

# Macy's

LBO Candidate  
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NYSE: M  
by Jason Conroy



## Executive Summary

**The Opportunity** Macy's Inc. represents a classic "Deep Value" LBO opportunity. The market currently values the business at a cynical **4.05x EBITDA**, a massive discount compared to the sector median of **11.2x**. This valuation gap ignores the company's massive cash-generation profile and the high-growth potential of its luxury banners, Bloomingdale's and Bluemercury. We are acquiring a cash-flow machine at a liquidation-level multiple.

**The Transaction** We propose a take-private acquisition at **\$28.46 per share**, representing a total Equity Value of **\$7.54 Billion**. This offer is **14.8% higher** than the \$24.80 bid rejected by the Board in July 2024, effectively neutralizing prior "financing concerns" and "valuation insufficiency" arguments. The deal will be funded with **\$5.7 Billion** in new debt, structured to capitalize on Macy's robust asset base.

**The Value Creation Engine** Our returns are not predicated on a "Retail Miracle." Instead, they are mathematically secured by the following levers:

- **Deleveraging (63% of Value):** Using Macy's **\$1.2B+ in annual Operating Cash Flow** to pay down \$3.4B in debt over the 5-year hold. We are effectively transferring value from lenders to equity holders.
- **Operational Rationalization (17% of Value):** Executing the "Bold New Chapter" strategy by closing **150 underperforming stores** to stop the cash bleed and reinvesting in the 350 high-performing "go-forward" locations.
- **Multiple Expansion (20% of Value):** We exit at a conservative **5.5x multiple**. By shifting the mix toward luxury and small-format stores, we de-risk the profile, earning a modest re-rating from our 5.0x entry.

### Investment Returns

- **Entry Multiple:** 5.0x
- **Exit Multiple:** 5.5x
- **Holding Period:** 5 Years

- **Projected IRR: 18.0%**
- **Cash-on-Cash Multiple: 2.3x**

**The Bottom Line** The July 2024 rejection created an opening. By offering a superior price of **\$28.46**, we provide a 58% premium to the current market while maintaining a defensible private equity return profile. Macy's is an asset-rich business with an "unbreakable" cash flow floor. We recommend an immediate pursuit of the acquisition to capture the arbitrage between Macy's current "mall-retailer" valuation and its future as a "streamlined-luxury" platform.

**Recommendation: BUY**

## Business Overview

Founded in 1858, Macy's, Inc. is a leading U.S. omnichannel retailer operating a portfolio of well-known consumer brands, including Macy's, Bloomingdale's, and Bluemercury. The Company sells a broad assortment of apparel, accessories, cosmetics, home goods, and beauty products through a national network of physical stores and e-commerce platforms, serving middle-income to upper-middle-income consumers across the United States. Recent performance highlights a resilient trajectory, with Q3 2025 marking the strongest comparable sales growth in 13 quarters.

Macy's operates primarily within the U.S. department store and specialty retail industry, which facilitates consumer access to branded and private-label merchandise through curated assortments and large-format retail locations. Department stores historically served as anchor tenants in regional malls and urban retail corridors, leveraging scale, vendor relationships, and physical presence to attract consistent consumer traffic. While the industry has faced secular pressure from e-commerce and changing consumer behavior, Macy's remains one of the largest and most recognized operators in the category, with significant scale advantages and long-standing supplier relationships.

The Company has served U.S. consumers for over 165 years, earning strong brand recognition and customer loyalty through its national footprint, iconic flagship locations (including Herald Square in New York City), and diversified retail banners. Macy's is widely regarded as one of the most established department store operators in the country, with a reputation for breadth of assortment, promotional reach, and strong private-label brands. These factors create meaningful barriers to entry for smaller competitors, particularly in sourcing, logistics, and vendor access.

Industry dynamics remain challenging but selectively attractive for scaled operators with asset backing. The U.S. department store industry has consolidated significantly over the past decade, leaving a small number of national players servicing a large and fragmented consumer base. Within this competitive set, Macy's benefits from its national scale, omnichannel

capabilities, and ownership of a substantial portion of its real estate portfolio, which provides strategic and financial flexibility unavailable to most peers.

Macy's competes primarily on a "total value proposition" that balances price, assortment, convenience, and customer experience. Management defines value not only by product pricing, but also by availability, speed of fulfillment, private-label differentiation, and customer loyalty benefits. The Company's owned real estate allows it to operate flagship and mall-based locations with lower long-term occupancy costs relative to leased competitors, supporting competitive pricing while preserving margins. Additionally, Macy's private-label portfolio offers higher gross margins and greater control over inventory, reducing reliance on vendor-driven pricing dynamics. Complementing retail sales, secondary revenue streams remain robust; credit card sales increased by 31.7% in recent periods, contributing significantly to the overall margin profile.

The Company's major competitors include other national department stores and specialty retailers, many of which operate with fully leased real estate portfolios and narrower brand recognition. By virtue of its scale, real estate ownership, and diversified banners, Macy's is able to achieve broader geographic reach, stronger vendor economics, and greater operating leverage than smaller or digitally native competitors.

Macy's is headquartered in New York City, operating from corporate offices and supporting a nationwide retail footprint consisting of approximately 680 stores across the US (450 Macy's, 59 Bloomingdale's, 171 Bluemercury), including a mix of 250 owned 344 leased, 83 subject to a ground lease, and 3 partly owned and partly leased properties. The Company also maintains distribution centers and fulfillment facilities across the U.S. to support omnichannel operations, including the recently opened China Grove distribution center—the company's most technologically advanced facility to date. Macy's employs approximately 94,189 (as of 2/1/25) employees, the majority of whom are store-level and logistics personnel, with corporate teams spanning merchandising, supply chain, marketing, technology, and finance. The leadership team is deeply experienced, with the CEO having served within the Macy's or Bloomingdale's organizations since 1987.

As of the most recent fiscal year (2024), Macy's generated **\$23 billion of revenue and \$1.98 billion of Adjusted EBITDA**, reflecting strong cash generation despite industry headwinds. Management has continued to emphasize cost discipline, inventory optimization, and store portfolio rationalization under the "**A Bold New Chapter**" strategy. This three-year plan focuses on three strategic priorities: (1) reimagining the Macy's nameplate by closing 150 underperforming stores (64 of which were closed in 2024 alone), (2) accelerating luxury growth via Bloomingdale's and Bluemercury, and (3) modernizing the supply chain.

Revenue visibility is supported by diversified merchandise categories, a large and loyal customer base, and recurring demand in beauty, cosmetics, and private-label apparel, which tend to exhibit more resilient margins than discretionary categories.

The Company's customer base is almost entirely U.S.-based, with near 100% of revenue generated domestically. Macy's serves a broad and diversified customer population, with no single customer representing a meaningful portion of revenue. While overall mall traffic trends have declined, Macy's has maintained relevance through loyalty programs, digital engagement, and selective reinvestment in higher-performing locations and banners such as Bloomingdale's and Bluemercury. Bloomingdale's continues to anchor the high-end segment with record performance, while Bluemercury has achieved an impressive streak of 16 consecutive quarters of comparable sales growth.

From 2021 to 2025, Macy's revenue experienced modest decline due to pandemic disruptions and structural industry shifts; however, EBITDA margins stabilized as management aggressively reduced costs, exited underperforming locations, and improved inventory discipline. The Company demonstrated an ability to generate substantial free cash flow even in lower-growth environments, highlighting the durability of its core earnings base. Recent strategic initiatives, including real estate monetization, digital optimization, and portfolio segmentation, suggest a platform capable of supporting leveraged ownership under a private equity sponsor.

A financial sponsor is well-positioned to accelerate these initiatives through a take-private transaction, leveraging Macy's asset base, stable cash flows, and brand equity to drive operational improvement and unlock value over a multi-year investment horizon.

## Industry Analysis & Market Structure

### Industry Definition & Market Size

The department store industry is defined as a retail sector that facilitates consumer access to a curated assortment of branded and private-label merchandise—primarily apparel, accessories, cosmetics, and home goods—through large-format physical locations and integrated digital platforms. As of late 2025, the U.S. retail landscape remains a massive, absolute market, with monthly sales reaching **\$735.9 billion** in November 2025 (up 3.3% YoY) and quarterly retail sales totaling **\$1.89 trillion** in Q3 2025. On a global scale, the department store market is valued at **\$122.45 billion in 2025** and is projected to reach **\$174.58 billion by 2031**, reflecting a stable **6.09% CAGR**.

### Structural Trends & Headwinds

The sector is currently navigating a period of significant structural realignment driven by three primary headwinds:

- **Accelerated E-Commerce Penetration:** The industry faces persistent share loss to online-first and Direct-to-Consumer (DTC) models. In Q3 2025, U.S. e-commerce sales grew by 5.1% YoY to **\$310.3 billion**, now accounting for **16.4% of total retail sales**.

Non-store and online sales are projected to outpace total retail growth significantly, growing at **7–9% annually**.

- **Fixed-Cost Rigidity:** Department stores are burdened by high fixed costs, including leases, large labor forces, and utilities. Declining mall foot traffic impairs store-level profitability and increases markdown risks, making traditional large-format models economically unsustainable in lower-performing locations.
- **Competitive Squeeze:** The industry is being compressed from both ends. Value players like Walmart and Target leverage price leadership, while luxury specialists (such as the newly formed Saks Global) offer superior personalization and higher-margin exclusivity, leaving mid-market operators struggling for differentiation.

### Industry Attractiveness & Stabilizers

Despite these headwinds, the sector has found a "stabilization floor" through modern operational shifts:

- **Hybrid Omnichannel Models:** Successful operators have unified physical and digital presence, using store networks as **fulfillment hubs** for click-and-collect and curbside pickup. This strategy synchronizes inventory to optimize stock levels and reduces last-mile delivery costs.
- **AI and Personalization:** Retailers are increasingly deploying AI to analyze consumer behavior for hyper-personalized recommendations and dynamic pricing. Notably, **87% of retailers** using AI reported increased annual revenue through improved demand prediction and reduced overstock.
- **Segment Strength:** The **Apparel and Accessories** segment remains the fastest-growing category, supported by rising discretionary fashion spending and the increasing financial independence of women globally.

### The Private Equity Thesis: Investable Despite Decline

The sector remains a compelling target for private equity because it represents a **shrinking but high-cash-generative business** with tangible asset backing.

- **Asset-Backed Security:** Massive owned or long-term controlled real estate portfolios provide significant collateral value and monetization optionality through sales, leasebacks, or redevelopment.
- **Operational Levers:** Large operators offer clear "self-help" value creation opportunities, including SKU rationalization, labor optimization, and the closing of underproductive locations to focus on high-density, efficient footprints.
- **Defensive Cash Flow:** Despite market share shifts, the absolute scale of the U.S. consumer base (\$1.89T per quarter) ensures a durable baseline of cash flow that can be used to service debt and fund strategic turnarounds.

# Competitive Landscape & Moat

## Competitive Landscape

Macy's occupies a unique, yet pressured, position in the retail hierarchy. It acts as the "bridge" between discount retailers and high-end luxury, competing across four distinct categories:

- **Department Stores (Direct Peers):** Kohl's, Nordstrom, Dillard's, and JCPenney. Macy's is the volume leader here, holding a 7.8% market share and maintaining a store footprint nearly double that of Nordstrom.
- **Off-Price & Value:** TJX (T.J. Maxx), Ross, and Dollar General. These players challenge Macy's on price and speed of inventory turnover.
- **Big Box / E-commerce:** Target, Walmart, and Amazon. These "one-stop" giants dominate in logistics, fulfillment technology, and digital conversion.
- **Specialty & Luxury:** Zara and Neiman Marcus. While Zara challenges Macy's on trends, luxury peers compete with Macy's high-margin banners.

## Macy's Positioning: Where it Wins and Loses

**The "Macy's Edge":** Macy's wins on Scale and Brand Heritage. Operating 450+ Macy's nameplate stores and employing over 94,000 people, its physical reach is unmatched in the department store category. Iconic cultural events like the Thanksgiving Day Parade foster a level of brand loyalty and seasonal traffic that competitors cannot replicate. Furthermore, the recent bankruptcy of Saks Global presents a massive opportunity for Bloomingdale's to capture displaced luxury market share. Under CEO Tony Spring, the company is doubling down on "retail fundamentals," focusing on high-performing locations and a digital platform that accounts for 30–35% of total sales.

**The Vulnerabilities:** Macy's loses on Operational Rigidity. Its massive brick-and-mortar footprint in legacy malls creates high rent and staffing costs compared to the "off-mall" or lean digital formats of competitors. The brand is also heavily dependent on promotional discounting, which erodes margins and leaves it "stuck in the middle"—not as cheap as TJX, but not as exclusive as a healthy Nordstrom. Finally, as a US-centric business, it lacks the global diversification of an Amazon or Zara, making it entirely dependent on the domestic discretionary spend cycle.

## Moat Analysis: The "Asset & Liquidity" Safety Net

Macy's **does not possess a traditional "Economic Moat"** defined by pricing power or high switching costs; customers can defect to Amazon or Target with zero friction. Instead, Macy's possesses an Asset & Liquidity Moat:

- 1. Real Estate Backstop:** With a portfolio valued between \$5B and \$10B (including the \$1B+ Herald Square flagship), Macy's has a "liquidity floor" that bankrupted peers lack. This real estate provides a monetization engine to fund turnarounds.
- 2. Luxury Resilience:** Bloomingdale's and Bluemercury act as a prestige moat. Bluemercury's 16+ consecutive quarters of growth and Bloomingdale's high pricing power provide a hedge against the secular decline of mid-tier department stores.
- 3. Data Engine:** With 30 million Star Rewards members driving 70% of transactions, Macy's has a massive data set for AI-driven inventory planning, though this is currently "table stakes" rather than a defensible advantage.

## SWOT Analysis

STRENGTHS	WEAKNESSES
Asset-Rich Floor: \$5B–\$8B real estate valuation.	High Fixed Costs: SG&A remains high at 36%–37% of rev.
Luxury Hedge: Bloomingdale's record comp growth (+9%).	Promotional Dependency: Low pricing power in core brand.
Clean Sheet: \$2.43B debt with no maturities until 2030.	Inventory Turn: Lagging behind off-price leaders.
OPPORTUNITIES	THREATS
"Bold New Chapter": Rationalizing 150 stores.	Tariffs: Potential 40–60 bps hit to gross margins.
Monetization: Target \$600M–\$750M in asset sale gains.	Market Leakage: Share loss to TJX and Amazon.
Supply Chain: China Grove DC to lower fulfillment costs.	Macro Cyclical: Sensitivity to US discretionary pullback.

# Historical Financial Performance

## A. Income Statement Summary

Macy's has maintained a significant revenue base exceeding \$22 billion post-pandemic. While top-line growth has moderated, the company has successfully pivoted from the net losses of 2020 to a stabilized profitability model.

Year	Revenue	SG&A	Op Inc	Net Income	Basic EPS	Diluted EPS	EBITDA	Adj EBITDA	EBITDA %
2020	\$17,346	-\$6,767	-\$4,475	-\$3,944	-\$12.68	<b>-\$12.68</b>	-\$3,546	\$117	<b>0.7%</b>
2021	\$24,460	-\$8,154	\$2,350	\$1,430	\$4.66	<b>\$4.55</b>	\$3,194	\$3,320	<b>13.6%</b>
2022	\$24,442	-\$8,461	\$1,730	\$1,177	\$4.28	<b>\$4.19</b>	\$2,568	\$2,648	<b>10.8%</b>
2023	\$23,092	-\$8,375	\$382	\$105	\$0.38	<b>\$0.38</b>	\$1,075	\$2,236	<b>9.7%</b>
2024	\$22,293	-\$8,330	\$909	\$582	\$2.10	<b>\$2.07</b>	\$1,760	\$1,977	<b>8.9%</b>

## B. Cash Flow & Capital Expenditure

Macy's exhibits strong cash conversion, utilizing Cash Flow from Operations (CFO) to fund its "Bold New Chapter" investments while simultaneously generating liquidity through real estate monetization.

Year	EBITDA	PPE Purchases	Capitalized Software	Capex	CFO	Standard FCF	Proceeds from Asset Sales	Total FCF
2020	\$117	-\$338	(128)	-\$466	\$649	<b>\$183</b>	<b>\$113</b>	<b>\$296</b>
2021	\$3,320	-\$354	(243)	-\$597	\$2,712	<b>\$2,115</b>	<b>\$164</b>	<b>\$2,279</b>
2022	\$2,648	-\$888	(407)	-\$1,295	\$1,615	<b>\$320</b>	<b>\$137</b>	<b>\$457</b>
2023	\$2,236	-\$631	(362)	-\$993	\$1,305	<b>\$312</b>	<b>\$86</b>	<b>\$398</b>
2024	\$1,977	-\$518	(364)	-\$882	\$1,278	<b>\$396</b>	<b>\$283</b>	<b>\$679</b>

## C. Balance Sheet & Leverage Profile

Macy's maintains an exceptionally conservative leverage profile. With a Net Debt/EBITDA ratio of **0.75x** at the end of 2024, the company possesses a "liquidity floor" and financial flexibility that far exceeds its retail peers.

Year	ST Debt	LT Debt	Total Debt	Cash	Net Debt	Adj EBITDA	Leverage
2020	\$452.00	\$4,407.00	\$4,859.00	\$1,679.00	\$3,180.00	\$117.00	<b>27.18x</b>
2021	\$0.00	\$3,295.00	\$3,295.00	\$1,712.00	\$1,583.00	\$3,320.00	<b>0.48x</b>
2022	\$0.00	\$2,996.00	\$2,996.00	\$862.00	\$2,134.00	\$2,648.00	<b>0.81x</b>
2023	\$0.00	\$2,998.00	\$2,998.00	\$1,034.00	\$1,964.00	\$2,236.00	<b>0.88x</b>
2024	\$6.00	\$2,773.00	\$2,779.00	\$1,306.00	\$1,473.00	\$1,977.00	<b>0.75x</b>

## Key Performance Indicators (KPIs)

**1. Comparable Sales: "Bold New Chapter" Execution** Q3 2025 performance highlights a successful bifurcation of the business into "Go-Forward" vs. "Legacy" locations:

- **Macy's Inc. Overall:** Comp sales up **2.5%** (Owned) and **3.2%** (O+L+M).
- **Go-Forward Business:** Outperformed the fleet with **2.7%** (Owned) and **3.4%** (O+L+M) growth.
- **Reimagine 125:** These strategic locations saw a **2.3%** owned comp sales lift.
- **Luxury Banners: Bloomingdale's** led the portfolio with a **9.0%** increase, while **Bluemercury** achieved its **19th consecutive quarter** of positive growth.

**2. Gross Margin & Inventory Efficiency** Macy's has maintained a stabilized gross margin near **39.4% (Q3 2025)** despite a 50 bps tariff headwind. However, inventory turnover has trended downward from **3.67x (2021)** to **3.11x (2024)**, reflecting a strategic shift toward luxury (lower turnover) and a potential risk of future markdowns if traffic declines persist.

Year	COGS	Inventory at Year Start	Inventory at Year End	Avg Inventory	Inventory Turnover
2020	\$12,286.00	\$5,188.00	\$3,774.00	\$4,481.00	2.74x
2021	\$14,956.00	\$3,774.00	\$4,383.00	\$4,078.50	3.67x
2022	\$15,347.00	\$4,383.00	\$4,267.00	\$4,325.00	3.55x
2023	\$14,224.00	\$4,267.00	\$4,361.00	\$4,314.00	3.30x
2024	\$13,740.00	\$4,361.00	\$4,468.00	\$4,414.50	3.11x

## 3. Secondary Revenue & Asset Monetization

- **Credit Card Revenue:** Generated **\$464M** in Q3 2025. While a vital buffer, this stream is sensitive to delinquencies and "bad debt" reserves.
- **Asset Sales:** Macy's realized **\$144M** in real estate gains in 2024, driven by the closure of 64 non-go-forward stores. The company remains on pace for approximately **\$60M-\$65M** in asset sales for FYE 2025.
- **Debt Retirement:** Management has been aggressive in deleveraging, with **\$1.13B** in debt retirement projected for FYE 2025.

## 4. EBITDA Margin

Macy's adjusted EBITDA margin has trended downwards since 2021, but their 8.9% margin in 2024 still remains near industry averages. This shows that Macy's credit card income and media

network revenue streams are acting as a buffer against the high fixed cost of the department store model. If the Bold New Strategy can maintain this margin above 8%, and possibly improve it through closing low margin stores, the company becomes more attractive, with a higher-yield.

Year	Revenue	Adj EBITDA	EBITDA %
2020	\$17,346	\$117	0.7%
2021	\$24,460	\$3,320	13.6%
2022	\$24,442	\$2,648	10.8%
2023	\$23,092	\$2,236	9.7%
2024	\$22,293	\$1,977	8.9%

## 5. Segment "Alpha"

The consolidated margin profile is increasingly supported by the **Luxury Segment**. Bloomingdale's (+9.0% comps) and Bluemercury (18+ quarters of growth) provide high-margin "alpha" that offsets the promotional dependency of the core Macy's banner.

## Valuation Analysis

**Public Comparables** Macy's currently trades at a significant discount to its off-price and high-growth retail peers, signaling market skepticism regarding the durability of its department store model.

- **EV / EBITDA:** Macy's trades at approximately **4.05x**, compared to a peer median of **11.20x**.
- **P / E Ratio:** Macy's is valued at **12.53x** earnings, nearly half the peer median of **23.91x**.
- **FCF Yield:** The company demonstrates a robust ability to generate cash, with FY2024 FCF at **\$679 million**. At current market levels, this represents a high FCF yield, suggesting investors are discounting terminal value rather than current profitability.
- **P / BV:** A ratio of **1.24x** vs. a peer median of **5.78x** reflects doubts about realizable asset value despite an asset-heavy balance sheet.

Company	Ticker	Price (1/22/26)	Market Cap (1/22/26)	EV	Book Value	Sales	2024 FYE Financial Metrics					2024 FYE Multiples				
							D&A	EBITDA	EBIT	Earnings	Diluted EPS	EV/Revenue	EV/EBITDA	EV/EBIT	P/E	P/BV
Nordstrom	JWN	\$24.66	4,120,000,000	5,703,000,000	1,140,000,000	14,577,000,000	603,000,000	1,098,000,000	495,000,000	294,000,000	168.90	0.39x	5.19x	11.52x	N/A	3.61x
Kohl's	KSS	\$18.36	2,061,000,000	3,744,000,000	3,802,000,000	15,385,000,000	743,000,000	1,176,000,000	433,000,000	109,000,000	0.98	0.24x	3.18x	8.65x	10.62x	0.54x
Dillard's	DDS	\$661.90	10,380,000,000	10,183,716,000	1,796,160,000	6,482,636,000	179,522,000	909,223,000	729,701,000	593,476,000	36.82	1.57x	11.20x	13.96x	18.07x	5.78x
TJX	TJX	\$153.94	171,337,000,000	168,879,000,000	8,393,000,000	56,360,000,000	1,104,000,000	7,587,000,000	6,483,000,000	4,864,000,000	4.26	3.00x	22.26x	26.05x	33.91x	20.41x
Ross	ROST	\$190.52	61,904,000,000	59,388,067,000	5,509,195,000	21,129,219,000	446,788,000	3,032,374,000	2,585,586,000	2,090,730,000	6.32	2.81x	19.58x	22.97x	29.74x	11.24x
Target	TGT	\$105.79	48,044,000,000	59,222,000,000	14,666,000,000	106,566,000,000	2,981,000,000	8,653,000,000	5,672,000,000	4,091,000,000	461.80	0.56x	6.84x	10.44x	12.82x	3.28x
Walmart	WMT	\$118.49	944,877,000,000	971,839,000,000	97,421,000,000	674,538,000,000	12,973,000,000	39,282,000,000	26,309,000,000	20,157,000,000	2.41	1.44x	24.74x	36.94x	41.44x	9.70x
<b>Macy's</b>	<b>M</b>	<b>\$21.30</b>	<b>5,662,000,000</b>	<b>7,135,000,000</b>	<b>4,552,000,000</b>	<b>22,293,000,000</b>	<b>881,000,000</b>	<b>1,760,000,000</b>	<b>763,000,000</b>	<b>582,000,000</b>	<b>2.07</b>	<b>0.32x</b>	<b>4.05x</b>	<b>9.35x</b>	<b>12.53x</b>	<b>1.24x</b>
Median											6.32	1.44x	11.20x	13.96x	23.91x	5.78x
Mean											97.36	1.43x	13.29x	18.65x	24.43x	7.79x
Min											0.98	0.24x	3.18x	8.65x	10.62x	0.54x
Max											461.80	3.00x	24.74x	36.94x	41.44x	20.41x

**Intrinsic View** From a sponsor's lens, Macy's is an asset-rich cash flow business rather than a growth platform. The intrinsic value is anchored by **\$22 billion in annual sales** and a massive real estate base that provides significant downside protection. The market is currently mispricing Macy's by treating it as a "melting ice cube," failing to account for the growth of higher-quality banners like Bloomingdale's and Bluemercury.

**What Multiple Does the Business Deserve?** While structural headwinds justify a discount relative to TJX or Ross (which trade at 19–22x EV/EBITDA), a fair multiple for a stabilized Macy's is **6.0x–7.0x EV/EBITDA**. This range reflects achievable re-rating potential as the "Bold New Chapter" strategy rationalizes the store base and improves margins.

## Transaction Overview & Entry Valuation

**Purchase Price & Entry Multiple** The proposed acquisition targets an entry price of **\$28.46 per share**, representing a **58% premium** over the current market and moving past the "financing concerns" of previous bidders.

- **Entry Multiple:** 5.0x EV / EBITDA.
- **Implied Enterprise Value:** \$9.5B

### Sources & Uses (Simple)

- **Sources:** Primarily funded through a combination of **Bank Debt (\$3.81B)** and **Senior Notes (\$1.9B)**, supplemented by an equity check of **\$3.5B - \$4.0B**.
- **Uses:** Purchase of existing equity, refinancing of **\$1.47B in existing Net Debt**, and transaction fees.

**Debt Structure** The transaction utilizes a high-leverage approach (3.5x Net Debt/EBITDA) to maximize equity returns.

- **Bank Debt:** \$3.81B at a cost of **9.25%**.
- **Senior Notes:** \$1.9B at a cost of **8.5%**.

## LBO Model Summary

### Revenue Growth & Margin Expansion

- **Revenue:** Projected CAGR of **-1% to 0.5%**. Growth in luxury banners is offset by the planned closure of **150 underperforming stores**.
- **EBITDA Margin:** Targeted at **7.5% - 8.0%**. Value creation is driven by "trimming the fat" and optimizing SG&A rather than aggressive top-line expansion.

### Capex & Working Capital

- **Capex:** Assumed at maintenance levels of **2.5% - 3.0% of sales**, down from the historical average of 3.74%.

- **Working Capital:** Expected to be a **neutral-to-slight source of cash** as inventory is cleared from closed locations.

**Debt Paydown & Deleveraging** Deleveraging is the primary driver of returns, accounting for **62.9%** of value creation.

- **FCF Generation:** Projected at **\$600M+ annually**, totaling over **\$3B cumulatively** over a 5-year hold.
- **Paydown Strategy:** Using a Term Loan B structure, the sponsor will direct **50-75% of excess cash flow** toward debt amortization, aiming to reach **Net Debt Zero** by exit.

Driver	Contribution
EBITDA Growth	16.9%
Multiple Change	20.2%
Deleveraging	62.9%

### Exit Multiple & Returns

- **Exit Multiple:** 6.0x EV/EBITDA, reflecting a "cleaner" and more profitable business post-turnaround.
- **Hold Period:** 5 years (Exit in 2031).
- **Exit Equity Value:** Estimated at **\$11.0B**, resulting in a strong IRR driven by massive deleveraging and modest EBITDA growth.

## Stock Price and Market Expectations

### 3 Year Stock Chart

From: 01/24/2023 To: 01/24/2026 Zoom: 3M YTD 1Y 2Y 5Y 10Y 20Y All



Macy's stock performance has been characterized by high volatility, closely tied to broader retail sentiment and internal turnaround milestones.

In 2025, the stock rose over **30%**, significantly outperforming the S&P 500's 16% increase. As of early 2026, the share price sits near **\$21**, reflecting a recovery from "distressed" multi-year lows but remaining well below historical peaks (\$46.22 on 7/16/2015).

**What the Market is Currently Pricing In** The market's current valuation of Macy's—approximately **4.05x EV/EBITDA** and **12.53x P/E**—reflects a "wait and see" approach regarding the "Bold New Chapter" strategy.

- **Execution Risk:** Current pricing suggests the market remains skeptical about the long-term viability of the core department store model, pricing Macy's as a "melting ice cube" rather than a compounding business.
- **Terminal Value Discount:** Investors are heavily discounting Macy's terminal value, focusing on structural headwinds like e-commerce penetration (16.4% of total retail) and traffic erosion rather than current healthy cash flows.
- **Conservative Asset Value:** The **1.24x P/BV** indicates that the market is assigning limited value to Macy's massive real estate portfolio, likely due to the complexities and costs associated with asset monetization.

The future of Macy's share price depends on the execution of its "Bold New Chapter" strategy versus the impact of external economic pressures.

#### **Catalysts for Upside (Rerating Higher)**

- **Sustained Luxury Outperformance:** Continued mid-to-high single-digit comparable sales growth at **Bloomingdale's** (which reached **8.8%** in Q3 2025) would prove that the company's luxury banners can carry the enterprise through core-brand volatility.
- **Operational Efficiency Wins:** Successfully hitting SG&A savings targets—already showing progress with a **90bps reduction** as a percentage of revenue in Q3 2025—would signal a leaner, more profitable structure.
- **Real Estate Monetization Proof-of-Concept:** Meeting the timeline for closing **150 underperforming stores** and realizing higher-than-expected gains from those asset sales would unlock significant "hidden" balance sheet value.
- **Stabilized Gross Margins:** Successfully navigating price increases and supply chain shifts to offset the **50bps tariff-related drag** would restore market confidence in Macy's pricing power.

#### **Risks for Downside (Rerating Lower)**

- **Turnaround Stagnation:** If the **"First 50" Reimagine stores** fail to maintain their **2.7% comparable sales outperformance**, it would suggest the brand refresh lacks the broad appeal needed for a fleet-wide recovery.

- **Macroeconomic Headwinds:** A sharp decline in discretionary spending or persistent inflation could compress the budgets of Macy's **middle-to-upper income** customer base, which has remained resilient to date.
- **Inventory & Tariff Shocks:** Failure to manage inventory levels effectively in the face of tariff-related price hikes could lead to **promotional dependency** and margin-eroding "inventory bloat".
- **Competitive Share Loss:** Increased pressure from **off-price retailers** (TJX, Ross) or digital-first players could accelerate the secular traffic erosion at core Macy's locations.

## Bull / Base / Bear Case

Case	Revenue	Margin	Exit Multiple	IRR
<b>Bull</b>	<b>+1.5% CAGR</b>	<b>+0.50% Expansion</b>	<b>6.5x</b>	<b>32.2%</b>
<b>Base</b>	<b>-0.5% CAGR</b>	<b>+0.20% Expansion</b>	<b>5.5x</b>	<b>18%</b>
<b>Bear</b>	<b>-3.0% CAGR</b>	<b>-0.25% Expansion</b>	<b>4.0x</b>	<b>(13.9%)</b>

### **Bull Case: The "Luxury Transformation" Story**

#### **What has to happen:**

Beyond closing the 150 stores, the "First 50" pilot program success scales nationally, leading to positive comparable sales. Asset sales from monetizing closed stores generate significant non-operating cash used for accelerated debt paydown. Why it's plausible: The Luxury (Bloomingdale's/Bluemercury) and Small-Format stores are the growth engines. If these outpace the decline of the "Big Box" legacy stores, the business pivots from a value-trap to a growth-and-luxury story, justifying a 6.5x re-rating.

### **Base Case: The "Shrink-to-Grow" Story**

**What has to happen:** Management successfully rationalizes the store base as modeled. Revenue continues a slight secular decline (-0.5%), but margin expansion (0.2%) is achieved

through SG&A savings from a smaller footprint. **Why it's plausible:** This aligns with the LBO model and current management guidance. As seen in the **Financial Summary**, Macy's is a heavy cash generator (\$1.2B CFO in 2024); the Base Case simply uses that existing cash power to pay down the \$3.8B bank debt, driving the 18% IRR.

### **Bear Case: The "Mall Meltdown" Story**

**What has to happen:** Store closures fail to offset the overhead costs of the remaining fleet. The market multiple reverts to the current LTM trading level of ~4.0x (from your **Comparables Analysis**) instead of expanding. **Why it's plausible:** The **Historical Summary** shows EBITDA has already fallen from \$3.3B (2021) to \$1.9B (LTM). If this trend doesn't bottom out, the high fixed-cost nature of retail will crush margins, and the exit value will only cover the debt, leaving little for the sponsor.

## **Key Risks & Mitigants**

### **Risks & Diligence Focus**

- 1. Industry (Secular Decline of Malls):** As your **Comps** show, Macy's trades at a massive discount (4.05x) to the broader retail median (11.2x), signaling market skepticism of the department store model.
  - *Mitigation:* Focus diligence on "Off-Mall" performance. If small-format stores show higher sales-per-square-foot, the industry risk is mitigated by the footprint pivot.
- 2. Execution (Real Estate Monetization):** Your **Notes** mention closing 150 stores. The "value" depends on the ability to sell or lease these properties.
  - *Mitigation:* Conduct a detailed "PropCo" (Property Company) audit. Diligence the book value vs. market value of the Herald Square flagship and the 350 "go-forward" locations.
- 3. Financial (Debt Serviceability):** Your **LBO** starts with \$5.7B in debt at 8.5%–9.25% costs.
  - *Mitigation:* Verify FCF "Cushion." Since your **Cash Flow Summary** shows CapEx is high (\$758M), we must ensure maintenance CapEx can be deferred in a "liquidity crunch" without hurting sales.
- 4. Competitive (Luxury Resilience):** The Bull case relies on Bloomingdale's and Bluemercury.
  - *Mitigation:* Deep-dive into customer retention data. If luxury shoppers are migrating to digital-first players (Net-a-Porter, etc.), the "Luxury Savior" thesis fails.
- 5. Macro (Inventory & Working Capital):** Your **Notes** mention seasonality and high mid-summer inventory needs.

- *Mitigation:* Diligence the "Inventory Turnover" (currently 3.0x in your **Balance Sheet Snapshot**). Any slowdown in turnover during the hold period would trap cash and prevent debt paydown.

## Take-Private or Strategic Optionality

**Would Private Equity Buy This?** Yes, Macy's remains a compelling "Take-Private" candidate for value-oriented, control investors. Despite structural headwinds in the department store sector, the business fits the classic private equity profile of a shrinking but high-cash-generative entity with tangible asset backing.

### Why PE Would Buy Macy's

- **Asset-Backed Downside Protection:** Macy's owns or controls a real estate portfolio estimated between **\$5 billion and \$10 billion**, including irreplaceable trophy assets like the Herald Square flagship in NYC (valued at over \$1B). This provides significant collateral for debt and a "floor" for terminal value.
- **Robust Free Cash Flow:** The company generated **\$679 million in FCF** in FY2024. A sponsor can use this steady cash flow to aggressively pay down the "expensive" senior debt used to fund the acquisition, driving equity value through deleveraging.
- **Luxury Margin Hedge:** Banners like **Bloomingdale's** and **Bluemercury** serve as high-margin growth engines that are more resilient to e-commerce disruption than the core Macy's nameplate.
- **Operational Levers:** There are clear, executable value-creation levers, including closing underperforming stores, SKU rationalization, and labor optimization.

### Why PE Might Walk Away

- **Secular Decline Risk:** The ongoing shift to e-commerce (16.4% penetration in Q3 2025) and traffic erosion at mall-based anchors could accelerate beyond the sponsor's ability to rationalize the footprint.
- **Execution Complexity:** Managing the closure of **150 stores** while simultaneously revitalizing the "Go-Forward" 350 locations carries significant operational risk.
- **Macro Sensitivities:** Rising minimum wages, medical plan costs, and potential tariff impacts (estimated at a **50bps drag** on gross margins) could compress the narrow margins a sponsor relies on for debt service.

**What Would Change Under Private Ownership?** Under a private equity sponsor, the focus would shift from quarterly earnings growth to aggressive cash flow optimization and balance sheet monetization.

- **Accelerated Store Closures:** A sponsor would likely move more aggressively than the current "three-year" plan to cut the "rot" of underperforming stores and monetize the underlying real estate.
- **Aggressive Deleveraging:** As per the LBO model, **62.9% of value creation** is expected to come from using annual FCF to pay down debt, moving toward a "Net Debt Zero" position by exit.
- **Capital Reallocation:** Maintenance Capex would be tightly managed at **2.5%–3.0% of sales**, with investment prioritized for high-return "Reimagine" stores and the luxury portfolio.
- **Incentivized Management:** Leadership would be tied to long-term equity performance rather than public market stock price fluctuations, allowing for more "painful" but necessary structural changes.

## Conclusion & Investment-Decision

### Investment Decision

**Recommendation: BUY** at a maximum entry of **5.0x EBITDA (\$27.15 / share)**.

**Strategic Rationale:** Our technical analysis identifies a significant "Value Gap" between Macy's public trading price and its private market potential. While Macy's currently trades at an LTM multiple of 4.05x (approx. \$18.00/share), our 5.0x Entry valuation of \$28.46 creates a compelling exit for public shareholders while preserving an 18.0% IRR for the sponsor.

### Comparison to the July 2024 Rejected Bid:

- The Arkhouse/Brigade Bid: \$24.80 per share (\$6.9B Equity Value).
- Our Proposed Bid: \$28.46 per share (\$7.54B Equity Value).
- The "Premium": Our offer is 14.8% higher per share than the bid Macy's rejected in July 2024.

By offering \$28.46, we move the conversation past the "financing concerns" of previous bidders. This price provides a ~58% premium over the current market, making it nearly impossible for the Board to reject under their fiduciary duty, especially as our Notes indicate the "Bold New Chapter" is still in early execution stages with high risk.

**Value Creation Breakdown:** As per our Value Creation Bridge, this \$28.46 entry is not a bet on a "Retail Miracle." Instead:

- 63% of our returns are driven by Deleveraging. We are buying the company for \$7.5B and using its own \$1.2B+ annual cash flow to pay off the debt.

- 17% of returns come from EBITDA Growth achieved by cutting the "rot" of the 150 underperforming stores.

**Investment Verdict:** We recommend an aggressive pursuit of Macy's at \$28.46. It is a mathematically "safe" LBO because it is anchored by real estate value and luxury banner cash flow (Bloomingdale's/Bluemercury), rather than speculative top-line growth.

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