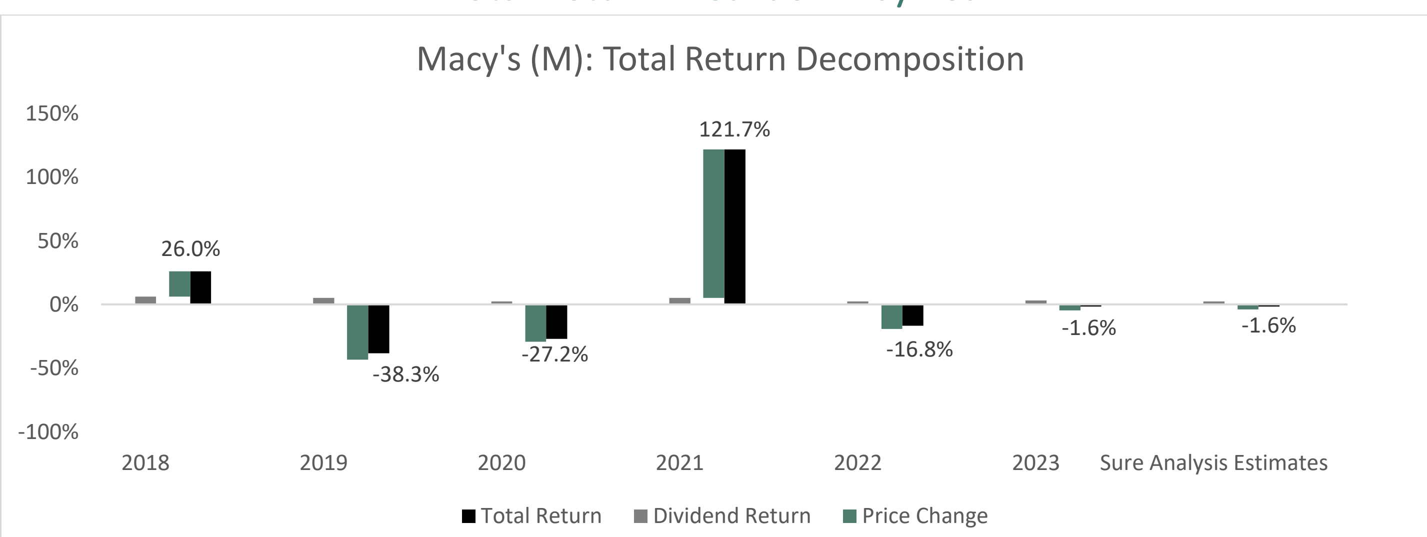
In 2020, Macy's decided to suspend its dividend in order to preserve cash during the pandemic. The company then initiated a new dividend, but at a reduced level. The payout looks very sustainable for now.

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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	28,105	27,079	26,564	25,641	25,739	25,331	18,097	25,399	25,449	23,866
Gross Profit	11,242	10,583	10,898	10,460	10,524	10,160	5,811	10,443	10,143	9,723
Gross Margin	40.0%	39.1%	41.0%	40.8%	40.9%	40.1%	32.1%	41.1%	39.9%	40.7%
SG&A Exp.	8,355	8,468	9,355	9,059	9,127	9,056	6,851	8,250	8,500	8,509
D&A Exp.	1,036	1,061	1,058	991	962	981	959	874	857	897
Operating Profit	2,887	2,115	1,543	1,401	1,397	1,104	(1,040)	2,193	1,643	1,214
Op. Margin	10.3%	7.8%	5.8%	5.5%	5.4%	4.4%	-5.7%	8.6%	6.5%	5.1%
Net Profit	1,526	1,072	627	1,566	1,108	564	(3,944)	1,430	1,177	105
Net Margin	5.4%	4.0%	2.4%	6.1%	4.3%	2.2%	-21.8%	5.6%	4.6%	0.4%
Free Cash Flow	1,641	871	889	1,216	803	451	183	2,115	320	312
Income Tax	864	608	346	(39)	322	164	(846)	436	341	19

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	21,330	20,576	19,851	19,583	19,194	21,172	17,706	17,590	16,866	16,246
Cash & Equivalents	2,246	1,109	1,297	1,455	1,162	685	1,679	1,712	862	1,034
Acc. Receivable	424	558	522	363	400	409	276	297	300	293
Inventories	5,417	5,506	5,399	5,178	5,263	5,188	3,774	4,383	4,267	4,361
Goodwill & Int.	4,239	4,411	4,395	4,385	5,056	4,347	1,265	1,263	1,260	1,258
Total Liabilities	15,952	16,323	15,529	13,850	12,758	14,795	15,153	13,969	12,784	12,109
Accounts Payable	2,427	2,340	2,177	2,325	2,638	2,659	2,856	3,280	2,874	2,523
Long-Term Debt	7,273	7,602	6,835	5,835	4,719	4,160	4,859	3,295	2,996	2,998
Total Equity	5,378	4,250	4,323	5,745	6,436	6,377	2,553	3,621	4,082	4,137
LTD/E Ratio	1.35	1.79	1.58	1.02	0.73	0.65	1.90	0.91	0.73	0.72

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	7.1%	5.1%	3.1%	7.9%	5.7%	2.8%	-20.3%	8.1%	6.8%	0.6%
Return on Equity	26.2%	22.3%	14.6%	31.1%	18.2%	8.8%	-88.3%	46.3%	30.6%	2.6%
ROIC	11.7%	8.7%	5.4%	13.8%	9.8%	5.2%	-43.9%	20.0%	16.8%	1.5%
Shares Out.	341	310	304	305	307	309	311	305	279	278
Revenue/Share	77.70	81.32	85.47	83.58	82.66	81.35	58.17	80.89	90.53	85.79
FCF/Share	4.54	2.62	2.86	3.96	2.58	1.45	0.59	6.74	1.14	1.12

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