Macy's (M)

Updated December 19th, 2024 by Jonathan Weber

Key Metrics

Current Price:	$16	**5 Year CAGR Estimate:**	0.6%	**Market Cap:**	$4.4B
Fair Value Price:	$14	**5 Year Growth Estimate:**	-2.0%	**Ex-Dividend Date:**	12/13/24
% Fair Value:	112%	**5 Year Valuation Multiple Estimate:**	-2.2%	**Dividend Payment Date:**	01/02/25
Dividend Yield:	4.4%	**5 Year Price Target**	$13	**Years Of Dividend Growth:**	4
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**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 on December 11. The company reported that its revenues totaled $4.74 billion during the quarter, which was above what the analyst community forecasted, with the consensus estimate being beaten by $20 million. Macy's revenues were down by 3% 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. Macy's is, like other retailers, feeling headwinds from an uncertain economic outlook and weak consumer sentiment that hurts in-store spending on discretionary consumer goods.

Macy's generated earnings-per-share of $0.04 during the third quarter, which represents a weaker result 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 now forecasted to be between $2.25 and $2.50 according to management's current guidance, which represents a weaker guidance compared to one quarter earlier. Macy's got a takeover offer from a private equity group, valuing the company at $5.8 billion, earlier this year, but that acquisition offer by Arkhouse Management and Brigade Capital has been terminated. While it is possible that another potential acquirer will propose a deal, that is far from certain.

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	***$2.38***	***$2.15***
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***

After Macy's earnings-per-share peaked in 2014, following a healthy recovery from the Great Recession, 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. While Macy's hit a new record profit in 2021, that was largely due to elevated consumer spending, partially driven by COVID-related stimulus measures.

Macy's has been making a range of strategic moves to stabilize its business, which includes expanding its own online business and moving towards an omni-channel approach, coupling online and brick-and-mortar sales. Macy's has stated that it will continue to close 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 for the entire industry, such as rising store expenses and online competition, 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, but we forecast a small earnings-per-share decline over the coming years nevertheless.

[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	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	***6.7***	***6.0***
Avg. Yld.	1.9%	2.4%	4.0%	6.1%	5.0%	8.9%	3.2%	2.3%	3.0%	3.3%	***4.4%***	***5.7%***

Macy's trades at 6 to 7 times this year's forecasted earnings right now, after accounting for the company's lowered earnings-per-share guidance for this year. This is an inexpensive valuation relative to how the company's shares were valued a decade ago, but we believe that double-digit earnings multiples 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 remain subdued, with shares even having some downside potential from where they trade today.

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%	***29.4%***	***34.2%***

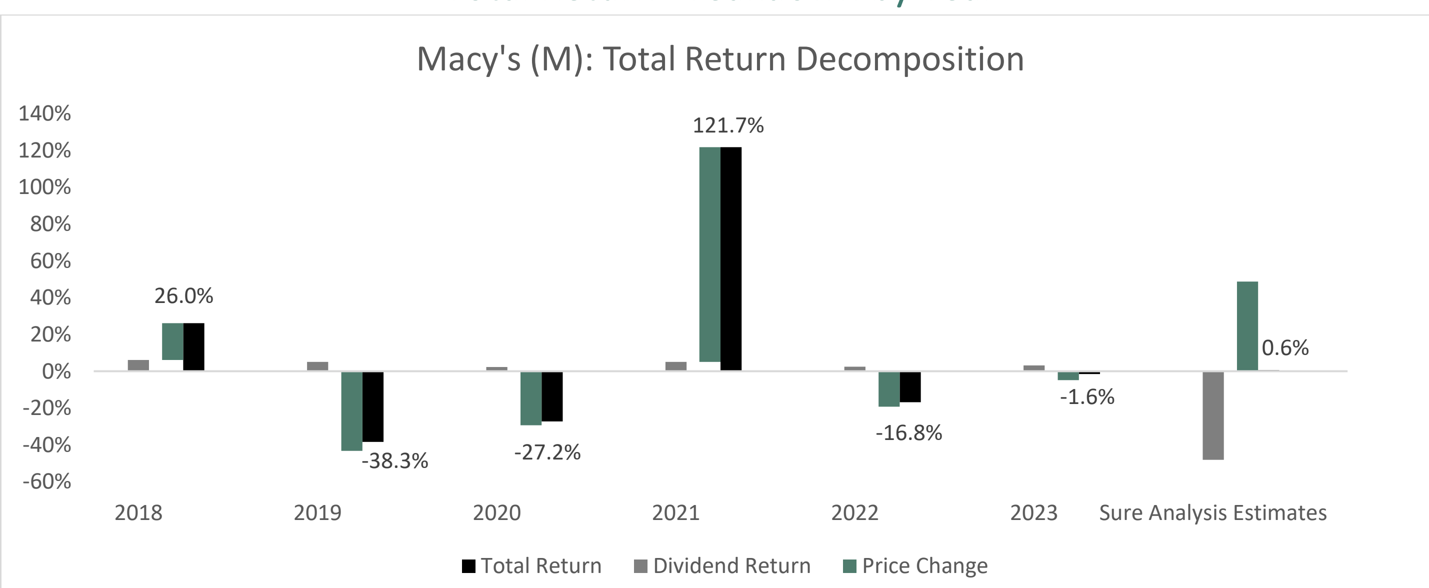
In 2020, Macy's decided to suspend its dividend in order to preserve cash during the pandemic. The company then initiated a new dividend, but at a reduced level, with some dividend increases since then. The payout looks sustainable.

Macy's is a renowned brand; around half of Americans shop at Macy's at least once a year. There is a Macy's store in many grade A malls, and its ecommerce business platform has enjoyed solid growth in recent years. Online competition remains a big issue, however, although Macy's own e-commerce presence and omni-channel strategy are a bit of a relief. Macy's business is vulnerable to economic downturns, with the past pandemic being an especially hurtful scenario for the company due to forced store closures and consumers moving towards online shopping. In future recessions, Macy's will most likely experience earnings declines as well.

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. Shares do not promise compelling returns from the current level, which is why we rate Macy's a sell right here.

Total Return Breakdown by Year



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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.