

Macys, Inc. (M)

\$18.10 (As of 01/08/20)

Price Target (6-12 Months): **\$19.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/14/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: A

Growth: F

Momentum: A

Summary

Shares of Macy's have risen and outpaced the industry in the past three months. The stock recently got a boost following decent holiday sales number that reflected an improvement in trend from third-quarter fiscal 2019. Digital business and Growth150 stores performed well. Certainly, better-than-expected performance during the festive season, which coincides with the fourth quarter, instills optimism regarding Macy's quarterly results. The company has been in a spot of bother for quite some time, thanks to soft mall traffic due to increasing online shopping, stiff competition and threat of tariffs on consumer goods. All these have been taking a toll on the company. In the third quarter, comparable sales on an owned plus licensed basis had declined 3.5%. Moreover, both the top and the bottom line continued to decline year over year.

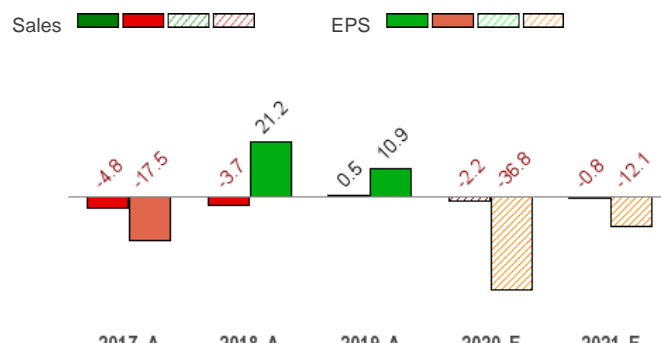
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$26.83 - \$14.11
20 Day Average Volume (sh)	16,037,320
Market Cap	\$5.6 B
YTD Price Change	6.5%
Beta	0.65
Dividend / Div Yld	\$1.51 / 8.3%
Industry	Retail - Regional Department Stores
Zacks Industry Rank	Top 20% (51 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	600.0%
Last Sales Surprise	-2.6%
EPS F1 Est- 4 week change	0.6%
Expected Report Date	02/25/2020
Earnings ESP	3.0%
P/E TTM	5.1
P/E F1	6.9
PEG F1	0.9
P/S TTM	0.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	5,397 E	5,492 E	5,198 E	8,301 E	24,208 E
2020	5,504 A	5,546 A	5,173 A	8,212 E	24,411 E
2019	5,541 A	5,572 A	5,404 A	8,455 A	24,971 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.20 E	\$0.29 E	\$0.01 E	\$1.80 E	\$2.32 E
2020	\$0.44 A	\$0.28 A	\$0.07 A	\$1.87 E	\$2.64 E
2019	\$0.48 A	\$0.59 A	\$0.27 A	\$2.73 A	\$4.18 A

*Quarterly figures may not add up to annual.

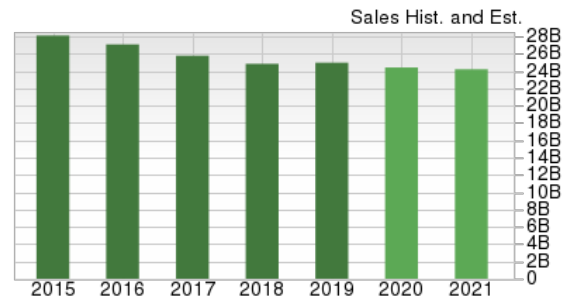
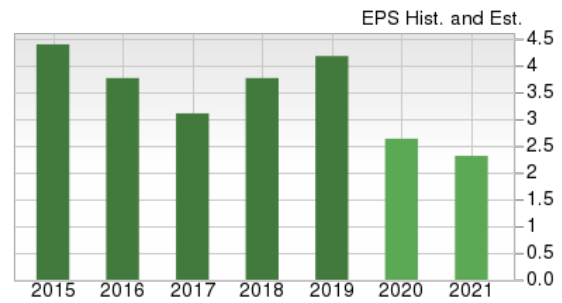
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/08/2020. The reports text is as of 01/09/2020.

Overview

Based in Cincinnati, Ohio with an additional office in New York, Macy's, Inc. (M) is one of the leading department store retailers in the United States. The company through its retail stores and Internet websites (macys.com and bloomingdales.com) trades in a wide range of merchandise, including men's, women's and children's apparel and accessories, cosmetics, home furnishings and other consumer goods in 43 states, the District of Columbia, Guam and Puerto Rico.

The company operates approximately 680 department stores under the banner Macy's and Bloomingdale's, and about 190 specialty stores that include Bloomingdale's The Outlet, Bluemercury, Macy's Backstage and Story. In Dubai and Kuwait, Bloomingdale's is operated by Al Tayer Group LLC under a license agreement.

The principal private label brands offered by Macy's include Alfani, American Rag, Aqua, Bar III, Belgique, Charter Club, Club Room, Epic Threads, first impressions, Giani Bernini, Greg Norman for Tasso Elba, Holiday Lane, Home Design, Hotel Collection, Hudson Park, Ideology, I-N-C, jenni, JM Collection, John Ashford, Karen Scott, lune+aster, M-61, Maison Jules, Martha Stewart Collection, Material Girl, Morgan Taylor, Oake, Sky, Style & Co., Sutton Studio, Tasso Elba, Thalia Sodi, the cellar, and Tools of the Trade.



Reasons To Buy:

▲ **Decent Holiday Sales Number:** Shares of Macy's have risen 18.3% and outpaced the industry's growth of 3.6% in the past three months. The stock recently got a boost following decent holiday sales number that reflected an improvement in trend from third-quarter fiscal 2019. Comparable sales on an owned plus licensed basis declined 0.6% during November and December period combined, while on an owned basis, comparable sales fell 0.7%. Strong digital business and impressive performance at Growth150 stores contributed to results. Moreover, customers responded well to the company's gifting assortment and marketing strategy. Industry experts pointed that a favorable consumer environment courtesy of a solid labor market and steady wage gains also worked in favor of Macy's. Certainly, better-than-expected performance during the festive season, which coincides with the fourth quarter, instills optimism regarding Macy's quarterly results.

We believe Macy's sustained focus on price optimization, inventory management, merchandise planning, and private label offering are the primary catalysts facilitating in meeting customer-oriented demand.

▲ **Strategic Endeavors:** Macy's sustained focus on price optimization, inventory management, merchandise planning and private label offering are the primary catalysts facilitating in meeting customer-oriented demand and improving in-store shopping experience. In an attempt to increase sales, profitability and cash flows, the company has been taking steps such as integration of operations as well as developing omnichannel capabilities and online order fulfillment centers. We believe that focus on private label and private brand businesses will help augment profit margins. The company has undertaken restructuring actions, which involves streamlining the upper management teams, and this is likely to result in cost savings. The company also remains committed to strengthen balance sheet by reducing debt load.

▲ **Customer Friendly Endeavors:** Macy's Backstage locations, Vendor Direct, Store Pickup, Loyalty Program, Growth150 stores, 'mobile first' strategy and Destination Businesses remain primary growth drivers. The company will invest in areas where it has strong foothold, and these include dresses, fine jewelry, fragrances, men's tailored, women's shoes and beauty. The company's "Buy Online Pickup in Store" and "Buy Online Ship to Store" initiatives are gaining traction. After a positive response from customers on STORY, a concept store, Macy's introduced second iteration of STORY — Outdoor STORY. The company has added a new feature to its mobile app such as My Wallet, My Store and My Stylist. Macy's is steadily expanding its virtual reality furniture gallery. The company has taken a minority stake in b8ta, a technology retailer that allow customers to try, buy and learn about new tech products. The investment is seen as a part to enhance customer shopping experience at its The Market @ Macy's, a store-within-a-store retail concept. The company has partnered with thredUP, a fashion resale website for consumers to buy and sell secondhand clothing online, and is piloting the concept in 40 Macy's stores. Bloomingdale's has launched My List, a subscription rental service.

▲ **Macy's Targeting a Vast Audience:** The company has been widening its operations via deals and collaborations to increase its customer base. The company had entered into an agreement with Best Buy, whereby the latter is operating stores within its department stores. Macy's, which reached an agreement to end the joint venture with Fung Retailing Limited, will remain active on TMall, the e-commerce platform of Alibaba and other social media channels in China. The company had also entered into a deal with Luxottica Group, the designer, manufacturer and distributor of fashion, luxury and sports eyewear, whereby the latter has opened LensCrafters licensed departments in Macy's outlets. Macy's unveils its second experiential concept, Outdoor STORY, in collaboration with DICK'S Sporting Goods and Miracle-Gro.

▲ **Focus on Backstage Expansion:** Management highlighted that the company has opened more than 120 Backstage locations within Macy's stores in fiscal 2018. This expansion brings the total Backstage locations to 172 (seven freestanding and 165 inside Macy's stores) as of February 2, 2019. The company also attained its fiscal 2019 target of adding Backstage locations to another 50 Macy's stores during the third quarter. The company operates 215 Backstage locations within Macy's stores and seven freestanding locations. Management highlighted that Backstage locations within Macy's stores open for more than 12 months continue to comp mid-single digits in the third quarter. Bluemercury witnessed another robust quarter with double-digit sales growth. The company opened four new stores during the quarter.

Reasons To Sell:

- ▼ **Dismal Q3 Performance:** Macy's third-quarter fiscal 2019 net sales fell short of the Zacks Consensus Estimate for the fourth quarter in a row. Moreover, both the top and the bottom line continued to decline year over year. Also, comparable sales slid after seven straight quarters of growth. Management highlighted that late arrival of cold weather, softness in international tourism and lower-than-expected performance in lower tier malls hurt the top line. Following the results, management trimmed fiscal sales and earnings guidance. Macy's posted third-quarter adjusted earnings of 7 cents a share that fell sharply from 27 cents reported in the year-ago period. The department store chain generated net sales of \$5,173 million that missed the Zacks Consensus Estimate of \$5,310 million and decreased 4.3% year over year. Comparable sales on an owned plus licensed basis fell 3.5%, while on an owned basis, the metric decreased 3.9%.
- ▼ **Soft FY19 Projection:** Following third-quarter sales performance, Macy's now anticipates net sales decline of 2-2.5% with comps on an owned plus licensed basis to fall 1-1.5% for fiscal 2019. Comps on an owned basis are projected to be roughly 20 basis points below comps on an owned plus licensed basis. The company had earlier projected net sales to be roughly flat with both comps on an owned plus licensed basis and comps on an owned basis projected to be flat to up 1%. Management now envisions adjusted earnings between \$2.57 and \$2.77, down from the prior view of \$2.85-\$3.05 per share for fiscal 2019. The company had reported earnings of \$4.18 in fiscal 2018. Moreover, management expects gross margin to be moderately down for the fiscal year.
- ▼ **Trade War a Concern:** Trade war between the United States and China is likely to impact Macy's business. Earlier rounds of tariff imposition did not have a material impact on the company. However, Macy's had earlier informed that the increase in tariff from 10% to 25% on Chinese goods worth \$200 billion that went into effect on May 10 compelled it to make selective price increase. Nevertheless, the company is actively working with its vendor partners and suppliers in China to mitigate the impact of tariff. Trump's 10% tariffs on \$300 billion of Chinese imports might go into effect on December 15. The targeted products include clothing and footwear, cell phones, laptops, video game consoles, certain toys and computer monitors, to name a few. Certainly, to mitigate the impact of tariffs retailers would resort to restructuring activities that may involve lowering of headcounts as well as closures of stores to cushion the bottom line.
- ▼ **Any Deleverage in SG&A Expense May Hurt Margins:** After increasing 50 basis points to 39.3% as a percentage of net sales during the second quarter of fiscal 2019, selling, general and administrative expenses rose 90 basis points to 42.6% in the third quarter. Analysts expect selling, general and administrative expenses may increase on account of strategic investments. We believe that any significant increase in selling, general and administrative expenses may hurt margins and in turn the bottom line. Management expects SG&A rate to up slightly in fiscal 2019.
- ▼ **Competitive Pressure:** Macy's operates in the highly competitive retail merchandise sector. The company faces stiff competition from a diverse group of competitors, such as Wal-Mart, Target, Bed Bath & Beyond, general merchandise stores, specialty stores, discount stores and online retailers, which are likely continue to weigh on its results. We also remain concerned about Macy's low pricing power as against other discount chains, which may in turn hurt the company's market share.

We remain concerned about Macy's low pricing power as against other discount chains, which may in turn hurt the company's market share. Also, strategic investments in long term endeavors may put pressure on margins.

Last Earnings Report

Macy's Beats on Q3 Earnings, Cuts View

After a miss in the second quarter of fiscal 2019, Macy's, Inc. reported a positive earnings surprise in the third quarter. However, net sales fell short of the Zacks Consensus Estimate for the fourth quarter in a row. Moreover, both the top and the bottom line continued to decline year over year. Also, comparable sales slid after seven straight quarters of growth. Following the results, management trimmed fiscal sales and earnings guidance. These were enough to dampen investor sentiments.

Quarter Ending **10/2019**

Report Date	Nov 21, 2019
Sales Surprise	-2.58%
EPS Surprise	600.00%
Quarterly EPS	0.07
Annual EPS (TTM)	3.52

Let's Delve Deep

Macy's posted third-quarter adjusted earnings of 7 cents a share that surpassed the Zacks Consensus Estimate of 1 cent. However, the quarterly earnings fell sharply from 27 cents reported in the year-ago period.

The department store chain generated net sales of \$5,173 million that missed the Zacks Consensus Estimate of \$5,310 million and decreased 4.3% year over year. Credit card revenues decreased 1.1% to \$183 million. Nonetheless, management expects fourth-quarter sales performance to be sequentially better based on the company's holiday plans.

Comparable sales (comps) on an owned plus licensed basis fell 3.5%, while on an owned basis, the metric decreased 3.9%.

Management highlighted that late arrival of cold weather, softness in international tourism and lower-than-expected performance in lower tier malls hurt the top line.

The company registered strong performance in mattresses, fine jewelry, fragrances, dresses, men's active and men's tailored. However, softness was seen in women's and men sportswear, especially the cold weather items, handbag, housewares and furniture.

Gross margin contracted 30 basis points to 40% during the quarter. Macy's expects gross margin to be moderately down for the fiscal year. Adjusted EBITDA declined 20.1% to \$325 million, while adjusted EBITDA margin contracted 120 basis points to 6.3%.

Other Financial Aspects

Macy's ended the quarter with cash and cash equivalents of \$301 million, long-term debt of \$4,677 million, and shareholders' equity of \$6,057 million.

Management incurred capital expenditures of approximately \$812 million for the 39 weeks ended on November 2.

FY19 View

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The company had earlier projected net sales to be roughly flat with both comps on an owned plus licensed basis and comps on an owned basis projected to be flat to up 1%.

Management now envisions adjusted earnings between \$2.57 and \$2.77, down from the prior view of \$2.85-\$3.05 per share for fiscal 2019. The company had reported earnings of \$4.18 in fiscal 2018.

Recent News

Macy's Reports Decent Holiday Sales Number – January 8, 2020

Macy's, reported decent holiday sales number that reflected an improvement in trend from the third quarter. Comparable sales on an owned plus licensed basis declined 0.6% during November and December period combined, while on an owned basis, comparable sales fell 0.7%. Strong digital business and impressive performance at Growth150 stores contributed to results. Moreover, customers responded well to the company's gifting assortment and marketing strategy.

Valuation

Macy's shares are down 30.6% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 27% but those in the Retail-Wholesale sector are up 19.3% over the past year. The S&P 500 index is up 23.8% in the past year.

The stock is currently trading at 7.34X forward 12-month earnings, which compares to 11.85X for the Zacks sub-industry, 26.74X for the Zacks sector and 19.07X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.17X and as low as 5.28X, with a 5-year median of 9.47X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$19 price target reflects 8.31X forward 12-month earnings.

Valuation Multiples - M					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	7.84	11.92	25.32	18.82
	5-Year High	15.17	18.34	26.13	19.34
	5-Year Low	5.28	9.31	18.99	15.17
	5-Year Median	9.47	11.38	22.91	17.44
P/S F12M	Current	0.23	0.3	1.07	3.49
	5-Year High	0.86	0.73	1.1	3.49
	5-Year Low	0.18	0.26	0.8	2.54
	5-Year Median	0.39	0.41	0.9	3
EV/EBITDA TTM	Current	4.83	6.55	15.28	11.99
	5-Year High	7.82	8.46	15.3	12.86
	5-Year Low	3.75	4.66	10.27	8.48
	5-Year Median	5.59	6.4	12.32	10.67

As of 01/08/2020

The table below shows summary valuation data for M

Industry Analysis Zacks Industry Rank: Top 20% (51 out of 254)



Top Peers

Target Corporation (TGT)	Outperform
Costco Wholesale Corporation (COST)	Neutral
Dillards, Inc. (DDS)	Neutral
Dollar General Corporation (DG)	Neutral
J. C. Penney Company, Inc. (JCP)	Neutral
Kohls Corporation (KSS)	Neutral
Walmart Inc. (WMT)	Neutral
Dollar Tree, Inc. (DLTR)	Underperform

Industry Comparison Industry: Retail - Regional Department Stores				Industry Peers		
	M Neutral	X Industry	S&P 500	DDS Neutral	JCP Neutral	KSS Neutral
VGM Score	C	-	-	B	D	A
Market Cap	5.59 B	5.38 B	23.84 B	1.74 B	383.99 M	7.73 B
# of Analysts	6	5	13	3	4	8
Dividend Yield	8.34%	1.20%	1.79%	0.85%	0.00%	5.43%
Value Score	A	-	-	A	C	A
Cash/Price	0.06	0.06	0.04	0.05	0.45	0.06
EV/EBITDA	4.87	5.32	13.88	4.63	8.95	5.78
PEG Ratio	0.88	0.97	2.02	NA	NA	1.02
Price/Book (P/B)	0.92	1.09	3.33	1.09	0.44	1.44
Price/Cash Flow (P/CF)	2.48	3.39	13.76	4.72	1.45	4.31
P/E (F1)	6.63	10.18	18.76	16.83	NA	10.18
Price/Sales (P/S)	0.23	0.26	2.63	0.28	0.03	0.39
Earnings Yield	14.59%	7.88%	5.32%	5.94%	-87.50%	9.82%
Debt/Equity	1.24	1.16	0.72	0.37	5.90	1.09
Cash Flow (\$/share)	7.31	5.07	6.94	14.93	0.83	11.45
Growth Score	F	-	-	C	C	B
Hist. EPS Growth (3-5 yrs)	-1.58%	-1.58%	10.56%	-8.49%	NA	6.85%
Proj. EPS Growth (F1/F0)	-36.92%	-14.37%	7.46%	-31.65%	-11.17%	-13.37%
Curr. Cash Flow Growth	6.93%	6.93%	14.83%	4.90%	-59.25%	11.63%
Hist. Cash Flow Growth (3-5 yrs)	-2.50%	-2.50%	9.00%	-7.34%	18.26%	1.24%
Current Ratio	1.28	1.47	1.23	1.64	1.51	1.42
Debt/Capital	55.31%	53.72%	42.99%	27.11%	85.51%	52.13%
Net Margin	3.91%	2.77%	11.08%	2.03%	-1.92%	3.50%
Return on Equity	17.44%	11.17%	17.16%	7.14%	-24.09%	15.19%
Sales/Assets	1.18	1.39	0.55	1.74	1.39	1.40
Proj. Sales Growth (F1/F0)	-2.25%	-2.43%	4.16%	-1.33%	-7.51%	-2.61%
Momentum Score	A	-	-	F	D	A
Daily Price Chg	2.43%	0.32%	0.39%	-0.09%	1.69%	-1.57%
1 Week Price Chg	0.12%	-2.25%	-0.30%	-5.53%	-3.51%	-3.44%
4 Week Price Chg	15.29%	5.00%	2.38%	3.80%	6.19%	3.52%
12 Week Price Chg	14.70%	6.19%	6.40%	1.41%	17.65%	-3.21%
52 Week Price Chg	-42.94%	-3.47%	22.97%	3.50%	-10.45%	-29.36%
20 Day Average Volume	16,037,320	1,501,051	1,610,101	192,106	5,448,259	2,809,996
(F1) EPS Est 1 week change	0.57%	0.13%	0.00%	-0.16%	0.00%	0.26%
(F1) EPS Est 4 week change	0.57%	0.13%	0.00%	-0.16%	0.00%	0.26%
(F1) EPS Est 12 week change	-8.58%	3.64%	-0.50%	18.93%	14.52%	-7.24%
(Q1) EPS Est Mthly Chg	2.00%	0.16%	0.00%	-0.25%	-36.36%	0.57%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	F
Momentum Score	A
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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