Jun 23, 2020

Macys, Inc. (M)

$7.08 (As of 06/22/20)

Price Target (6-12 Months): **$6.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 06/21/20) Prior Recommendation: Neutral	**Underperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:B
	Value: A | Growth: B | Momentum: F	

Summary

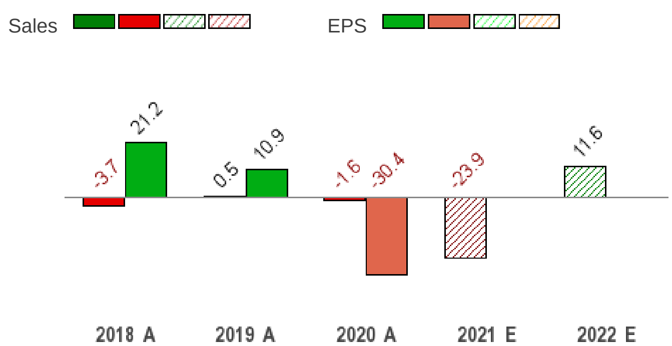
Shares of Macy's have fallen in the past six months. Quite evident, the coronavirus outbreak disrupted the company's business activities forcing the retailer to close all of its stores in mid-March. This jeopardized the company's turnaround efforts. As a result, the company reported dismal preliminary numbers for first-quarter fiscal 2020. The coronavirus-induced stay-at-home orders, social distancing and curtailment of discretionary purchases adversely impacted the company's performance. Macy's witnessed year-over-year decline of 45.2% in net sales and posted adjusted loss of $2.03 per share. The company had delivered adjusted earnings of 44 cents in the year-ago period. Even as Macy's is on track to reopen stores with restrictions being lifted, we believe that sales will take time to reach the pre-COVID levels.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$23.40 - $4.38
20 Day Average Volume (sh)	63,488,256
Market Cap	$2.2 B
YTD Price Change	-58.4%
Beta	1.54
Dividend / Div Yld	$0.00 / 0.0%
Industry	Retail - Regional Department Stores
Zacks Industry Rank	Top 37% (94 out of 253)
Last EPS Surprise	14.4%
Last Sales Surprise	-0.4%
EPS F1 Est- 4 week change	-24.3%
Expected Report Date	08/12/2020
Earnings ESP	1.5%
P/E TTM	16.1
P/E F1	NA
PEG F1	NA
P/S TTM	0.1

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2022					20,861 E
2021	3,017 A	3,738 E	4,434 E	7,430 E	18,692 E
2020	5,504 A	5,546 A	5,173 A	8,337 A	24,560 A

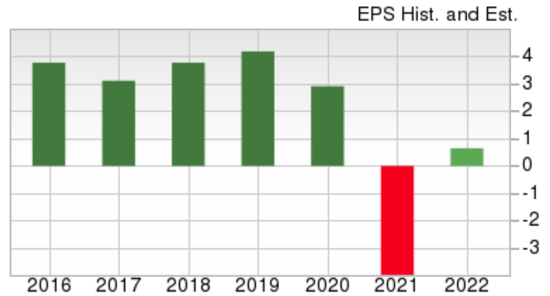
EPS Estimates

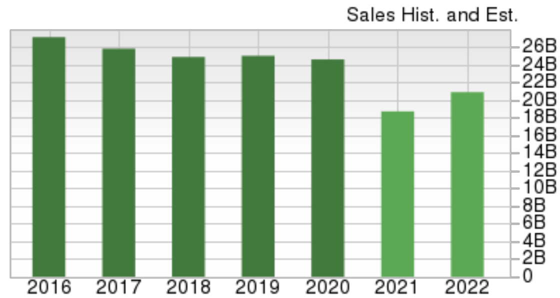
	Q1	Q2	Q3	Q4	Annual*
2022	-$0.44 E	-$0.29 E	-$0.30 E	$1.68 E	$0.65 E
2021	-$2.03 A	-$2.45 E	-$0.69 E	$1.18 E	-$3.97 E
2020	$0.44 A	$0.28 A	$0.07 A	$2.12 A	$2.91 A

*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 06/22/2020. The reports text is as of 06/23/2020.

Overview





Macy's is in the process of a complete makeover and has outlined plans under its three-year Polaris Strategy to adapt better to the new retail ecosystem. Notably, the company is banking on Backstage locations, Vendor Direct, Store Pickup, Loyalty Program, Growth150 stores, 'mobile first' strategy and Destination Businesses. The department store chain is investing in areas where it has strong foothold, and these include dresses, fine jewelry, fragrances, men's tailored, women's shoes and beauty.

This Cincinnati, Ohio-based 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 Sell:

> 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 pressue on margins.

- **Coronavirus Hurts Prospects:** Shares of Macy's have fallen significantly in the past six months. The stock has plunged 56% compared with the industry's decline of 57% in the said period. The coronavirus outbreak has significantly disrupted the company's business activities. The company has been reviewing all its non-essential operating costs and lowered capital expenditures plan for fiscal 2020. Not only this, Macy's has withdrawn its outlook for the fiscal year. The coronavirus outbreak has led to supply-chain disruptions, slowdown in production activities and reduced demand for several commodities. During the first quarter of fiscal 2020, Macy's bore the brunt of coronavirus-induced woes. Incidentally, management stated that temporary store closures that were undertaken to check the spread of COVID-19 had significant negative impact on the top and the bottom line in this period.

- **Dismal Preliminary Numbers for Q1:** The stock also came under pressure following Macy's soft preliminary results for the first quarter of fiscal 2020. The company posted net sales of $3,017 million that showcased a decline of 45.2% on a year-over-year basis. Moreover, the company's gross margin came in at $516 million in the quarter under review. Notably, Macy's had reported gross margin of $2,101 million in first-quarter fiscal 2019. During the fiscal first quarter, the company reported operating loss of $969 million against operating income of $203 million in the year-ago period. In the fiscal first quarter, Macy's reported adjusted EBITDA loss of $689 million. The company had reported adjusted EBITDA of $447 million in the year-ago quarter. Further, adjusted loss for the quarter came in at $2.03 per share. We note that the company had posted adjusted earnings of 44 cents per share in the year-ago quarter.

- **Any Deleverage in SG&A Expense May Hurt Margins:** As a percentage of net sales, selling, general and administrative expenses increased to 53% in the first quarter of fiscal 2020 from 38.4% in the year-ago period. 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. In the preceding two quarter, selling, general and administrative expenses, as a percentage of net sales, have increased 10 basis points and 90 basis points.

- **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.

- **Dip in Consumer Sentiment May Impact Sales:** Any dip in consumer confidence – a key determinant of the economy's health – may have serious bearing on spending. 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 sentiment. For now, the novel coronavirus has wreaked havoc. The retail sector, in particular, remains under pressure. Again, job losses as well as lower disposable income due to this catastrophe are making things worse. Consumers are avoiding discretionary spending and focus on necessities for the time being.

Risks

- **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. Moreover, as coronavirus-led restrictions are gradually being lifted Macy's is on track to reopen stores. Management stated that the reopened stores have been performing above expectations. Also, Macy's curbside pickup services have been receiving positive response from customers. Apart from this, management informed that it witnessed a steady uptick in the digital business for May. Moreover, management is optimistic about demand for seasonal merchandise and expects to end second-quarter with a clean inventory.

- **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 expanded Star Rewards Loyalty program that was initiated in 2017. 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, will be applied to another 100 stores in fiscal 2020. Clearly, Macy's has undertaken a strategic review of business operating model to bring itself back on growth trajectory. The company had earlier 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 had envisioned 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 had anticipated 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 is investing 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. 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.

- **Focus on Backstage Expansion:** Management expanded Backstage, Macy's off-price offering, to another 50 locations within Macy's stores during fiscal 2019. The company informed that Backstage locations open for more than 12 months continued to attain mid-single-digit comparable sales growth and have improved both gross margin and inventory turn. Macy's also stated that as a standalone business, Bloomingdale's generated revenues of more than $3 billion and contributes to profitability. Bloomingdale's has 34 full line stores as well as two international stores the company operate under licensed agreements in Dubai and Kuwait. 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.

Last Earnings Report

Macy's Q4 Earnings & Revenues Top Estimates, Down Y/Y

Quarter Ending	04/2020
Report Date	Jun 09, 2020
Sales Surprise	-0.36%
EPS Surprise	14.35%
Quarterly EPS	-2.03
Annual EPS (TTM)	0.44

Macy's, Inc. reported better-than-expected fourth-quarter fiscal 2019 results. Management highlighted that a "meaningful sales uptick in the 10 shopping days before Christmas" contributed to the results. This Cincinnati, OH-based company had earlier reported decent holiday sales number that reflected an improvement in trend from the third quarter. Following the results, the company retained fiscal 2020 sales and earnings guidance.

Let's Delve Deep

Macy's posted fourth-quarter adjusted earnings of $2.12 per share that surpassed the Zacks Consensus Estimate of $1.95, marking the second straight quarter of beat. The company stated that cost containment endeavors and healthy sales results aided the bottom-line performance. However, the quarterly earnings fell from $2.73 per share reported in the year-ago period.

The department store chain generated net sales of $8,337 million that came ahead of the Zacks Consensus Estimate of $8,324.1 million but decreased 1.4% year over year. Digital sales increased in high-single digits during the quarter under review.

The company stated that comparable sales on an owned plus licensed basis declined 0.5%, while on an owned basis fell 0.6%. Clearly, the rate of decline has decelerated sharply on a sequential basis. We note that comparable sales on an owned plus licensed basis had fallen 3.5%, while on an owned basis, the metric had decreased 3.9% in the third quarter of fiscal 2019.

We note that overall transaction dipped 0.5% compared with the last year. Items per transaction fell 1%. However, average unit retail increased 1.1% during the quarter.

Adjusted EBITDA declined 17.1% to $1,160 million, while adjusted EBITDA margin contracted 260 basis points to 13.9%.

Macy's has been in a spot of bother for quite some time, thanks to soft mall traffic due to increasing online shopping and stiff competition from discount retailers. But these may be things of past, as the company has outlined plans under its three-year Polaris Strategy to adapt better to the new retail ecosystem.

From revamping stores to bringing in loyalty program, from embracing new technologies to investments in merchandising strategies, and from improving websites and mobile apps to supply chain modernization, Macy's is looking at every nook and cranny to be more agile.

Other Financial Aspects

Macy's ended the quarter with cash and cash equivalents of $685 million, long-term debt of $3,621 million, and shareholders' equity of $6,377 million. Management incurred capital expenditures of $1.16 billion during fiscal 2019, and expect to spend approximately $1 billion in fiscal 2020. The company repaid $597 million of debt in fiscal 2019 versus $1.15 billion in fiscal 2018.

Outlook

Management highlighted that it has not factored in any potential adverse impact from the coronavirus into fiscal 2020 guidance. However, Macy's did inform that there could be a minor impact on first-quarter sales due to international tourism. It further added that less than 50% of its private brand goods come out of China. Macy's also informed that first-quarter fiscal 2020 is likely to be challenging from a top and bottom line perspective primarily due to the anticipated disruption from corporate restructuring and campus consolidations as well as cycling off a sturdy first-quarter fiscal 2019.

For fiscal 2020, Macy's continues to project net sales between $23.6 billion and $23.9 billion compared with $24.6 billion reported in fiscal 2019. Comparable sales on an owned plus licensed basis are expected to decline in the band of 1.5-2.5% during fiscal 2020. Comparable on an owned basis are projected to be roughly 40 basis points better than comparable sales on an owned plus licensed basis. We note that comparable sales on an owned plus licensed basis had slid 0.7%, while on an owned basis, the metric had decreased 0.8% in fiscal 2019.

The company reaffirmed fiscal 2020 adjusted earnings per share (excluding asset sale gains) projection of $2.20-$2.40. This indicates a decline from earnings of $2.91 per share reported in fiscal 2019. Management expects gross margin and SG&A expense rate to be roughly flat year over year.

Recent News

Macy's Posts Dismal Preliminary Numbers for Q1 – June 9, 2020

Macy's posted dismal preliminary numbers for first-quarter fiscal 2020. The department store retailer's net sales amounted to $3,017 million in the fiscal first quarter compared with $5,504 million reported in the year-ago quarter. Moreover, the company's gross margin came in at $516 million in the quarter under review. Notably, Macy's had reported gross margin of $2,101 million in first-quarter fiscal 2019.

During the fiscal first quarter, the company reported operating loss of $969 million against operating income of $203 million in the year-ago period. In the fiscal first quarter, Macy's reported adjusted EBITDA loss of $689 million. The company had reported adjusted EBITDA of $447 million in the year-ago quarter. Further, adjusted loss for the quarter came in at $2.03 per share. We note that the company had posted adjusted earnings of 44 cents per share in the year-ago quarter.

Moving on, Macy's ended the fiscal first quarter with cash and cash equivalents of $1,523 million and total debt of $5,657 million. In a recent press release, the company stated that it has raised nearly $4.5 billion of new financing, which includes senior secured notes as well as asset-based credit agreement worth $1.3 billion and $3.15 billion, respectively. This is likely to help the company to fund its operations and secure inventory for its business. Also, net cash used by operating activities for 13 weeks ended May 2 was $164 million compared with $38 million in the year-ago period.

Valuation

Macy's shares are down 58.4% in the year-to-date period and 67.5% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 58.4% but the Zacks Retail-Wholesale sector is up 13.1%, in the year-to-date period. Over the past year, the Zacks sub-industry is down 59.7% but the sector is up 20.1%.

The S&P 500 index is down 3.8% in the year-to-date period but up 5.1% in the past year.

The stock is currently trading at 0.11X forward 12-month sales, which compares to 0.18X for the Zacks sub-industry, 1.13X for the Zacks sector and 3.47X for the S&P 500 index.

Over the past five years, the stock has traded as high as 0.86X and as low as 0.06X, with a 5-year median of 0.36X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our $6 price target reflects 0.09X forward 12-month sales.

The table below shows summary valuation data for M

Valuation Multiples - M

		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	0.11	0.18	1.13	3.47
	5-Year High	0.86	0.78	1.13	3.47
	5-Year Low	0.06	0.11	0.81	2.53
	5-Year Median	0.36	0.46	0.95	3.02
P/B TTM	Current	0.34	0.54	5.19	4.26
	5-Year High	4.72	3.65	5.97	4.56
	5-Year Low	0.21	0.34	3.66	2.83
	5-Year Median	1.76	2.03	4.93	3.67
EV/EBITDA TTM	Current	5.61	3.95	17.94	11.47
	5-Year High	7.85	7.72	17.94	12.85
	5-Year Low	3.38	3.38	11.05	8.25
	5-Year Median	5.39	5.41	12.8	10.83

As of 06/22/2020

Industry Analysis Zacks Industry Rank: Top 37% (94 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
Big Lots, Inc. **(BIG)**	Outperform	1
Dollar General Corporation **(DG)**	Outperform	2
Costco Wholesale Corporation **(COST)**	Neutral	3
Dillards, Inc. **(DDS)**	Neutral	3
Dollar Tree, Inc. **(DLTR)**	Neutral	3
Kohls Corporation **(KSS)**	Neutral	3
Target Corporation **(TGT)**	Neutral	3
Walmart Inc. **(WMT)**	Neutral	3

Industry Comparison Industry: Retail - Regional Department Stores

				Industry Peers		
	M	**X Industry**	**S&P 500**	**BIG**	**DDS**	**KSS**
Zacks Recommendation (Long Term)	Underperform	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	1	3	3
VGM Score	B	-	-	A	F	D
Market Cap	2.19 B	2.19 B	21.83 B	1.33 B	603.26 M	3.46 B
# of Analysts	7	6	14	6	5	9
Dividend Yield	0.00%	0.49%	1.93%	3.55%	2.31%	12.84%
Value Score	A	-	-	B	C	D
Cash/Price	0.32	0.45	0.07	0.24	0.11	0.58
EV/EBITDA	4.20	4.28	12.63	5.31	2.80	4.36
PEG Ratio	NA	NA	2.90	1.09	NA	NA
Price/Book (P/B)	0.34	0.46	3.01	1.50	0.46	0.72
Price/Cash Flow (P/CF)	1.16	1.94	11.47	4.71	1.94	2.04
P/E (F1)	NA	NA	21.30	7.69	NA	NA
Price/Sales (P/S)	0.10	0.11	2.29	0.24	0.11	0.19
Earnings Yield	-56.07%	-47.79%	4.42%	13.00%	-39.51%	-16.55%
Debt/Equity	1.03	1.29	0.77	1.68	0.43	1.55
Cash Flow ($/share)	6.12	6.12	7.01	7.18	13.37	10.77
Growth Score	B	-	-	A	F	F
Hist. EPS Growth (3-5 yrs)	-11.95%	-7.68%	10.84%	7.48%	-7.68%	-1.12%
Proj. EPS Growth (F1/F0)	-236.57%	-210.92%	-10.80%	19.66%	-346.04%	-174.71%
Curr. Cash Flow Growth	-15.88%	-10.84%	5.46%	0.18%	-16.01%	-10.84%
Hist. Cash Flow Growth (3-5 yrs)	-6.32%	-3.55%	8.55%	2.93%	-10.66%	-0.78%
Current Ratio	1.18	1.54	1.29	1.48	1.66	1.88
Debt/Capital	50.63%	55.67%	45.14%	62.66%	30.04%	60.72%
Net Margin	-1.01%	-1.66%	10.53%	5.05%	-2.31%	0.48%
Return on Equity	2.24%	-3.12%	16.06%	19.99%	-8.48%	3.34%
Sales/Assets	1.03	1.27	0.55	1.67	1.59	1.21
Proj. Sales Growth (F1/F0)	-23.89%	-20.89%	-2.66%	7.23%	-20.89%	-21.39%
Momentum Score	F	-	-	A	D	A
Daily Price Chg	2.91%	-0.93%	0.09%	1.20%	-1.40%	-1.39%
1 Week Price Chg	-5.75%	-4.97%	0.92%	-0.51%	-11.88%	-4.18%
4 Week Price Chg	35.89%	22.66%	5.61%	4.16%	-4.45%	25.51%
12 Week Price Chg	31.84%	0.74%	16.49%	143.37%	-36.94%	36.87%
52 Week Price Chg	-67.52%	-60.90%	-6.63%	22.97%	-55.96%	-52.28%
20 Day Average Volume	63,488,256	7,061,474	2,841,862	2,451,439	1,098,042	13,024,906
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-1.13%	0.00%	0.00%
(F1) EPS Est 4 week change	-24.25%	0.00%	0.00%	52.75%	0.00%	2.62%
(F1) EPS Est 12 week change	-386.21%	-304.91%	-13.25%	42.35%	-1,180.00%	-223.60%
(Q1) EPS Est Mthly Chg	-12.48%	0.00%	0.00%	202.38%	0.00%	13.89%

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	B
Momentum Score	F
VGM Score	B

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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