

Company (Ticker) (S&P / Moody’s / Fitch)

Macy’s Inc. (M) (B+/Ba1/BB+)
Fiscal Year Ended February 1, 2020

Founded in 1858, Macy’s, Inc. (Macy’s) is an omnichannel retail organization operating stores, websites, and mobile applications under five brands as of February 1, 2020 - Macy’s, Bloomingdale’s, Bloomingdale’s The Outlet, Macy’s Backstage, and bluemercury. In addition, Bloomingdale’s in Dubai, United Arab Emirates and Al Zahra, Kuwait are operated under license agreements. Through these operations, the company sells a wide range of merchandise, including apparel and accessories (men’s, women’s, and children’s), cosmetics, home furnishings and other consumer goods. The Company operates 776 stores in 43 US states, the District of Columbia in the US, Puerto Rico and Guam. Women’s apparel and accessories account for 60.53% of total sales while Men’s and Children’s and Home/Other¹ account for 22.92% and 16.56%, respectively.

Business Lines	2019 (\$'M)	2018 (\$'M)	2017 (\$'M)
Women’s Accessories, Intimate Apparel, Shoes, Cosmetics and Fragrances	9,454	9,457	9,444
Women’s Apparel	5,411	5,642	5,765
Men’s and Kids’	5,628	5,699	5,610
Home/Other (a)	4,067	4,173	4,120
Total	24,560	24,971	24,939

Source: Macy’s 10K FYE 2020

	2019	2018
Macy’s		
Stores	65%	68%
Digital	23%	21%
Bloomingdale’s		
Stores	8%	8%
Digital	3%	2%
bluemercury	1%	1%
Total	100%	100%

Source: Macy’s 10K FYE 2020

SWOT

Strengths

- The company’s position as a market leader in Mid-Tier Department Stores Industry.
- Moderate barriers to entry
- Many shoppers still prefer to try clothes on before they commit to a purchase

Opportunities

- Greater development of online presence
- Further closure of least profitable physical store locations

Weaknesses

- Sells and markets seasonal and cyclical products
- Highly competitive industry
- Competition from E-commerce websites such as Amazon, eBay and Etsy, among others.
- High fixed costs

Threats

- Trade war between the US and China.
- Prolonged social distancing initiatives.

Major Developments

Furloughed Employees – In March 2020, Macy’s announced that it would be furloughing the majority of its 125,000 employees as part of its planned response to the COVID-19 pandemic.

Shuttered Stores – Macy’s reopened 68 of its 775 stores on Monday, May 4, 2020, after being closing all of its stores for almost 6 weeks. The company is set to open an additional 50 stores on Monday, May 11, 2020.

Store Closures – Over the past few years, prior to the crisis, Macy’s closed dozens of stores to focus on its largest 150 stores. The sales of the properties added hundreds of millions of dollars in one-off gains to the company’s bottom line. Earlier this year, the company announced plans to close an additional 95 stores. It is unclear as to whether the company intends to still pursue those plans.

Sustained Decline in Revenues – revenues declined by US\$3.55B (12.61%) over the last 5 years and are projected to take a major hit this year because of store closures and closed international borders.

Reversal of Improvement in Leverage – Over the past 5 fiscal years, Macy’s has cut its long-term debt in half. The company is on track to undo all those efforts with the debt it has taken on so far and intends to take on in the current fiscal year.

Weaker Cash Flows and Liquidity – Free Cash Flow (FCF) deteriorated from US\$1.078B in FYE 2019 to US\$706M in FYE 2020, as Cash Flow from Operations deteriorated, and capital expenditures increased to fund the refurbishing of their top 150 stores.

Ratings downgrades – Macy’s has seen several credit ratings downgrades since the start of this year and its notes currently hold the following ratings:

- Standard & Poor’s: B+ as at April 24, 2020
- Fitch: BB+ as at April 01, 2020
- Moody’s: Ba1 as at April 24, 2020

These downgrades occurred on the backdrop of an anticipated decline in revenues compounded by the company’s growing debt.

Outlook

Credit - Negative

All three rating agencies have a negative outlook on the company’s notes. Further downgrades are inevitable if revenues, and, as a result, liquidity, do not see a turnaround over the next couple of months. Another influential factor is the growing debt burden. In March, Macy’s accessed a line of credit which has placed it on the edge of breaching its restrictive leverage ratio covenant. The company has since announced its desire to raise an additional US\$5B to shore up liquidity to ride out the pandemic, using its inventory and real estate as collateral. To achieve this, the company would have to obtain consent from lenders as such a move would result in Macy’s breaching existing covenants.

Financials - Poor

Prior to the crisis, the company saw declining revenues of approximately 2.06% per year, over the past five years. With intense competition all around, both physically and digitally, the decline in revenues was relatively modest. However, with tight margins, the declines were magnified in the bottom line, thereby weakening the company’s liquidity position. In the next twelve months, Macy’s will have to cover operating leases of over US\$350M, interest expense of over \$110M, and accounts payable of almost US\$1B. In this time of much lower revenues, those expenses will prove burdensome for the company and will see the company quickly burning through its recent drawdown on a US\$1.5B line of credit. Also, considering the other operating expenses, and a cash balance of US\$685M prior to the line of credit, Macy’s will have to borrow funds to cover approximately US\$539B and US\$177M in principal and interest payments, respectively. Such a move would lead to further strain on the company.

Macy’s is a company known in the industry for its longevity, brand names and expansive network of stores. However, with a rapidly weakening credit position, and increased stress caused by the current economic climate, Macy’s may have to declare bankruptcy, for the third time. S&P estimates the probability of this happening this year at 42.1%.

Recommendation – Sell

Macy’s Inc.’s Financial Highlights				
Fiscal Year Ending	2017	2018	2019	2020
Revenues (\$M)	25,778	25,641	25,739	25,331
CFO (\$M)	1,801	1,976	1,735	1,608
Net Income (\$M)	619	1,566	1,108	564
Gross Profit Margin	39.40%	40.79%	40.89%	40.11%
EBITDA Margin*	9.21%	11.13%	10.49%	7.70%
FFO / Total Debt*	0.27	0.30	0.40	0.41
Long-Term Debt to EBITDA	2.77x	2.05x	1.74x	1.87x
Operating Margin	5.10%	7.27%	6.75%	3.83%
Net Profit Margin	2.40%	6.11%	4.30%	2.23%
Working Capital*	2,068	2,467	2,213	1,391
Current Ratio*	1.36x	1.48x	1.42x	1.26x
EBITDA to Interest*	6.47x	8.89x	10.34x	9.52x
Capitalization Ratio*	59.99%	50.55%	42.25%	36.35%
Debt to Equity*	157.02%	102.62%	73.82%	65.60%
*Excluding Operating and Finance Leases Source: Macy’s 10K FYE 2020				

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