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Macy's: Way to Flop

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Macy's (M) shares are lower after the company lowered its guidance to below the average analyst projection for the holiday quarter. I have to be honest: I am tired of hearing about the May integration, cost savings and stock buybacks from Macy's management. When will the company stop borrowing money to buy back debt once and for all? This company is going nowhere and is simply too big to be investible for the long term. About the best we can expect from Macy's is the Thanksgiving Day Parade next Thursday.

Macy's reported third-quarter 2007 EPS of 8 cents, or 10 cents when excluding the impact of May Company integration costs. This is at the high end of management's 5 cents to 10 cents guidance range. Net sales came in at $5.906 billion vs. guidance of $5.9 billion to $6.0 billion.

Management was disappointed that sales trends were not stronger during the quarter. On the positive side, management was encouraged that sales are strengthening at the formed May stores, home categories continue to perform well and furniture was strong. The men's business did OK, but there is concern for women's apparel. Once the colder weather materialized, business improved.

Gross margins declined 1%, to 39.3%, year over year. A lower gross margin was anticipated, however, the rate came in even lower than expected. When excluding May integration costs, SG&A was 1.3% above last year's rate and 0.3% higher as a percentage of sales. There were no May-related inventory revaluations this year vs. $28 million a year ago. Inventories were in good shape.

Net cash provided from operations was $285 million. In the year-ago period, Macy's received almost $1.9 billion from the sale of the credit card portfolio. During the first nine months of this year, the company issued $2.9 billion of long-term debt, including $350 million issued during the third quarter, while repaying $647 million of long-term debt. Macy's bought back $84 million of shares in the third quarter for a nine-month year-to-date total of $3 billion. This compares to $1.1 billion of buybacks so far for fiscal 2006. Given the current credit market conditions, Macy's is evaluating its options for executing the remaining $1 billion share repurchase authorization.

For the fourth quarter of 2007, management reduced revenue guidance by $100 million on both sides of the range to a new range of $8.7 billion to $8.9 billion. Factoring out the extra week in the fourth quarter of 2006, the 13-week-to-13-week same-store comps are expected to be in a range of down 2% to up 1%. EPS guidance remains unchanged at $1.70 to $1.80. (Note: Analysts' consensus calls for Macy's to earn $1.74 on net sales of $8.91 billion in the quarter ending January 2008.)

About the only interesting information coming out of the Q&A was that the Martha Stewart Collection is performing well and is driving traffic to the stores.

Macy's Preview: Same-Store Sales Erratic

Macy's (M) , the mall-based retailer, is scheduled to report third-quarter 2007 results before the market opens on Wednesday and conduct its quarterly conference call later that morning. Analysts are expecting Macy's to earn 7 cents per share on net sales of $5.91 billion.

When I covered Macy's last quarter, I highlighted the fact that the company was not happy with the quarter and that the environment was challenging, yet management was optimistic with the trends for the last half of the year. After hearing from **Wal-Mart** (WMT) one would be inclined to believe that Macy's might be on to something.

Macy's same-store sales were erratic, however, and did not appear to improve as the quarter progressed. Same-store sales fell 1.5% in October, fell 2.7% in September and rose 2.4% in August. I would also expect Macy's to still be burdened from acquisition and integration costs and issues.

While **Martha Stewart Living** (MSO) did not comment on the merchandising agreement with Macy's, it may be likely that Macy's will have a progress report on that effort. So far, at least one Wall Street analyst sees improvement at Macy's from the Martha launch.

The stock has performed poorly this year and hit a fresh new 52-week low in the recent market selloff.

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Scott Rothbort has over 20 years of experience in the financial services industry. In 2002, Rothbort founded LakeView Asset Management, LLC, a registered investment advisor based in Millburn, N.J., which offers customized individually managed separate accounts, including proprietary long/short strategies to its high net worth clientele.

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