

Macys, Inc. (M)

\$17.00 (As of 02/12/20)

Price Target (6-12 Months): **\$18.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/14/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: A

Growth: F

Momentum: B

Summary

Shares of Macy's have risen and outpaced the industry in the past three months. The stock 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. Better-than-expected performance during the festive season, which coincides with the fourth quarter, instills optimism regarding Macy's quarterly results. The company now envisions fiscal 2019 earnings to be near the upper end of the earlier guided range. Certainly, 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 fourth quarter, comps on an owned plus licensed basis had declined 0.5%.

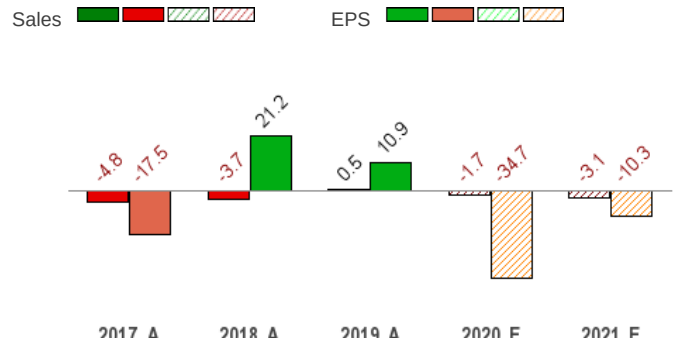
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$26.33 - \$14.11
20 Day Average Volume (sh)	10,324,373
Market Cap	\$5.3 B
YTD Price Change	0.0%
Beta	0.66
Dividend / Div Yld	\$1.51 / 8.9%
Industry	Retail - Regional Department Stores
Zacks Industry Rank	Top 18% (45 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	5.9%
Expected Report Date	02/25/2020
Earnings ESP	-0.4%
P/E TTM	4.8
P/E F1	6.9
PEG F1	0.9
P/S TTM	0.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	5,370 E	5,388 E	5,028 E	8,049 E	23,791 E
2020	5,504 A	5,546 A	5,173 A	8,324 E	24,546 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	\$0.30 E	\$0.30 E	\$0.04 E	\$1.76 E	\$2.45 E
2020	\$0.44 A	\$0.28 A	\$0.07 A	\$1.95 E	\$2.73 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.

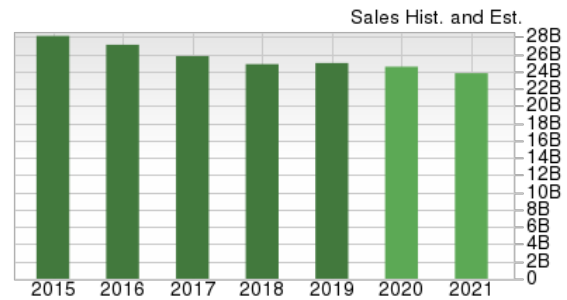
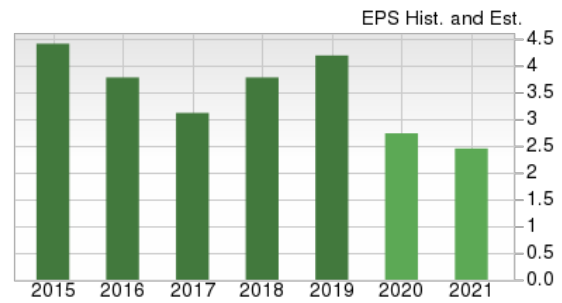
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/12/2020. The reports text is as of 02/13/2020.

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:

▲ **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. Shares of Macy's have risen 5% against the industry's decline of 12.3% in the past three months.

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.

▲ **Decent Holiday Sales Number:** Macy's posted 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.

▲ **Three-Year Polaris Strategy:** Macy's has outlined plans under its three-year Polaris Strategy to adapt better to the new retail ecosystem. This includes trimming of 2,000 positions or approximately 9% of its corporate and support function headcount. As part of its strategy, the company is committed toward building four \$1 billion power private brands. Moreover, to better engage with customers, the company plans to launch the next phase of Macy's Star Rewards Loyalty program later this month. Apart from these, Macy's is evaluating store portfolio. The company plans to shutter roughly 125 stores in lower tier malls within three years that are least productive, and upgrade the remaining by applying Growth treatment. The treatment, which comprises merchandising strategies, technology improvements, talent and local marketing, has been applied to 150 stores to date.

Clearly, Macy's has undertaken a strategic review of business operating model to bring itself back on growth trajectory. The company highlighted that Polaris strategy will help attain gross savings of \$600 million in the current year and \$1.5 billion annually by 2022. If we look at the company's three-year financial targets it buoys optimism. Macy's envisions net sales in the range of \$23.2-\$23.9 billion and comparable sales on an owned plus licensed basis to be down 1% to flat by fiscal 2022. Moreover, it anticipates adjusted earnings between \$2.50 and \$3.00 per share.

▲ **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. Moreover, it also testing a new store format, Market by Macy's, which is smaller in size than an average Macy's store. These new prototype stores will be located off-mall in lifestyle centers.

▲ **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. As part of its store growth strategy, Macy's plans to expand its off-price chains, Backstage and Bloomingdale's The Outlet. The company intends to open an additional 50 Backstage store-within-store locations and seven additional freestanding, off-mall Backstage stores in 2020.

Reasons To Sell:

- ▼ **Comps Continue to Decline:** Macy's announced \$8.3 billion and \$24.5 billion in net sales for the fourth quarter and fiscal 2019, respectively. It also stated that comparable sales on an owned plus licensed basis declined 0.5% and 0.7%, during the respective periods. Again, comparable sales on an owned basis slid 0.6% and 0.8%, during the said periods. This followed declines of 3.5% and 3.9% in comparable sales on an owned plus licensed basis and on an owned basis, respectively, during the third quarter of fiscal 2019. The company now envisions fiscal 2019 earnings to be near the upper end of the earlier guided range of \$2.57 to \$2.77 per share. However, it will still be down from the prior year reported figure of \$4.18.
- ▼ **Soft FY20 Projection:** For fiscal 2020, Macy's now projects net sales between \$23.6 billion and \$23.9 billion and comparable sales on an owned plus licensed basis to decline in the band of 1.5-2.5%. The company estimates adjusted earnings in the range of \$2.20-\$2.40 per share. These show decline from the prior year. Management hinted that comparable sales are expected to remain under pressure in fiscal 2020 on account of business trajectory in the past six months, and anticipation of continued challenges in mall-based retail and disruption as a result of the implementation of the Polaris strategy. Planned store closures are also likely to hit sales.
- ▼ **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.
- ▼ **Macroeconomic Headwinds:** The company's customers remain sensitive to macroeconomic factors including interest rate hikes, increase in fuel and energy costs, credit availability, unemployment levels, and high household debt levels, which may negatively impact their discretionary spending, and in turn the company's growth and profitability.

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

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.

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 up 0.1% in the year-to-date period and 32.4% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 7.2% but those in the Zacks Retail-Wholesale sector are up 5.8% in the year-to-date period. Over the past year, the Zacks sub-industry is down 31.1% but the sector is up 20.4%.

The S&P 500 index is up 4.9% in the year-to-date period and 22.2% in the past year.

The stock is currently trading at 7.1X forward 12-month earnings, which compares to 11.16X for the Zacks sub-industry, 26.22X for the Zacks sector and 19.41X for the S&P 500 index.

Over the past five years, the stock has traded as high as 14.98X and as low as 5.28X, with a 5-year median of 9.36X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$18 price target reflects 7.53X forward 12-month earnings.

The table below shows summary valuation data for M

Valuation Multiples - M					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	7.1	11.16	26.22	19.41
	5-Year High	14.98	18.34	26.22	19.41
	5-Year Low	5.28	9.31	19.07	15.18
	5-Year Median	9.36	11.28	23	17.47
P/S F12M	Current	0.22	0.28	1.09	3.58
	5-Year High	0.86	0.74	1.1	3.58
	5-Year Low	0.18	0.26	0.8	2.54
	5-Year Median	0.39	0.42	0.92	3
EV/EBITDA TTM	Current	4.81	6.32	15.71	11.36
	5-Year High	7.82	9.34	15.71	12.85
	5-Year Low	3.75	4.6	10.79	8.47
	5-Year Median	5.55	6.26	12.39	10.7

As of 02/12/2020

Industry Analysis Zacks Industry Rank: Top 18% (45 out of 254)



Top Peers

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

Industry Comparison Industry: Retail - Regional Department Stores				Industry Peers		
	M Neutral	X Industry	S&P 500	DDS Outperform	JCP Neutral	KSS Underperform
VGM Score	C	-	-	B	D	A
Market Cap	5.25 B	4.90 B	24.53 B	1.71 B	235.42 M	7.10 B
# of Analysts	6	5	13	2	4	8
Dividend Yield	8.88%	1.29%	1.75%	0.87%	0.00%	5.91%
Value Score	A	-	-	A	C	A
Cash/Price	0.06	0.07	0.04	0.05	0.71	0.07
EV/EBITDA	4.74	5.12	13.98	4.57	8.70	5.50
PEG Ratio	0.93	0.97	2.09	NA	NA	1.00
Price/Book (P/B)	0.87	1.07	3.29	1.07	0.27	1.33
Price/Cash Flow (P/CF)	2.33	3.96	13.69	4.64	0.89	3.96
P/E (F1)	6.94	9.99	19.19	17.72	NA	9.99
Price/Sales (P/S)	0.21	0.24	2.68	0.27	0.02	0.36
Earnings Yield	14.41%	7.82%	5.21%	5.64%	-117.57%	10.01%
Debt/Equity	1.24	1.16	0.71	0.37	5.90	1.09
Cash Flow (\$/share)	7.31	7.31	6.92	14.93	0.83	11.45
Growth Score	F	-	-	D	C	C
Hist. EPS Growth (3-5 yrs)	-1.58%	-1.58%	10.85%	-8.49%	NA	6.85%
Proj. EPS Growth (F1/F0)	-10.38%	-3.77%	7.30%	-2.86%	16.95%	-4.67%
Curr. Cash Flow Growth	6.93%	6.93%	8.56%	4.90%	-59.25%	11.63%
Hist. Cash Flow Growth (3-5 yrs)	-2.50%	-0.63%	8.36%	-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%	42.91%	27.11%	85.51%	52.13%
Net Margin	3.91%	2.77%	11.81%	2.03%	-1.92%	3.50%
Return on Equity	17.44%	11.17%	16.92%	7.14%	-24.09%	15.19%
Sales/Assets	1.18	1.39	0.54	1.74	1.39	1.40
Proj. Sales Growth (F1/F0)	-3.07%	-0.46%	3.96%	-0.46%	-3.60%	-0.09%
Momentum Score	B	-	-	F	C	A
Daily Price Chg	3.91%	2.83%	0.64%	3.70%	3.59%	2.07%
1 Week Price Chg	2.82%	1.23%	2.47%	6.52%	-6.98%	2.46%
4 Week Price Chg	-2.41%	-3.56%	1.87%	-0.79%	-4.22%	-2.91%
12 Week Price Chg	13.18%	-6.08%	6.69%	-4.54%	-33.72%	-3.94%
52 Week Price Chg	-32.65%	-19.39%	16.42%	2.46%	-46.30%	-31.80%
20 Day Average Volume	10,324,373	1,340,315	2,019,212	270,943	5,844,936	2,409,687
(F1) EPS Est 1 week change	2.37%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	5.92%	1.69%	-0.06%	3.38%	0.00%	0.00%
(F1) EPS Est 12 week change	-4.98%	-6.72%	-0.19%	18.33%	-8.46%	-15.30%
(Q1) EPS Est Mthly Chg	20.00%	0.47%	-0.16%	0.94%	0.00%	0.00%

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	B
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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