



Summary

I believe Macy's is an excellent short because of its consistently decreasing revenues, thinning margins, decreasing sales and foot traffic through stores, and exposure to the negative effects of new tariffs. This thesis outlines a 12 month sell side opportunity in the retail sector.

Business Overview

Macy's is a multi-channel consumer goods retailer that offers products like clothing, home goods, and jewelry. Macy's operates all across the United States with 450 Macy's stores still open and operating. A portion of Macy's revenue comes from their credit cards which offer promotions to users on top of the already heavily discounted merchandise they carry.

Investment Rationale

Macy's is a very clearly failing business for several key reasons such as their massive debt problem. Macy's has been around since the 1850's and have been keeping their head above water and even thriving before the ecommerce boom, but things aren't the same now. Macy's is slowly but surely bleeding from their pockets with the 2.77 billion dollars of long term-debt they have accumulated. The interest of their total debt is eating into over 13% of their profits. You might be saying it couldn't get any worse, right? Wrong, as Macy's continues to close the projected 150 stores in 2026, the repayment of this debt will become significantly harder. Macy's is losing revenue year over year with a decline in sales of ~3% and even more on their revenue from credit cards. They will find that it is not only harder to pay back the debt because they have less money flowing in, but the interest on their debt is eating an increasingly larger portion of their profit decreasing the EPS and intrinsic value of Macy's. Not only will their closing of stores contribute to their debt problem but also their ever-thinning profit margins that will be partially caused by the upcoming and current standing tariffs. From post covid January 29, 2022 to May 3, 2025 Macy's has seen a whopping 3.18% decreasing in their alright very tight profit margins. When considering Macy's still trying to make the failing brick and mortar business model work and their awful budgeting and efficiency it is clear that Macy's is a business that will drown in their own debt and continue on the downward trajectory, they have been on for years now.

Risks

Macy's has its clear and overbearing pitfalls but as a short there will likely be some obstacles to overcome such as their high dividend yield of 5.9% that will slowly eat my profits/position, potentially increases in efficiency as they begin to close their underperforming stores, and tariffs on large exporting countries like China being reduced. Though these risks are apparent they are in my opinion not large enough roadblocks to steer the Macy's train back onto its tracks and in the unlikely event they do become more efficient as they rapidly close ~30% of their stores in 2026 I know that they still operate under a shrinking business model and sector.

Conclusion & Target

It does not make sense to throw out a specific number for the price I want to cover my short position at because I'm looking to collect a return on this short position year after year with their debt being my own "dividend yield" and I will continue to monitor this position as long as the trajectory of their business and debt remains the same. Though worst-case scenario if Macy's has some very good news financially that comes out of left field, I will not hesitate to exit the position with a hard stop at 50% loss on the position.