FEDERATED DEPARTMENT STORES INC /DE/
Form 8-K
November 10, 2004

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

Date of Report: November 10, 2004

FEDERATED DEPARTMENT STORES, INC.

7 West Seventh Street, Cincinnati, Ohio 45202
(513) 579-7000

-and-

151 West 34th Street, New York, New York 10001
(212) 494-1602

| Delaware | 1-13536 | 13-3324058 |
|---|---|---|
| (State of Incorporation) | (Commission File Number) | (IRS Employer Identification No.) |

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Item 2.02 Results of Operations and Financial Condition

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On November 10, 2004, Federated Department Stores, Inc. ("Federated") issued a press release announcing Federated's financial condition and results of operations as of and for the 13 and 39 weeks ended October 30, 2004. The full text of the press release is attached hereto as Exhibit 99.1 and is incorporated herein by reference.

The press release referred to above contains a non-GAAP financial measure designated "cash flow before financing activities." Management believes that cash flow before financing activities is a useful measure in evaluating Federated's ability to generate cash from operating and investing activities. Management believes that excluding cash flows from financing activities from the calculation of this measure is particularly useful where such financing activities are discretionary, as in the case of voluntary debt prepayments and share repurchases. However, the reader is cautioned that any non-GAAP financial measures provided by Federated are provided in addition to, and not as an alternative for, Federated's reported results prepared in accordance with GAAP. Certain items that may have a significant impact on Federated's financial position, results of operations and cash flows must be considered when assessing Federated's actual financial condition and performance regardless of whether these items are included in these non-GAAP financial measures. Additionally, the methods used by Federated to calculate its non-GAAP financial measures may differ significantly from methods used by other companies to compute similar measures. As a result, any non-GAAP financial measures provided by Federated may not be comparable to similar measures provided by other companies.

Item 9.01. Financial Statements and Exhibits

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(c) Exhibits

| | |
|---|---|
| 99.1 | Press Release of Federated dated November 10, 2004. |

FEDERATED DEPARTMENT STORES, INC.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

FEDERATED DEPARTMENT STORES, INC.

Dated: November 10, 2004

By: /s/ Dennis J. Broderick

Name: Dennis J. Broderick

Title: Senior Vice President, General Counsel and Secretary

Exhibit 99.1

Contacts:

Media - Carol Sanger

513/579-7764

Investor - Susan Robinson

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FOR IMMEDIATE RELEASE

FEDERATED 3Q EARNINGS EXCEED EXPECTATIONS

CINCINNATI, OHIO, November 10, 2004 - Federated Department Stores, Inc. today reported diluted earnings per share of 42 cents for the third quarter of 2004. This compared to diluted earnings per share of 36 cents in the same 13-week period last year.

For the first three quarters of 2004, Federated reported diluted earnings per share of $1.38, compared to $1.25 a share in the same period of 2003.

Terry J. Lundgren, Federated's chairman, president and chief executive officer, said the company was very pleased to have achieved an earnings performance in the quarter that exceeded expectations.

"The stronger trend we saw in October in markets across the country was encouraging. We also experienced a post-hurricane sales recovery in Florida, although not enough to offset the negative impact in September," Lundgren said.

Sales

Sales in the third quarter totaled $3.491 billion, an increase of 0.2 percent compared to sales of $3.486 billion in the same period last year. On a same-store basis, Federated's third quarter sales were up 0.4 percent.

For the year to date, Federated's sales totaled $10.556 billion, an increase of 3.4 percent from sales of $10.211 billion in the same period last year. On a same-store basis, Federated's sales for the first 39 weeks of 2004 also were up 3.4 percent.

New stores opened in the third quarter included a Rich's-Macy's at Arbor Place Mall in Douglasville, GA, and a Macy's in Rancho Cucamonga, CA.

Operating Income

Federated's operating income totaled $175 million or 5.0 percent of sales for the quarter ended October 30, 2004, compared to operating income of $173 million or 5.0 percent of sales for the same period last year.

The company's operating income for the first 39 weeks of 2004 was $637 million or 6.0 percent of sales, compared to $583 million or 5.7 percent of sales in the same period of 2003.

Federated's operating income includes store closing, centralization and consolidation costs of $36 million in the third quarter this year, compared to $29 million for the same period last year. On a year-to-date basis, store closing, centralization and consolidation costs amounted to $86 million this year, compared to $47 million for the same period last year.

Cash Flow

Cash flow from operating activities was $381 million in the first three quarters of 2004, compared to $630 million in the same period last year. Last year's cash flow from operating activities benefited from lower income tax payments, reflecting the use of Fingerhut net operating losses. After investing activities of $324 million for the first three quarters this year and $356 million for the first three quarters last year, cash flow before financing activities was $57 million compared to $274 million in the same period last year.

The company used $336 million to repurchase 7.4 million shares of Federated common stock in the third quarter.

Fourth Quarter Expectations

Federated reaffirmed its earnings expectations for the fourth quarter of fiscal 2004 of $2.45-$2.55 a share. The company anticipates same-store sales for the fourth quarter to increase 1.5 to 3 percent. Federated is anticipating that November same-store sales will be flat to up 2 percent, while December will benefit from having two extra pre-Christmas shopping days this year, resulting in an anticipated same-store sales increase of 1 to 3 percent.

Federated, with corporate offices in Cincinnati and New York, is one of the nation's leading department store retailers, with annual sales of more than $15.2 billion. Federated operates more than 450 stores in 34 states, Guam and Puerto Rico under the names of Macy's, Bloomingdale's, Bon-Macy's, Burdines-Macy's, Goldsmith's-Macy's, Lazarus-Macy's and Rich's-Macy's. The company also operates *macys.com* and

Bloomingdale's By Mail.

This release contains certain forward-looking statements that reflect current views of the financial performance and future events of Federated. The words "expect," "plan," "think," "believe" and other similar expressions identify forward-looking statements. Any such forward-looking statements are subject to risks and uncertainties. Future results of the operations of Federated could differ materially from historical results or current expectations because of a variety of factors that affect the company, including transaction costs associated with the renovation, conversion and transitioning of company retail stores in regional markets; the outcome and timing of sales and leasing in conjunction with the disposition of company retail store properties; the retention, reintegration and transitioning of displaced company employees; competitive pressures from department and specialty stores, general merchandise stores, manufacturers' outlets, off-price and discount stores, and all other retail channels; and general consumer-spending levels, including the impact of the availability and level of consumer debt, and the effects of weather.

(NOTE: Additional information on Federated is available on the Internet at www.fds.com/pressroom. A webcast of Federated's third quarter earnings call with analysts will be held beginning at 10:30 a.m. on Wednesday, November 10. Pre-registration is requested. Those unable to access the webcast may call 1-800-347-3350 to listen to the audio in real time. The webcast will be archived for replay beginning approximately two hours after the conclusion of the live call.)

FEDERATED DEPARTMENT STORES, INC.

Consolidated Statements of Income (Unaudited) (Note 1)

(All amounts in millions except percentages and per share figures)

| | 13 Weeks Ended | | 39 Weeks Ended | |
|---|---|---|---|---|
| | October 30, 2004 | November 1, 2003 | October 30, 2004 | November 1, 2003 |
| Net sales | $ 3,491 | $ 3,486 | $ 10,556 | $ 10,211 |
| Cost of sales (Note 2) | 2,100 | 2,091 | 6,296 | 6,118 |

| | | | | |
|---|---|---|---|---|
| Percent to sales | 60.2% | 60.0% | 59.6% | 59.9% |
| Gross margin | 1,391 | 1,395 | 4,260 | 4,093 |
| Percent to sales | 39.8% | 40.0% | 40.4% | 40.1% |
| Selling, general and administrative expenses (Note 3) | 1,216 | 1,222 | 3,623 | 3,510 |
| Percent to sales | 34.8% | 35.0% | 34.4% | 34.4% |
| Operating income | 175 | 173 | 637 | 583 |
| Percent to sales | 5.0% | 5.0% | 6.0% | 5.7% |
| Interest expense - net (Note 4) | (55) | (61) | (234) | (196) |
| Income before income taxes | 120 | 112 | 403 | 387 |
| Federal, state and local income tax expense | (46) | (45) | (154) | (154) |
| Net Income | $ 74 | $ 67 | $ 249 | $ 233 |

| | | | | |
|---|---|---|---|---|
| Basic Earnings per Share | $ .43 | $ .37 | $ 1.41 | $ 1.26 |
| Diluted Earnings per Share (Note 5) | $ .42 | $ .36 | $ 1.38 | $ 1.25 |
| Average common shares: | | | | |
| Basic | 172.0 | 182.6 | 177.2 | 185.8 |
| Diluted | 174.4 | 185.7 | 180.2 | 187.5 |
| Depreciation and amortization expense | $ 178 | $ 176 | $ 533 | $ 529 |

FEDERATED DEPARTMENT STORES, INC.

Consolidated Statements of Income (Unaudited) (Note 1)

Notes:

(1) Because of the seasonal nature of the retail business, the results of operations for the 13 and 39 weeks ended October 30, 2004 and November 1, 2003 (which do not include the Christmas season) are not necessarily indicative of such results for the fiscal year.

(2) Merchandise inventories are primarily valued at the lower of cost or market using the last-in, first-out (LIFO) retail inventory method. Application of this method did not impact cost of sales for the 13 and 39 weeks ended October 30, 2004 or November 1, 2003. For the 13 weeks ended October 30, 2004, cost of sales includes inventory valuation adjustments of $14 million related to the Macy's home store centralization. For the 39 weeks ended October 30, 2004, cost of sales includes inventory valuation adjustments of $31 million (including $26 million related to the Macy's home store centralization and $5 million related to the Burdines-Macy's consolidation).

(3) Selling, general and administrative ("SGandA") expenses include costs and expenses related to the Rich's-Macy's and Burdines-Macy's consolidations, centralizing the Macy's home store business and other store closings. For the 13 weeks ended October 30, 2004, SGandA expenses include store closing and consolidation costs of $22 million, including Macy's home store centralization costs of $7 million and Burdines-Macy's consolidation costs of $5 million. For the 39 weeks ended October 30, 2004, SGandA expenses include store closing and consolidation costs of $55 million, including Macy's home store centralization costs of $26 million and Burdines-Macy's consolidation costs of $10 million. For the 13 weeks ended November 1, 2003, SGandA expenses include store closing and consolidation costs of $29 million, including $7 million related to the Rich's-Macy's consolidation. For the 39 weeks ended November 1, 2003, SGandA expenses include store closing and consolidation costs of $47 million, including $20 million related to the Rich's-Macy's consolidation.

(4) Interest expense for the 39 weeks ended October 30, 2004 includes $59 million of one-time costs, or 20 cents a diluted share, associated with the repurchase of $274 million of Federated's 8.5% senior notes due 2010.

(5) For the 13 and 39 weeks ended October 30, 2004, store closing and consolidation costs and Macy's home store centralization costs (See notes 2 and 3) amounted to $.13 and $.30 per diluted share, respectively. For the 13 and 39 weeks ended November 1, 2003, store closing and consolidation costs (See note 3) amounted to $.09 and $.15 per diluted share, respectively.

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FEDERATED DEPARTMENT STORES, INC

Consolidated Balance Sheets (Unaudited)

(millions)

| | October 30, 2004 | January 31, 2004 | November 1, 2003 |
|---|---|---|---|
| ASSETS: | | | |
| Current Assets: | | | |
| Cash | $ 212 | $ 925 | $ 227 |
| Accounts receivable | 3,147 | 3,213 | 2,906 |
| Merchandise inventories | 4,259 | 3,215 | 4,403 |
| Supplies and prepaid expenses | 117 | 99 | 113 |
| Deferred income tax assets | - | - | 14 |
| Total Current Assets | 7,735 | 7,452 | 7,663 |
| Property and Equipment - net | 5,974 | 6,174 | 6,170 |
| Goodwill | 262 | 262 | 262 |
| Other Intangible Assets - net | 378 | 378 | 378 |
| Other Assets | 275 | 284 | 277 |
| Total Assets | $14,624 | $14,550 | $14,750 |
| LIABILITIES AND SHAREHOLDERS' EQUITY: | | | |

| | | | |
|---|---|---|---|
| Current Liabilities: | | | |
| Short-term debt | $ 845 | $ 908 | $ 839 |
| Accounts payable and accrued liabilities | 3,369 | 2,613 | 3,414 |
| Income taxes | 162 | 362 | 115 |
| Total current liabilities | 4,376 | 3,883 | 4,368 |
| Long-Term Debt | 3,038 | 3,151 | 3,152 |
| Deferred Income Taxes | 1,057 | 998 | 1,038 |
| Other Liabilities | 605 | 578 | 642 |
| Shareholders' Equity | 5,548 | 5,940 | 5,550 |
| Total Liabilities and Shareholders' Equity | $14,624 | $14,550 | $14,750 |

FEDERATED DEPARTMENT STORES, INC.

Consolidated Statements of Cash Flows (Unaudited)

(millions)

| | 39 Weeks Ended October 30, 2004 | 39 Weeks Ended November 1, 2003 |
|---|---|---|
| Cash flows from operating activities: | | |

| | | |
|---|---|---|
| Net income | $ 249 | $ 233 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 531 | 526 |
| Amortization of financing costs | 5 | 2 |
| Amortization of unearned restricted stock | 2 | 3 |
| Changes in assets and liabilities: | | |
| Decrease in accounts receivable | 54 | 44 |
| Increase in merchandise inventories | (1,044) | (1,044) |
| (Increase) decrease in supplies and prepaid expenses | (18) | 11 |
| Increase in other assets not separately identified | - | (1) |
| Increase in accounts payable and accrued liabilities not separately identified | 712 | 803 |
| Increase (decrease) in current income taxes | (198) | 44 |
| Increase in deferred income taxes | 61 | 35 |
| Increase (decrease) in other liabilities not separately identified | 27 | (26 |
| | | ) |
| Net cash provided by operating activities | 381 | 630 |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (316) | (313) |
| Capitalized software | (59) | (46) |
| Collection of notes receivable | 30 | - |
| Disposition of property and equipment | 21 | 3 |

| | | |
|---|---|---|
| Net cash used by investing activities | (324) | (356) |
| Cash flows from financing activities: | | |
| Debt issued | 189 | 96 |
| Debt repaid | (364) | (456) |
| Dividends paid | (70) | (46) |
| Increase in outstanding checks | 26 | 24 |
| Acquisition of treasury stock | (689) | (485) |
| Issuance of common stock | 138 | 104 |
| Net cash used by financing activities | (770) | (763) |
| Net decrease in cash | (713) | (489) |
| Cash at beginning of period | 925 | 716 |
| Cash at end of period | $ 212 | $ 227 |