



FEATURED OPTIONS RADAR REPORT



Macy's Draws Longer-Term Bulls Amid Omnichannel Shift, Activist Play

Ticker/Price: M (\$22.50)

Analysis:

Macy's (M) name with a lot of bullish open interest recently including buyers of the January 2024 \$18 and \$20 calls on Friday for nearly \$1M each. On 10/7 the February \$24 calls were bought 2500X to open. Macys has 2,750 January \$24 calls in OI from buyers in late September and follows the November \$21/\$26 call spread bought 25,000X on 6/17 that remains in OI. Shares are coiled in a small range below the top of monthly value at \$23 and a breakout has room to test recent highs near \$25.50. The broader range breakout targets \$30+ and trend remains strong with a series of higher highs and lower lows since July. The \$7B company trades 6.8X earnings, 0.32X sales, and 5X FCF with a 2.65% yield. Macys has been focusing on transforming their business into a more omnichannel approach as foot traffic to traditional big box retailers' sags and ecommerce becomes more seamless. The company is coming off a strong quarter with their Polaris transformation plan executing well and driving 32% growth in digital. They have seen category growth across jewelry, apparel, and fragrance which should remain strong as more social events pick up into year-end and 2022. On 10/6, Bloomberg reported that activist Jana Partners was calling for the company to spin off their e-commerce unit. The firm thinks Macys could follow peer Saks who separated their online business and a similar valuation would peg Macys at ~\$14B, nearly double from current levels. Analysts have an average target for shares of \$24 with a Street High \$33. Gordon Haskett upgrading to Buy on 9/28. The firm thinks Macy's shares have more upside of potentially 30% from current levels as the case can be made at Macy's for favorable upward earnings revisions and valuation support as the company continues to execute. Cowen upgrading to Outperform on 9/9 as they think change is underway at Macy's as an American icon is being reinvented by structurally transforming its business with more agile inventory and pricing management, data-centric loyalty and personalization, product innovation, store closures, digital integration and real estate monetization. The analyst thinks physical store comps will decline at a negative 4% compound annual growth rate through FY23, but sees that being more than offset by digital sales growth in an 11% range. Short interest is 16.5%. Hedge fund ownership rose 18.5% last quarter. Melvin Capital a buyer of 2.5M shares, a new position. Insiders were active in February around \$15.50 with \$600K in stock acquired.

Hawk Vision:



Hawk's Perspective: M remains structurally challenged with their exposure to physical retail but the setup is strong and the potential for activist intervention makes for a nice short-term setup

Confidence Ranking: \$\$