INVEST/STAY CONNECTED

INITIAL REPORT May 29, 2022
LAST UPDATED December 11, 2023

MACY'S INC.

Recommendation: Buy on weakness in the $16-18 area

Macy's Inc. (M) After the Covid rebound in 2021 and 22, department store retailer Macy's revenue gains stagnated and began slipping this year. This is worrisome because of the good economy and the fact that a few other retailers have been able to increase revenues, such as Lululemon and Abercrombie. Traditional department stores such as Macy's, Kohls and Nordstrom have seen declining 2023 revenues in the 5 to 8% area. Competitive points such as owned brands, declines in home categories, online competition, competition at the makeup counter and decline in business apparel are some of the challenges for the department store model. Currently, Ulta Beauty, an American chain of makeup stores has a stock market value which exceeds the department stores mentioned above.

As of December 10, Macy's is reported to have received a takeover offer from real estate investment firms Arkhouse Management and Brigade Capital (whom already own shares) for around $21 per share. In our initial report we noted that: "It is fairly likely that Macy's owned real estate exceeds its' current enterprise value." It is also indicated that the bid could improve, and Macy's has not given a response at this time. We estimate that the 316 100% owned stores, comprising an estimated 49 million square feet, are worth between $10 billion and 12.2 billion based on a valuation of $200-250 per square foot. This notably includes the 2.5 million square foot New York Herald Square location which has been valued as high as $2 or 3 billion. The actual strategy for a buyer to convert or sell the locations is not known and most likely would require that Macy's remain as tenant in most locations for decades to come. So, outside the current plan of working to improve the Macy's stores in various ways a coherent strategy for monetizing the real estate quickly may be hard to come by. In 2023 and 2024 We predict that Macy's will have around $600-700 million in free cash flow after capital expense, leaving little to pay additional rents. Currently, the capital expenditures are projected at around $1 billion due to the focus on survivability initiatives, including digital and technology investments.

There are questions regarding the long-term survivability for Macy's and a low bid may be the best alternative for the company. It is probable that investors would vote to sell, and management could capitulate due to survivability questions, but we believe it could be difficult to substantially improve the bid, so we advise aggressive holders or buyers to add at lower prices in the $16-18 area in anticipation of a slightly improved bid that is consummated.

COMPANY STATS & 2024 PROJECTIONS	
Shares Out	274 mm
Equity Market Cap	5,754 mm
Total Debt	2,997 mm
2024 Equity Div Projection	66 cents (3.1%)
2024 Revenues Est.	22,731 mm
2024 Cash Flow - Capex	625 mm
Cash Flow Yield vs. equity	**11%**
Enterprise Value	8,387 mm
EBITDA (2024 Est.)	2,037 mm
EV/EBITDA (2024 Est.)	4.12 X
2024 EPS est.	2.74
2024 PE Ratio	7.67 X
Net Debt/EBITDA	**1.29**
REAL ESTATE VALUES	
Total Stores	722
Stores owned (44%)	316
Owned w ground lease	102
100% owned SQFT est.	49 mm
RE Valuation @ 200 / SQFT	9,800 mm
Share Valuation	**26.15**
RE Valuation @ 250 / SQFT	12,250 mm
Share Valuation	**35.10**

Special note on the bonds: Not all of the bonds contain change of control (COC) puts. The bonds we reviewed are all BB+. Terms of approximately $2,409 million (of the bonds) require purchase at 101% if there is *both a change of control* and the Company and the notes are rated by specified rating agencies at a level below investment grade (within a specified period). The bonds are already below Investment grade so the COC is not clear if it will be activated, and the bonds could end up subordinated to an LBO. So, they contain a special risk.

SMART YIELD
Income Fund

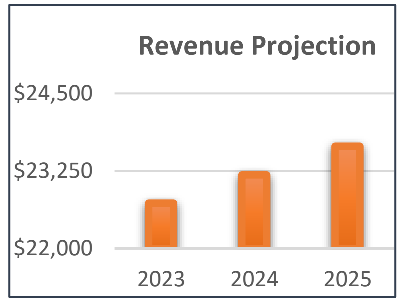
BROXTON CAPITAL ADVISORS **Macys, Inc. as of 9/30/2023**

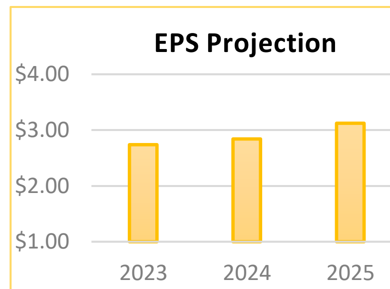
Monday, December 11, 2023

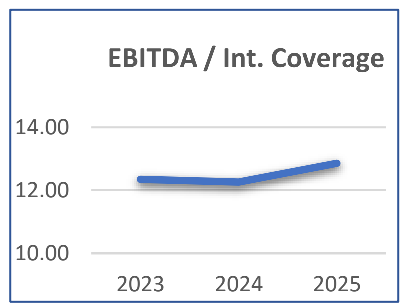
share price (M)	$21.00		
PROJECTIONS IN MM	2023	2024	2025
Income Statement			
Revenue	$22,731	$23,186	$23,649
Gross Profit	$9,469	$9,599	$9,785
Operating Income	$1,152	$1,199	$1,301
Pre-Tax Income	$987	$1,024	$1,126
Net Income	$750	$778	$856
EPS	$2.74	$2.84	$3.12
Revenue growth	-7%	2%	2%
EBITDA	$2,037	$2,084	$2,186
Interest*	$165	$170	$170
Capitalized Expense	$1,000	$1,000	$1,000
Cash Flow	$635	$663	$741
Equity Dividends	$181	$181	$181
Cash Flow Dividend Coverage	NA	NA	NA
Retained Cash Flow	$455	$483	$560
Retained Cash Flow Sum	$455	$937	$1,497
Revenue Growth	-7%	2%	2%
Valuations			
Cash Flow Yield Vs. Equity	11.0%	11.5%	12.9%
EV/EBITDA	4.12	4.02	3.84
P.E Ratio	7.67	7.39	6.73
Enterprise Value	$8,387		
Total Debt net	$2,633		
Equity Market Cap	$5,754	$5,754	$5,754
Debt Ratios			
EBITDA/Interest Coverage ratio	12.35	12.26	12.86
Debt/EBITDA	**1.29**	1.44	1.37
Liquidity			
Cash	$364		
Borrowing Availability *est.*	1000+		
Total Current Assets	$7,070		
Total Current Liabilities	$6,014		
Current Ratio	118%		
Debt			
Borrowings	$2,997		
Total	$2,997		

NOTES:

debt maturing after 2025 = 2.997 billion







SMART YIELD

Income Fund

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. 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