

Macy's (NYSE: M) Memo

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<u>Important Company Financial Data</u>							
Price(11.29):	\$30.84		2011	2012E	2013E	2014E	2015E
Market Cap(\$US)	12.97B	Revenue	25,004	26,293	27134	27,746	28,644
52 Week Range (\$US)	30.59-31.26	EBITA	3,050	2,326	2,491	3,742	3,924
Current ratio:	1.23	EPS	2.71	2.766	3.161	3.628	3.480
Total Cash:	1.10B	P/E	11.38	11.15	9.756	8.503	8.862
Total Debt:	6.96B	EV/EBITA	5.37	5.555	5.338	5.085	4.85

Thesis / Key Points

- **Macy's is the industry leader in providing unique shopping experience**
 1. **Localization initiatives called "My Macy's"** accelerate sales growth in existing locations by ensuring that core customers surrounding each Macy's store find the stores are customer-tailored to their needs. Their large regional data base on customers' purchasing pattern provides a useful resource for decision making.
 - Sooner or later consumers will develop a dependence on Macy's because they can find most items they need at the store. **This is evident from its strong revenue growth of 4.09% this year.** Whereas its competitors concentrate their decision making power within top executives who don't have first hand information about customers' purchasing pattern in different stores.
 2. **Private and exclusive brands continue to drive large traffic** By having private and exclusive brands, Macy's can provide consumers with unique shopping experience that consumers cannot find in any other stores and reduce the pricing pressure Macy's faces among its competitors at the same time.
 - Private brands in Macy's continued to thrive in 2010 and outperformed market brands. In 2010, private brands have strong performance and represented approximately **20%** of sales at Macy's. Exclusive and limited-distribution merchandise (including private brands) at Macy's rose to more than **43 percent** of total sales in 2010.
 - Customers keep coming to Macy's because some brands cannot be bought elsewhere. In the survey I did on grounds, some students mentioned they like Macy's because they can find brands they want to buy but not available in any other places.
- **Macy's is the industry leader in developing online and mobile service** To allow the customers shop seamlessly in stores, online and via mobile devices, the company build two websites—Macys.com and Bloomingdales.com. Both websites emphasize greatly on user friendly design, making easier for customers to shop online.
 1. **Macy's online sales outcompete its competitors** Management team quickly decisions on expanding online sales help Macy's gain competitive edge in online sales.
 - In the recent report of its third quarter earnings, online sales for Macys.com and Bloomingdales.com rose **40 percent year-over-year**. While online sales for JC Penny declines 5.5% in the third quarter.
- **Macy's has a very strong management team**

The company's management team is able to predict the customers' preference accurately and conduct effective strategy to meet the market's need. They collect first-hand information about customers' preference and purchasing pattern by visiting the stores and conducting various experiments on its opening hours, pricing, etc. To prepare for Black Friday this year, the management team experimented opening its stores at midnight in six locations last year. They also noticed the increasing spending of young adults rather than baby boomers, and developed particular strategies such as having Justin Bieber advertise for its "Someday" perfume gift packs at the Herald Square location to meet customers' preference. According to the report from Macy's, the strategy has been proven to be very successful. The stores have drawn strong customer visits, especially at stores that opened at midnight or earlier fro the first time.
- **Customers are more willing to spend as economy recovers**

U.S. consumers poured into the malls and took to the Web during this Thanksgiving weekend, spending a record of \$52.4 billion. Retails sales climbed 16%, and shoppers spent \$398.62 million on average, up from \$365.34 million a year earlier. According to the estimate of 55 economists in a Bloomberg News survey, the economy may have added 120,000 jobs this month. As the economy slowly recovers from the financial crisis in 2008 and more jobs are created in the market, more and more people are willing to spend their money.
- **Macy's has very solid financials**

The company has a very large growth margin of 40.49%, 5% higher than the industry average. Its P/E ratio is 11.3, lower than the industry average of 19.6 and much lower than its close competitor Saks (NYSE: SKS) of 21.12. During 2010, the company paid off 1,485 million of long term debt and contributed 825 million to the pension plan, ending up with 1.5 billion of cash. Recently, Macy's reports strong third-quarter financial with earnings jump to \$139 million, or \$0.32 per share, beating street's estimate of \$0.16 per share.

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Misperception

- **Macy's has too many stores, which is hard for management**
Macy's operates more than 850 stores, but large number of stores does not necessarily indicate inefficiency or poor management. My Macy's localization initiative empowers local store managers to make crucial business decisions based on their analysis of local customers and their purchasing behavior.
- **People are not willing to spend under bad economy.**
Even under unstable macroeconomics situation, Black Friday sales this year still grow 16% for retail industry. The growth of sales is due to the increase of people's income. Addition to that, this also proves that consumers are gaining confidence about the macro economy and are willing to spend on their debt.

VAR

- Survey(32 responses) 19 out of the 32 responses rank Macy's as their favorite store(Options include Nordstrom, JC Penny, Dillards, and Kohl's); 8 people claim that they have shopped or browsed on Macy's website for at least once. The result shows that there is still a great potential for Macy's online sale expansion.
- Graham Egan(Friend): **1. One shop for all** Macy's has both high-end basic clothing, making the shopping experience easier. **2. Superior online shopping experience** "Online website is very user friendly." This proves that Macy's strategy on improving its online sales has been very effective.

How It Plays Out

- Macy's has carried out several key strategies to differentiate its stores from other major competitors. The company's customer-centric localization initiative called "My Macy's" make stores and merchandise assortments focus on local customer needs and preferences. The company's strategy of expanding online sales also help the company gain competitive edge as online shopping grow rapidly in recent years. All of the strategic plans will help Macy's keep its growth momentum and gain competitive edge both in in-store and online sales.
- Economy is slowly recovering from the financial crisis in 2008. Although unemployment rate might be steady around 9 %, people's income is increasing. As income rises, more and more people are willing to spend their money in stores.
- Macy's has a strong growth of revenue on this Black Friday. It is very likely that the company will beat the market estimate again after demonstrating strong earnings in the third quarter.

Risks / What Signs Would Indicate We Are Wrong?

- The company faces significant competition in the retail industry. Its main competitors are JC Penny (NYSE:JCP) , Kohl (NYSE:KSS), and Saks (NYSE: SKS).
- My Macy's localization initiative and online expansion can be ineffective to draw customers
- Macy's might fail to keep some brands exclusive in its stores
- The company's business is subject to unfavorable economic and political conditions and other developments and risks.
Unfavorable changes related to interest rates, rate of economic growth, and consumer credit availability can negatively influence the company's performances.

Signposts / Follow-Up

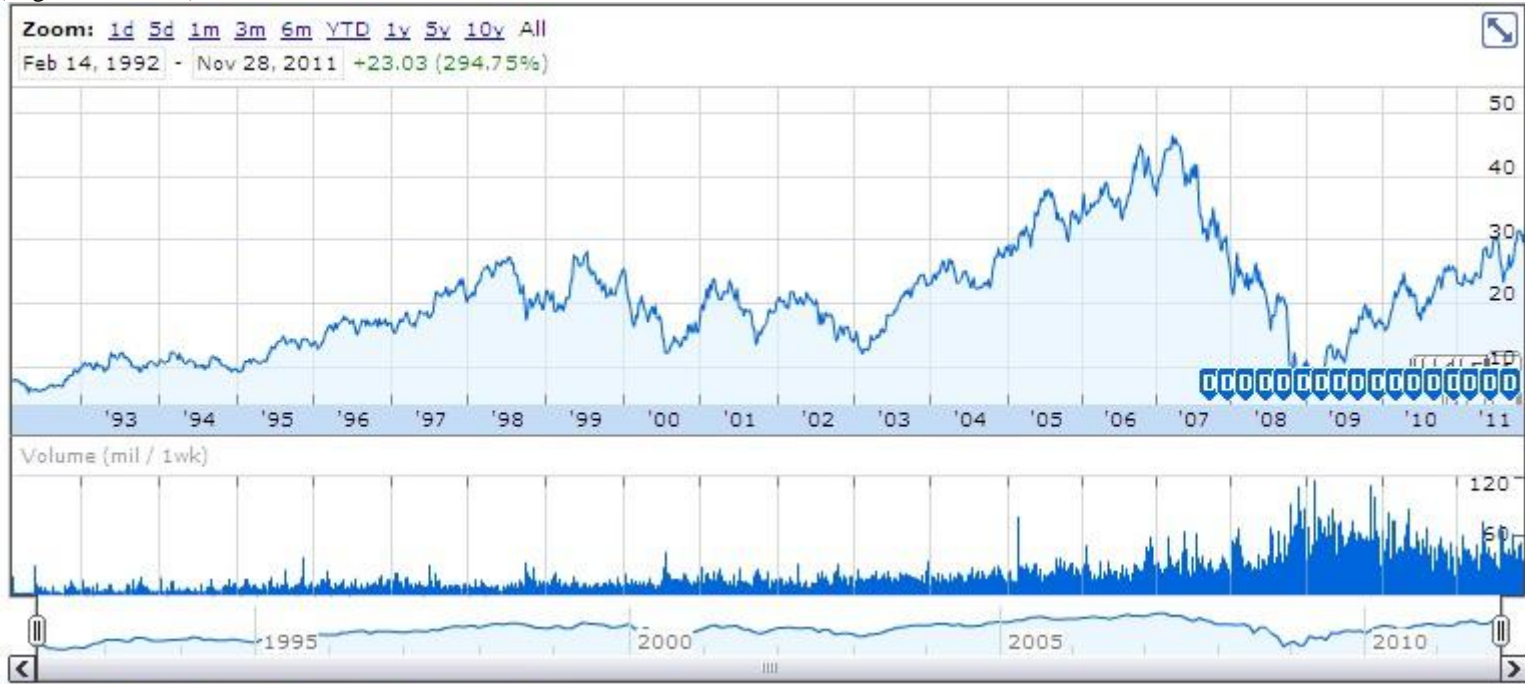
- Macy's strong holiday sales in December and its Fourth-quarter earnings
- Macro economics condition including unemployment rate and income
- Raise of oil/gas price
- Competitor's market shares and actions

Company Description

Macy's, Inc. (Macy's) is a retail organization operating retail stores and Internet Websites under two brands (Macy's and Bloomingdale's) that sell a range of merchandise, including men's, women's and children's apparel and accessories, cosmetics, home furnishings and other consumer goods in 45 states, the District of Columbia, Guam and Puerto Rico. As of January 29, 2011, the Company's operations were conducted through Macy's, macys.com, Bloomingdale's, bloomingdales.com and Bloomingdale's Outlet. In February 2010, Bloomingdale's opened in Dubai, United Arab Emirates.

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(Page of Exhibit/s)



Direct Competitor Comparison					
	M	DDS	PVT1	SKS	Industry
Market Cap:	12.97B	2.56B	N/A	1.37B	1.35B
Employees:	166,000	29,564	154,000 ¹	9,804	26.50K
Qtrly Rev Growth (yoy):	4.10%	3.20%	N/A	5.10%	0.00%
Revenue (ttm):	25.95B	6.37B	17.56B ¹	2.95B	4.73B
Gross Margin (ttm):	40.49%	36.94%	N/A	40.88%	36.94%
EBITDA (ttm):	3.40B	671.68M	N/A	264.13M	275.70M
Operating Margin (ttm):	8.85%	6.44%	N/A	4.99%	4.80%
Net Income (ttm):	1.18B	230.42M	251.00M ¹	62.34M	N/A
EPS (ttm):	2.73	3.94	N/A	0.40	0.32
P/E (ttm):	11.30	12.61	N/A	22.16	19.06
PEG (5 yr expected):	0.85	2.13	N/A	1.11	1.18
P/S (ttm):	0.48	0.39	N/A	0.44	0.59

DDS = Dillard's Inc.

Pvt1 = J. C. Penney Corporation, Inc. (privately held)

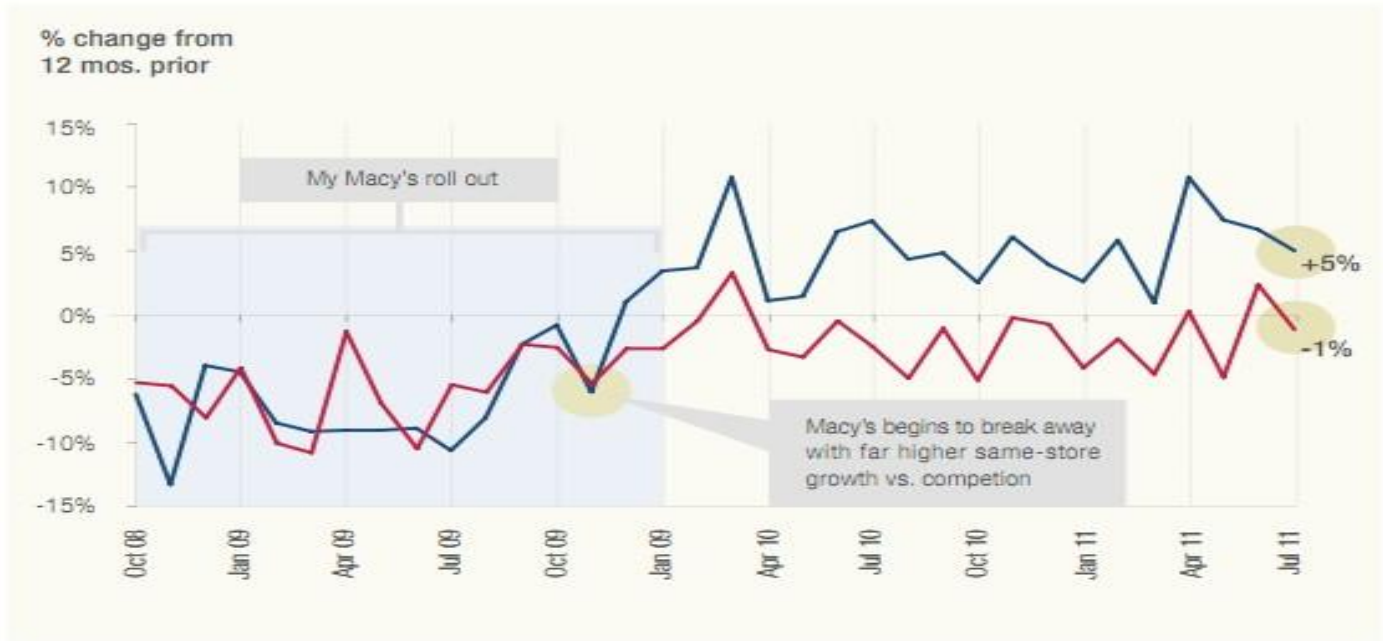
SKS = Saks Incorporated

Industry = Department Stores

¹ = As of 2010

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Macy's localization initiative



— Macy's same-store sales
— Competitors' sales

Figure 1: Macy's performance against competitors

Source: Macy's monthly same store sales figures come from macyinc.com; Data for competitors come from the US Census tracking of all department store revenues (NAICS 4521; less Macy's revenues)

Black Friday



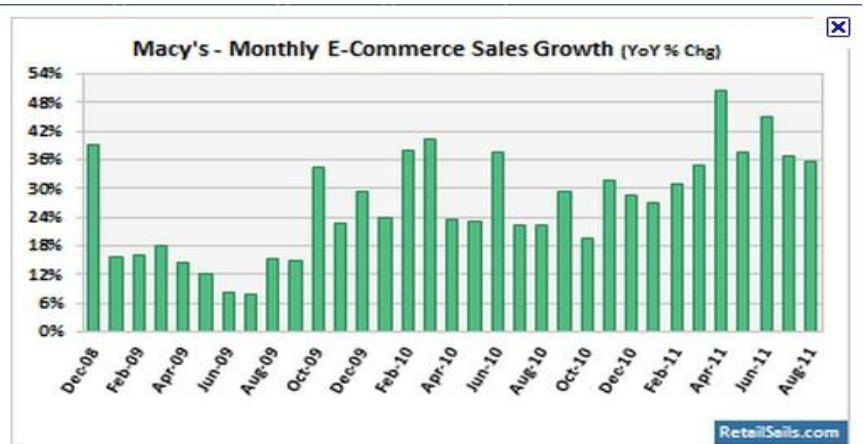
Ramsay de Gize for The Wall Street Journal



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Macy's Online Sales Growth

US Online Retail Growth



Macy's Revenue Growth

