



## FEATURED OPTIONS RADAR REPORT



### Bull Spread Sees Upside in Retailer Investing in Digital

**Ticker/Price:** M (\$26.90)

**Macy's (M)** with an interesting trade on 3/22 as the January \$20 puts were sold to buy the \$32/\$50 call spreads 4500X and follows a 3/17 buyer of 3000 May \$27 calls, a 2/24 buyer of 4000 April \$25 calls and 1500 January \$32 calls bought to open 2/8. M shares are pushing up against key resistance needing a close above \$27.75 to break out and recently quickly recovered its rising 200-day moving average after dipping below. M's weekly RSI is now at 55 and MACD nearing a bull crossover with a measured move setting up to \$34-\$35. Macy's is a large department store that sells a wide range of merchandise, including apparel and accessories (men's, women's and kids'), cosmetics, home furnishings and other consumer goods. Macy's was an activist target of JANA Partners in late 2021 as it pushed the company to consider alternatives for its ecommerce unit but JANA cut its stake by 84%. JANA argued the ecommerce unit could be worth \$14B alone. M currently has a market cap of \$7.8B and trades 6.25X Earnings, 2.7X EBITDA and 5.7X FCF with a 2.23% dividend yield and revenues seen falling Y/Y along with EBITDA in FY23. M presented at the UBS Retail Conference earlier this month discussing plans to move digital penetration to around 45% of sales by 2024 and much of the conversation focused on digital initiatives. Macy's has also been expanding its Backstage locations, a smaller store format. M has \$2B available for buybacks. The company's net debt totaled \$1.58 billion as of Jan. 29, down 50.2% from a year earlier. The company over the next three years plans to spend \$3 billion on capital investments in areas such as its distribution and digital operations, including \$1 billion this year. Fitch Ratings Inc. last month elevated Macy's debt to investment-grade status after its earnings report. Analysts have an average target of \$30 with short interest at 10% of the float. Evercore upgraded shares in February with a \$50 target seeing a culture and strategy shift across all aspects of the business and thinks the company could eventually generate \$15-\$20 EPS.

#### Hawk Vision:



**Hawk's Perspective:** M is a turnaround play and I like the strategy and value as well as plenty of catalysts for an upside re-rating. These spreads show the reward/risk which looks attractive at this level.

**Confidence Ranking:** \$\$