

Macy's Inc.

M

Analyst: Richard Acheson

Sector: Consumer Disc.

SHORT

Price Target: \$30.20

Key Statistics as of 4/9/16

Market Price:	\$39.65
Industry:	Multiline Retail
Market Cap:	\$12.9B
52-Week Range:	\$34.05 - \$73.61
Beta:	.95

Thesis Points:

- The trend in sales growth and same store sales has been decreasing for the past five years with no signs of changing for 2017.
- Macy's has closed an increasing amount of stores in recent years and is currently hurt sales and growth.

Company Description:

Macy's is one of the largest department stores in the United States. Most of their revenue comes from women's apparel accessories, shoes, and cosmetics. They also deal with home appliances as well as men's and children's apparel. Macy's also finds themselves in a highly competitive industry, with a high amount of sustainable competitors. In 2015 Macy's suffered a setback financially, having a decrease in revenue of 3.7% as well as decreases in Gross, EBITDA, and net margins. Same store sales also had a loss of 3%, their first negative growth rate in recent history.



Thesis

Macy's has seen a decrease in revenue growth ever since 2011. This is because there has been a consistent decrease in same store sales starting in 2012. In 2012, same store sales were growing at 5.30% and in 2015 they have decreased to -3%. Without any increase in same store sales, that means that there is no organic growth within the business and that the market is almost completely saturated. For Macy's to reverse this trend, they would need to come up with a new competitive strategy to differentiate themselves from the rest of the industry in order to steal more of the market share.

Another occurrence that should have investor's worried is the amount of stores that have closed within the last year. Macy's closed 41 stores in 2015 which is double what it was in 2014. This is quite troubling for this company. In the most recent earnings call, Macy's stated that one of their keys to rebounding from a troubling 2015 was the expansion of their mobile and online business. It was also stated that have stores in the area builds more awareness to shop with them online and it one of the keys to their online success. But if they are closing more stores then they are opening, then it must have a negative impact on their growth in the online segment.

Porter's Five Forces

Bargaining power of suppliers: **MEDIUM – 56**

Macy's has a about the same dependence on their suppliers as most retailers do. They are dependent on their suppliers to keep their merchandise flowing as well as keeping up with fashion trends.

Bargaining power of customers: **MEDIUM – 43**

Consumers have some bargaining power when it come to this industry because of the extremely high competition. Although this is offset by the fact that if consumers want quality clothing, they are most likely going to have to pay a premium price for it, no matter where they shop.

Threat of substitutes: **MEDIUM – 58**

Macy's sells many different brands of clothes and merchandise. They are well diversified from having casual to professional attire, men's and women, higher and lower quality. Even considering all of this, it is still relatively easy for consumers to wear a brand of clothing or buy an appliance that is not offered by Macy's.

Existing rivalry: **MEDIUM – 75**

The retail clothing industry is extremely competitive. Not only does Macy's have direct competitors like JC Penney or Kohl's, but there's indirect competition from discount stores like TJ Maxx or bigger retailers like Wal-Mart or Target. Typically consumers can only buy so many clothes, and there are a lot of options for consumers to purchase them.

Threat of new competition: **MEDIUM – 33**

This industry does not suffer from any major threat of new competition. It would be difficult for any new competitors to directly compete with Macy's considering their size and quality of clothing. Also considering the size and competition of this industry, one smaller competitor is not a major threat to steal a significant amount of market share.

Industry Outlook

Macy's isn't the only company in the industry that is currently going through rough times. They actually look much better in comparison. Macy's two biggest direct competitors are JC Penney and Kohl's, neither of which are doing well.

JC Penney has been able to capture some recent revenue growth after receiving huge loses in 2013 and 2014. Gross margins for JC Penney are at 36%, which is about 4% less than Macy's. EBITDA margins are also much smaller for JC Penney, with them only being at 4.2%. They have also recorded a negative net income for the past five years, something Macy's obviously has not done. Although on the positive side, JC Penney has experienced recent growth in same store sales from the last two years, being about 4.5% growth for 2015.

Kohl's has seen its fair share of struggles as well, recording revenue growth of only 1.0% and 0% for the last two years. Gross margins have been decreasing slowly for the past three years and are currently recorded at 36.1%, about the same as JC Penney. They are also experiencing decreases in EBITDA and net margins for the past four years, with them being recorded at 13% and 4.1% for 2015 respectively. Kohl's has had a relatively flat same store sales since 2012. Looking at this entire industry, there aren't any companies that are doing well. It looks to be a very saturated market with almost no opportunity for growth and revenue growth seems to entirely depend on market share.

Financials

Macy's is currently not in an ideal financial situation. They have not had increase in revenue growth since 2011. There has also not been an increase in gross margins since 2011. Contrary to these results, EBITDA margins were able to increase until 2015 because of decreases in SG&A. In 2015, EBITDA margins dropped from 14% to 12.5% since it became difficult for Macy's to continue to continue to cut SG&A without making any improvements in gross margins.

In Millions of USD	FY 2013	FY 2014	FY 2015	FY 2016
12 Months Ending	02/02/2013	02/01/2014	01/31/2015	01/30/2016
Market Capitalization	15,318.0	19,412.7	21,757.5	12,539.2
- Cash & Equivalents	1,836.0	2,273.0	2,246.0	1,109.0
+ Preferred & Other	0.0	0.0	0.0	3.0
+ Total Debt	6,930.0	7,191.0	7,309.0	7,637.0
Enterprise Value	20,412.0	24,330.7	26,820.5	19,070.2
Revenue, Adj	27,686.0	27,931.0	28,105.0	27,079.0
Growth %, YoY	4.9	0.9	0.6	-3.7
Gross Profit, Adj	11,148.0	11,206.0	11,242.0	10,583.0
Margin %	40.3	40.1	40.0	39.1
EBITDA, Adj	3,715.0	3,786.0	3,923.0	3,388.0
Margin %	13.4	13.6	14.0	12.5
Net Income, Adj	1,425.7	1,530.2	1,593.6	1,259.2
Margin %	5.1	5.5	5.7	4.7
EPS, Adj	3.46	3.97	4.41	3.78
Growth %, YoY	19.6	14.9	10.9	-14.2
Cash from Operations	2,179.0	2,549.0	2,709.0	1,984.0
Capital Expenditures	-698.0	-607.0	-770.0	-777.0
Free Cash Flow	1,481.0	1,942.0	1,939.0	1,207.0

Macy's Strategies

In their last earnings report, Macy's CFO, Karen M. Hoguet, talks about some of the strategies that they are going to implement in 2016 in order to bounce back from a troubling 2015.

Backstage: Macy's has developed a newer segment that they call backstage. Backstage is a reorganized of

Macy's clearance items within the store. Instead of having clearance items scattered all over the store, they've consolidated all of the items into one area. This help shoppers who are specifically looking for clearance items. This is has provided a temporary boost in sales for Macy's, this is not enough to guarantee any long term solutions, let alone an increase in stock price.

Top Door: This is a very generic strategy. Macy's is "looking to improve all aspects of the store." They want to improve presentation as well as customer service. Outside of that, they do not go into too much detail. It's confusing to see what they are specifically improving to make their business better off.

Mobile: Their mobile segment is considered one of their fastest growing segments. Sales on mobile devices more than doubled in 2015 so it's possible that there could be some potential growth here. Although later in the earnings call they were asked if the number of closing stores in 2015 effects their online segments. They responded with the fact that having stores in local areas spreads brand awareness and encourages online sales. So if stores continue to close at the rate that they currently are, then online sales will not continue to grow as fast.

Valuation

The Valuation from the pro forma calculated a target price of \$30.20 with an intrinsic value of \$25.95. A very conservative approach was taken into consideration. The growth rate for the 10 year explicit period was 3% and 3% was also used for the continuing period as well. Most of the inputs were not changed from what was last reported by the company such as cost of debt, beta, and debt to equity. The main difference in the evaluation and what was most sensitive to the price was operating cost. The operating costs to revenue for Macy's was last reported at 87.6%. The inputs for the valuation were 88% for the explicit and continuing period. With the threat of the minimum wage increase, mainly out in California, it's very likely that they will experience an increase in SG&A in the very near future. California is also where Macy's has 17.5% of

its total store. For the valuation, intangibles were not included at all. According to the 10k most of their intangibles are non-operating.

Conclusion

Macy's stock price has taken a huge hit since their high in July 2015. It's currently prices at \$39.68 with no signs of any increase to come in the near future. Not only is Macy's struggling, but the entire department store industry is as well. The pro forma was able to calculate a target price of \$30.20 with an intrinsic value of \$25.95. Considering that the inputs for the pro forma were very conservative and that the target and intrinsic value are much lower than the current price, it is very likely that Macy's is overvalued. They also do not have any major strategies or opportunities to obtain any growth in the near future. Taking all of this into consideration, I highly recommend to short Macy's until a strategy presents itself where that can either obtain future growth or more of a market share.

Macy's, Inc. (m)

CENTER FOR GLOBAL FINANCIAL STUDIES

BEARISH

Analysis by Richard Acheson
4/6/2016

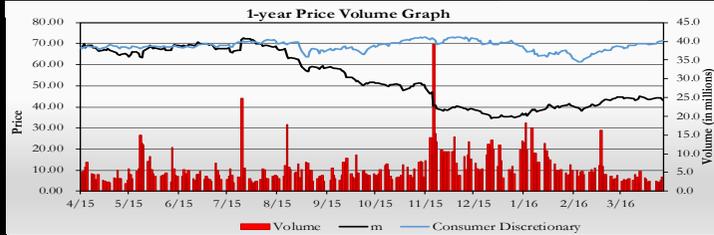
Current Price:
Divident Yield:

\$41.72
3.2%

Intrinsic Value
Target Price

\$26.79
\$30.75

Target 1 year Return: -23.07%
Probability of Price Increase: 21.67%

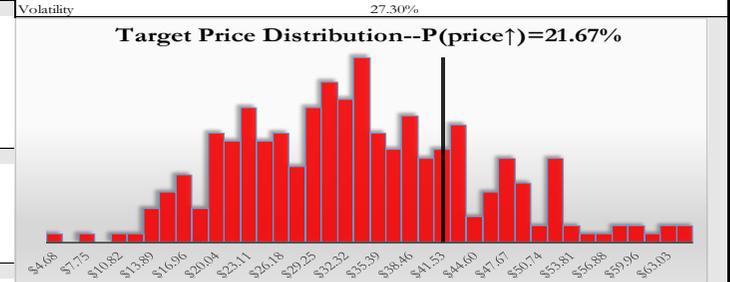


Description	
Macy's, Inc., together with its subsidiaries, operates stores, Websites, and mobile applications in the United States.	
General Information	
Sector	Consumer Discretionary
Industry	Multiline Retail
Last Guidance	November 3, 2015
Next earnings date	NM
Estimated Country Risk Premium	8.03%
Effective Tax rate	40%
Effective Operating Tax rate	39%

Market Data	
Market Capitalization	\$12,928.89
Daily volume (mil)	1.02
Shares outstanding (mil)	311.76
Diluted shares outstanding (mil)	333.00
% shares held by institutions	89%
% shares held by investments Managers	71%
% shares held by hedge funds	8%
% shares held by insiders	0.36%
Short interest	2.67%
Days to cover short interest	1.43
52 week high	\$73.61
52-week low	\$34.05
Levered Beta	0.95
Volatility	27.30%

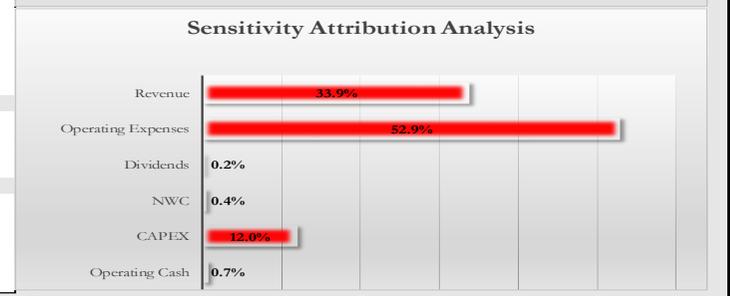
Past Earning Surprises	
Quarter ending	Revenue
1/31/2015	-0.38%
5/2/2015	-1.34%
8/1/2015	-1.90%
10/31/2015	-3.55%
1/30/2016	0.42%
Mean	-1.35%
Standard error	0.7%

EBITDA		Peers	
		Kohl's Corp.	
	5.15%	Nordstrom Inc.	
	-4.06%	J. C. Penney Company, Inc.	
	-8.57%	L Brands, Inc.	
	-10.76%	Dillard's Inc.	
	12.70%	Ralph Lauren Corporation	
	-1.11%	American Eagle Outfitters, Inc.	
	4.4%	Chico's FAS Inc.	



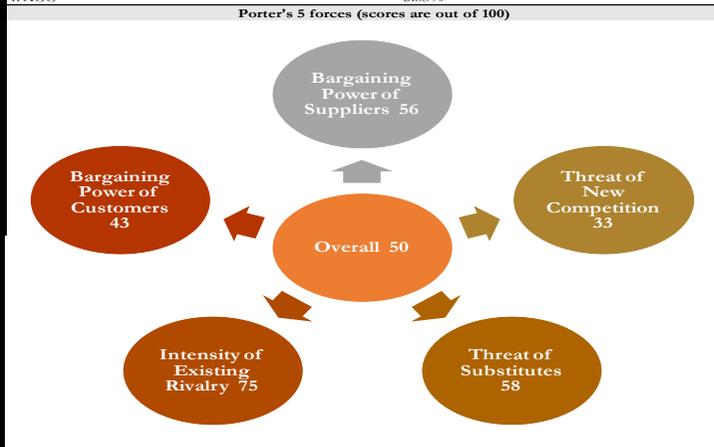
Management		Position	
Lundgren, Terry	Chairman and Chief Executive		
Gennette, Jeffrey	President		
Hoguet, Karen	Chief Financial Officer		
Sachse, Peter	Chief Growth Officer		
Kantor, Jeffrey	Chief Stores Officer		
Broderick, Dennis	Executive Vice President, Ge		

Total compensations growth		Total return to shareholders	
	-4.73% per annum over 5y		10.83% per annum over 5y
	-7.5% per annum over 3y		15.6% per annum over 3y
	-10.14% per annum over 5y		10.83% per annum over 5y
	-9.77% per annum over 3y		15.6% per annum over 3y
	N/M		0% per annum over 0y
	N/M		N/M



Profitability		m (LTM)		m (5 years historical average)		Industry (LTM)	
ROIC	13.4%		19.36%		12.08%		12.08%
NOPAT Margin	7%		8.80%		5.0%		5.0%
Revenue/Invested Capital	2.01		2.20		2.44		2.44
ROE	11.9%		19.80%		15.22%		15.22%
Adjusted net margin	6%		7.67%		4.5%		4.5%
Revenue/Adjusted Book Value	2.09		2.58		3.38		3.38

Invested Funds		m (LTM)		m (5 years historical average)		Industry (LTM)	
Total Cash/Total Capital	5.9%		11.1%		9%		9%
Estimated Operating Cash/Total Capital	5.5%		5.6%		N/A		N/A
Non-cash working Capital/Total Capital	7.8%		6.3%		6%		6%
Invested Capital/Total Capital	76.0%		71.3%		94%		94%



Revenue growth		Valuation	
Period		NOPAT margin	ROIC/WACC
Base Year	-3.7%	6.7%	1.55
1/30/2017	-2.0%	5.4%	1.27
1/30/2018	0.4%	5.1%	1.15
1/30/2019	1.1%	4.9%	1.09
1/30/2020	4.9%	5.5%	1.28
1/30/2021	1.0%	5.2%	1.16
1/30/2022	1.3%	5.2%	1.15
1/30/2023	1.7%	5.2%	1.15
1/30/2024	2.0%	5.2%	1.15
1/30/2025	2.3%	5.2%	1.14
1/30/2026	2.7%	5.2%	1.14
Continuing Period	3.0%	5.2%	1.15

Invested Capital		Net Claims	
Period		Price per share	
Base Year	\$11,623.63	\$8,638.36	\$27.00
1/30/2017	\$11,629.21	\$8,051.92	\$31.10
1/30/2018	\$12,992.07	\$7,040.37	\$35.00
1/30/2019	\$13,867.82	\$6,213.24	\$38.66
1/30/2020	\$13,469.79	\$5,520.80	\$42.42
1/30/2021	\$14,199.73	\$4,680.34	\$46.32
1/30/2022	\$15,004.14	\$3,759.40	\$50.30
1/30/2023	\$15,197.57	\$2,870.67	\$54.32
1/30/2024	\$15,419.30	\$2,012.22	\$58.40
1/30/2025	\$16,030.21	\$1,183.06	\$62.53
1/30/2026	\$16,397.64	\$383.05	\$66.72
Continuing Period			