



INVEST/STAY CONNECTED

INITIAL REPORT May 29, 2022
LAST UPDATED May 29, 2022

Macy's, Inc Common shares \$23.44 Recommendation: Buy price target \$40

[Macy's Inc.](#) (M) Macy's is an iconic department store retailer operating under the Macy's, Bluemercury and Bloomindales banners. 2021 sales were \$25.3 billion with 35% of sales from digital channels. A large portion of the current success results from strategic planning previous to the Covid lockdowns. The [Polaris strategy](#) was implemented in February of 2020. It is described as: "a three-year plan designed to stabilize profitability and position the Company for sustainable, profitable growth". As a result, digital sales have increased by 39%, the store base continues to be rationalized and cost saving measures have been implemented. Overall, Macy's has demonstrated that the company is a long-term survivor. Due to Polaris, management positioning and agility and other factors Macy's achieved its' best earnings in 5 years for 2021 and we consider the shares to be underpriced.

As of January 29, 2022, the operations of the Company included 725 stores, comprising a total of approximately 112 million square feet. Macy's owns 427 stores with 104 operated under ground leases. All owned properties are held free and clear of mortgages. It is fairly likely that Macy's owned real estate exceeds its' current enterprise value, pricing only the 323 fully owned locations at around \$200 per square foot. Part of the reason that Macy's trades at a 75% discount to the S&P 500 is that the investment community is slow to realize the success and demonstrated durability. We consider the short thesis to be seriously trashed and the sell side brokerage opinions to be way behind reality with 4 buys and 18 holds or sells. The shorts seem to be out of touch with reality and massively vulnerable with 36 million shares shorted versus 270 million shares currently outstanding. Macy's bought back 24 million shares or 8% of the float in the first quarter and we don't see this slowing down. M does not have any "material debt maturities" for the next five years, giving the company flexibility to invest in the business and share buybacks.

Our price target of \$40.00 and buy recommendation is based on 4 X 2022 enterprise value to EBITDA and 7.5 X current year (2023) earnings per share. We also see cash flow build, after dividends and capex of over \$5 billion (\$20 per share) through 2025 leading to further buybacks and debt reduction.

M chart 2021 through May 2022

Recent Presentation

Company Description: At Macy's, Inc. (NYSE: M), we are a trusted source for quality brands at great values from off-price to luxury. Across our iconic nameplates, including Macy's, Bloomingdale's and Bluemercury, we help our customers express their unique style and celebrate special moments, big and small. Headquartered in New York City, we operate one of retail's largest e-commerce businesses integrated with a nationwide footprint to deliver the most convenient and seamless shopping experience.



Disclosures

Price target reduced from 98 to 70 and rating reduced from buy to hold on March 13. Previous reports are available upon request. Smart Yield Fund targets a mix of different security classes that contain the risk of loss. Investors should carefully consider the Fund's investment objectives and risk factors before investing. Investing involves risk, including possible loss of principal. Investors should consider the loss of principle and targeted returns are not guaranteed. Individual investors in Smart Yield are generally required to be accredited investors. Smart Yield is a fund operated through individual accounts creating the composite. Smart Yield Fund is a new product with an inception date of September 30, 2020, and as such does not have historical data. Asset Mix Projections on page 2 and 6, Smart Yield Portfolio Metrics on page 5 are estimated or targets of the fund. Asset class mix and targets may change based on the direction of the managers. Portfolio allocation projected annual return and beta assumption for each asset class on pages 7-10 are estimated. Beta for the fund and each asset class is estimated versus the S&P 500. The average beta for the entire fund is projected to be .32. Beta is a measure of the fund's volatility in relation to S&P 500 Index. This index has a beta of 1.0. The fund targets a total gross return before fees and expenses of 9.24%. The fund projects a blended return based on income securities and capital gains. Smart Yield attempts to continuously improve the value of investment portfolios by investing in corporate bonds, convertible bonds, other types of bonds (investment grade and sub-investment grade, [which may also have limited liquidity]), dividend paying equities, non-dividend paying equities, ETFs, including leveraged ETFs, and other securities. Fixed income risks include interest-rate and credit risk. Typically, when interest rates rise, there is a corresponding decline in bond values. Credit risk refers to the possibility that the bond issuer will not be able to make principal and interest payments. All securities types mentioned in this brochure have the risk of loss. Long term strategies purchase securities which are underpriced according to our appraisal methodologies. Broxton uses regression analysis to obtain an average appraisal value for an individual company and places a priority on the securities of companies with improving financial performance and or additional catalysts that provide for increases in earnings and valuation. We use financial modeling, technical analysis, proprietary and third-party research. Smart Yield does not have any capitalization (market size), sector or industry allocation mandates. Asset class allocation percentages may be changed without notice. Broxton deploys technical analysis and momentum as indicators of movement for shorter term strategies, that may not involve deep fundamental analysis. 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On request we provide a list of all investment recommendations made by the firm over the last twelve months. Also, from time-to-time we may also discuss and display, charts, graphs, formulas which are not intended to be used by themselves to determine which securities to buy or sell, or when to buy or sell them. Such charts and graphs offer limited information and should not be used on their own to make investment decisions.

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