

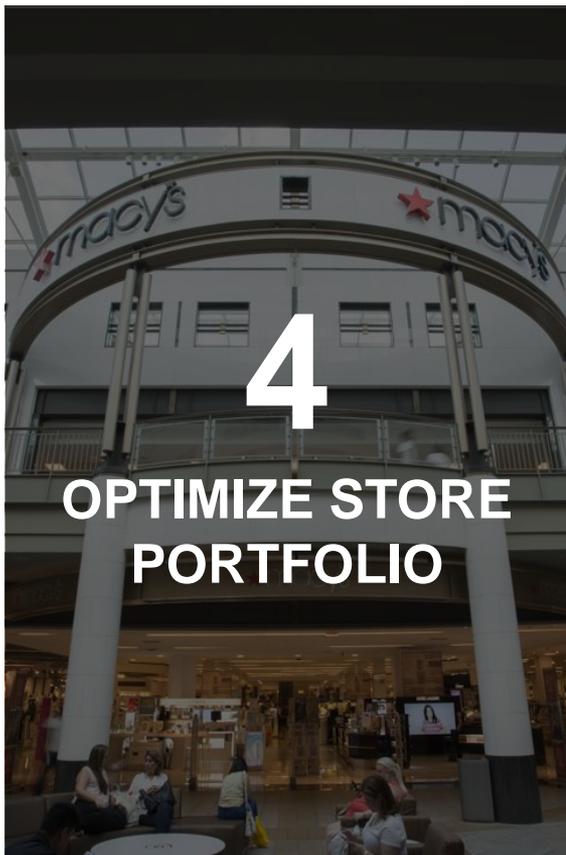


macy's inc

INVESTOR DAY 2020

★
**OPTIMIZE STORE
PORTFOLIO**





★ POLARIS



Invest in best stores



Expand off-mall profitably



Test & prove market ecosystem



Big Box



Luxury



Rental



Re-Commerce



Off Price



**Digital
Native**



Subscription

FOCUSED ON BEST LOCATIONS



Class A malls are here for the long term and have an ongoing place in U.S. retail



Represent **~66% of sales** and **~49% of stores** moving forward



Significantly better growth than neighborhood stores

Macy's Core Portfolio

GSA RATING	% PORTFOLIO	% SALES
A	45.8%	56.4%
FREESTANDING off-mall in urban setting	2.7%	9.3%
TOTAL	~49%	~66%



By 2021, top 250 stores will represent **78%** of sales



These stores will be brand right and driving improved profit



Working on labor models to find optimal mix and drive productivity



~50% of 2019 total stores' sales

~2% Total store comparable sales improvement when a Backstage is added

+4pts Original 50 stores are outperforming the balance of the fleet

~400 Stores will receive have received the Growth treatment by the end of 2022

NEIGHBORHOOD STORES

CLOSING ~125 OF LEAST PRODUCTIVE STORES OVER NEXT THREE YEARS

25%

Of fleet

<10%

Of sales

3pts

Below fleet



**Leaner store portfolio will improve fleet
profitability, working capital and inventory**

NEIGHBORHOOD STORES

PLAN IN PLACE TO MANAGE STORE CLOSURES



Neighborhood stores form a region with **dedicated management and focused strategy**



Annual store **review process**



Customer retention strategies



REAL ESTATE STRATEGY

Doug Sesler
Head of Real Estate





Broad footprint across US

Market coverage in 49 of top 50 markets



Low occupancy cost

Average occupancy cost less than \$5.00 / SF

Typically limited escalations



High quality

Locations in "A" Malls or unrated locations represent ~49% of stores and ~66% of sales¹



Monetizable assets

Sustained value creation opportunities

78% owned or ground leased

OUR FLEET

~400

Core Stores
(Magnets / Flagships)

~125

Neighborhood Stores
(includes ~30 currently closing)

THREE COMPONENTS OF OUR REAL ESTATE STRATEGY



MARKET AND FLEET ANALYSIS

- Identifies underperforming stores / sales candidates
- Pinpoints opportunistic monetizations
 - Real estate value > Operating value
 - Development adjacent to store

REAL ESTATE DEVELOPMENT

- Outparcel program
- Major development program
- Pre-Development / Development enhances value
- Interim step to monetization

ASSET MONETIZATION

- Spans three primary types of sales:
 - Underperforming stores
 - Opportunistic sales
 - Adjacent land

MAXIMIZE VALUE THROUGH STRATEGIC TIMING AND POSITIONING



CANDIDATES FOR MONETIZATION

Underperforming stores

Opportunistic monetizations

Land adjacent to stores (typically excess parking):

- Outparcels
- Large developments



GUIDING PRINCIPLES

Think like the buyer / developer

Understand “highest and best use”

Analyze development pro forma and asset value

Be informed sellers and capable negotiators

RESULTS

LAST 4 YEARS

\$1.6B **135**

Proceeds Assets

2020 ESTIMATED
PROCEEDS

~\$130M

PRE-DEVELOPMENT OR DEVELOPMENT CAN ENHANCE PROCEEDS



1

Outparcels

Small pads in parking areas; e.g., quick-service restaurants, banks



2

Large Scale Development

Multi-acre developments; Typically mixed use



3

Special Projects

Herald Square Office Tower, San Francisco Union Square, Geary Street Shops

OUTPARCEL DEVELOPMENT

Program To Develop Parcels

Three regional development partners:

- Develop
- Lease
- Sell



GAINS

\$1-3M

Gains to Macy's per
pad on average



PIPELINE

16

Pads in progress

40+

Pads on drawing board



LARGE-SCALE DEVELOPMENT PROGRAM

Leveraging in-house and local JV partner expertise to densify excess land with mixed-use projects

JV Structure Benefits

- Create JV with local developer
- Invest in project and participate in development profits OR take cash at closing
- Does not require out-of-pocket capital



AVERAGE DEVELOPMENT SIZE

\$100-300M

Development cost

10-15%

Land value share of development



PIPELINE (SITES)

16

Negotiation / Pre-development

30

Under consideration

LARGE-SCALE DEVELOPMENT PROGRAM

Burlington Mall Overview

Carve out 8 of 19 owned
acres for mixed-use
development

\$250M project value

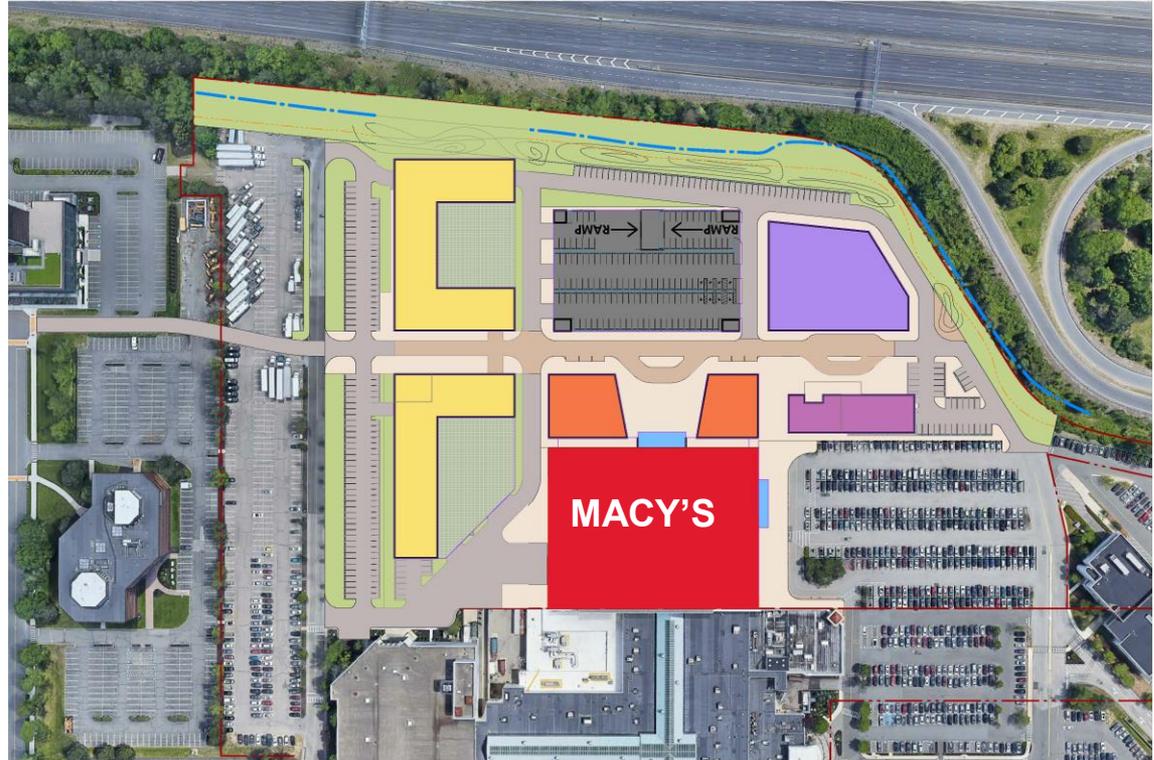


LARGE-SCALE DEVELOPMENT PROGRAM

Burlington Mall Overview

Carve out 8 of 19 owned
acres for mixed-use
development

\$250M project value



LARGE-SCALE DEVELOPMENT PROGRAM

Burlington Mall Overview

Carve out 8 of 19 owned
acres for mixed-use
development

\$250M project value



SPECIAL PROJECTS: HERALD SQUARE

Pre-development Planning Underway



1.5 million SF office tower above the store: Sky Lobby



Working to **up-zone property** for project



Superior location

Penn Station District

14 transit lines near building



Retains the store and historic character of building



Herald Square area public improvements



SPECIAL PROJECTS: HERALD SQUARE

Pre-development Planning Underway



1.5 million SF office tower above the store: Sky Lobby



Working to **up-zone property** for project



Superior location

Penn Station District

14 transit lines near building



Retains the store and historic character of building



Herald Square area public improvements





HIGH-QUALITY REAL ESTATE IS AN ENDURING COMPETITIVE ADVANTAGE



MARKET AND FLEET ANALYSIS

Rigorous, regional fleet review

- Identify candidates for monetization
- Improve fleet quality while retaining critical locations



ASSET MONETIZATION

Sustained value creation and harvesting

- Maximize asset value at exit
- 2020 Guidance: ~\$130M proceeds



REAL ESTATE DEVELOPMENT

In-house / JV partnerships to maximize land use

- Enhance long-term value of property at exit
- Increase utilization of excess land with limited risk exposure

★
**RETAIL
ECOSYSTEM**



**OFF-MALL
MARKET SHARE
GROWTH
POTENTIAL**

	ON-MALL	OFF-MALL
 HOUSEWARES	4%	96%
 HANDBAGS	43%	57%



Significant opportunity with customers that know our brand



Leverage omni, non-mall based, retail experience



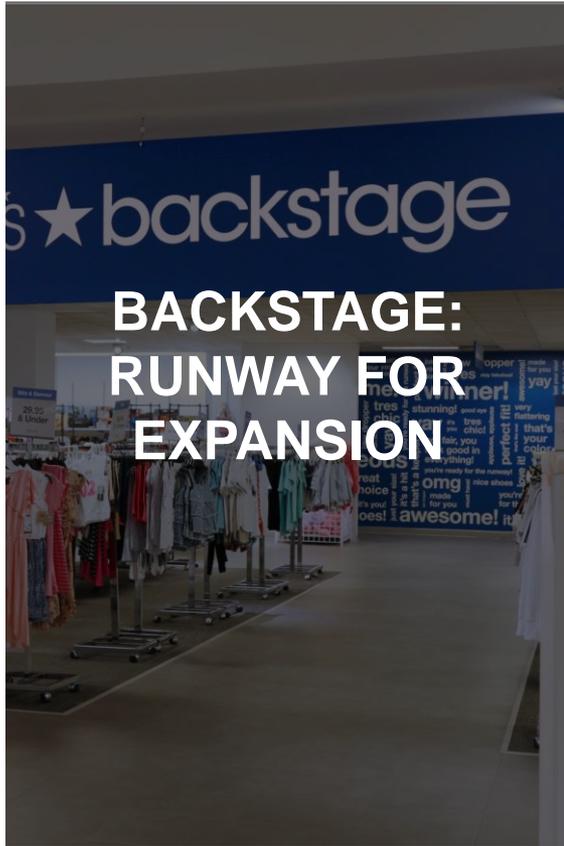
Innovate to serve this customer in two ways

CREATING A RETAIL ECOSYSTEM

Growth opportunity through strategic placement of new stores off-mall



Department store through off-price and lifestyle lens



~5%

2019 comparable sales for SWS locations opened for more than one year

274

Number of SWS (261) and Freestanding (13) locations by the end of 2020

22%

Freestanding customers are new to the Macy's brand



Testing in 2020



Smaller than the average Macy's store



Located in **lifestyle centers**



Curated **Macy's merchandise**, **local goods**, **community-oriented events**



CREATING A RETAIL ECOSYSTEM

Growth opportunity through strategic placement of new stores off-mall



Department store through off-price and lifestyle lens



Three growing metropolitan test markets with store base but gaps in coverage



Opportunity to build model that improves profit with ability to scale



Significant digital business in each city



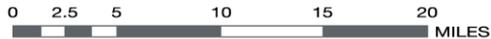
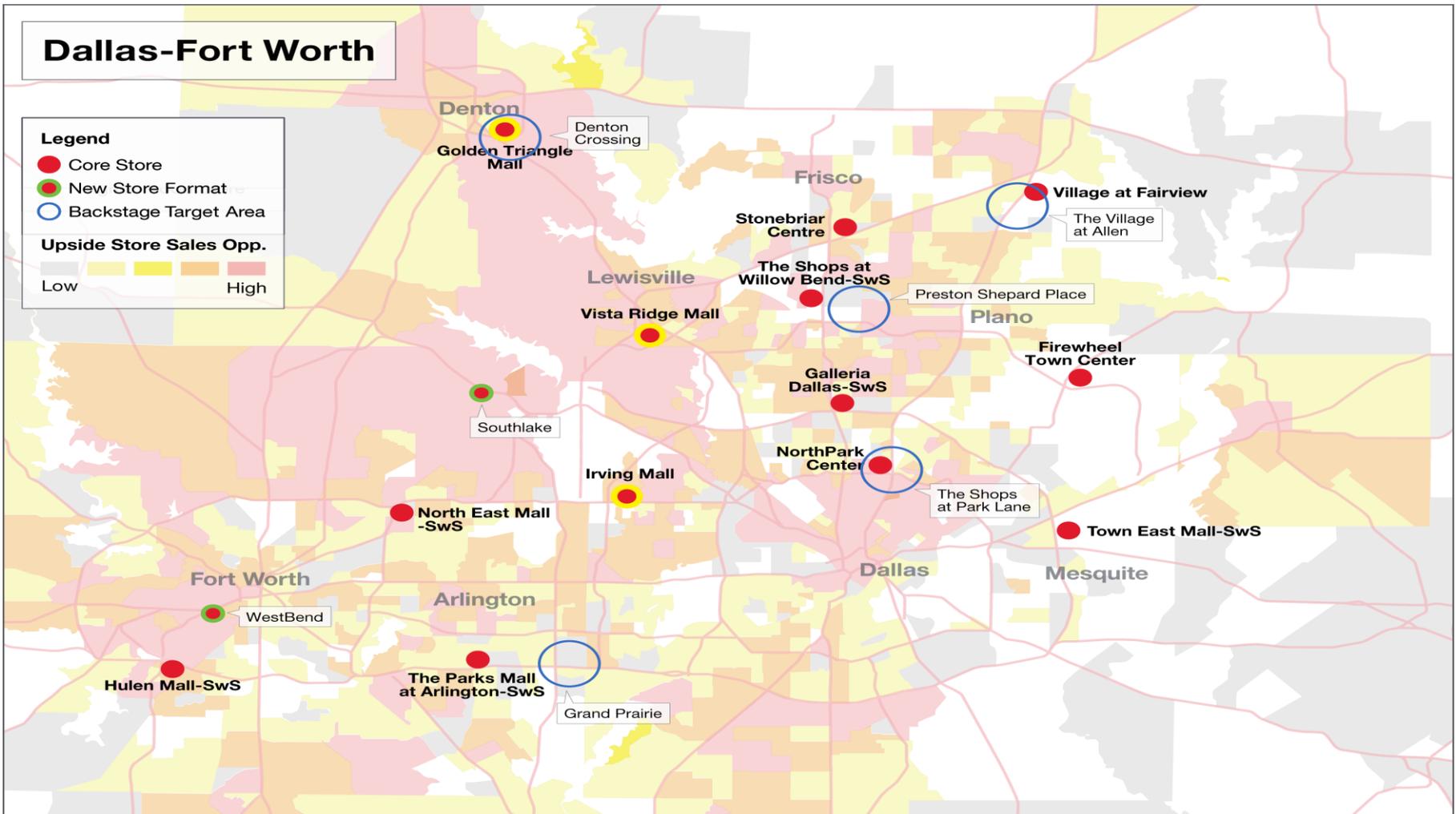
Testing in Washington DC, Dallas, Atlanta markets

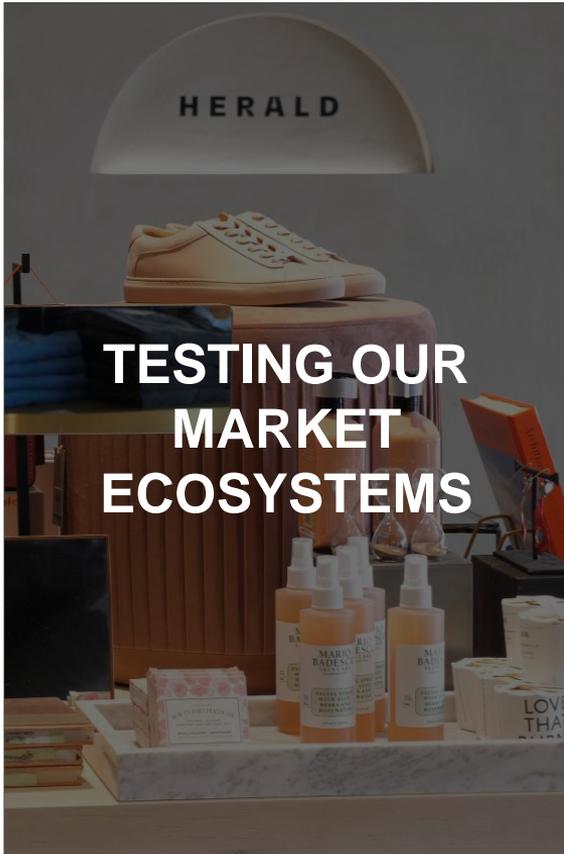
Dallas-Fort Worth

Legend

- Core Store
- New Store Format
- Backstage Target Area

Upside Store Sales Opp.





Evidence that we are building **Customer Lifetime Value**



Profitable growth for the total market including all stores and .com



Customer satisfaction in individual stores and experience

★
**CONSUMER-DRIVEN
SUPPLY CHAIN**

Dennis Mullahy
Chief Supply Chain Officer





Sourcing



**Inventory
Management
& Analytics**



Transportation



**Distribution &
Operations**



Procurement



Sustainability



MACY'S HISTORICAL SUPPLY CHAIN



Lacked optimization throughout the Supply Chain



Limited in flexibility and speed



Higher costs to serve

THE CASE FOR CHANGE

Macy's is Modernizing Its Supply Chain Strategy By...

Creating a best-in-class **sourcing** capability

Redesigning **inventory movement** using analytics, advanced algorithms, improved operations and optimized transportation

Enhancing our **procurement capabilities** to leverage strategy and analytics

Emphasizing the importance of **sustainability**

In Order To...

1 Drive profitable growth

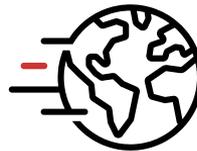
2 Lower costs and improve speed and agility

3 Improve inventory productivity to drive higher return

4 Profitably support omni-customers shopping trends and behaviors



**Enhanced
Costing**



**Agility
& Speed**



**Innovation
& Newness**



ENHANCED COSTING



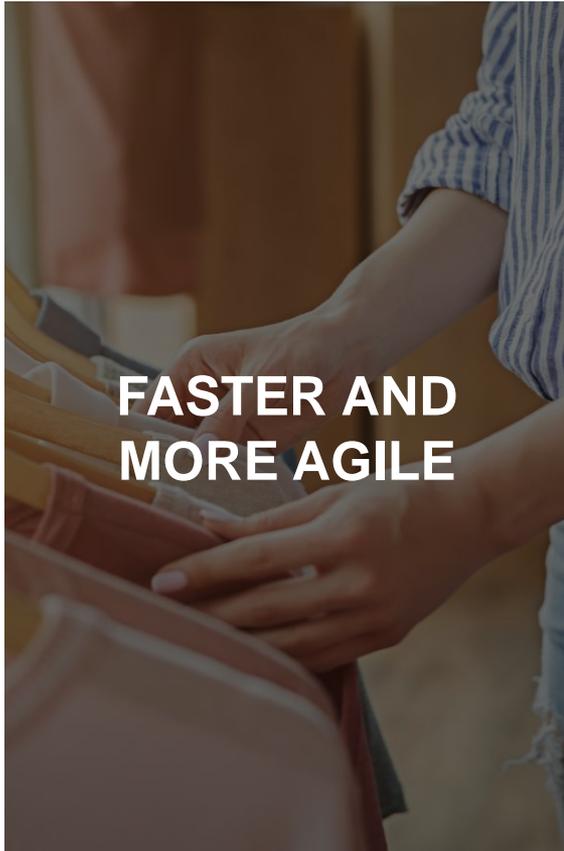
Leverage data and analytics



Optimize supplier strategy



**Leverage raw materials consolidation
and management**



Improved demand signals and trend intelligence



Selective fabric platforming



Streamlining organization structure



INNOVATION AND NEWNESS



**Leverage supplier capabilities to inform
new product innovations**



Expanding on new fabrics



SUPPLY CHAIN STRATEGY – SOURCING

CATEGORIES	ORIGINAL COST	NEGOTIATED COST	SAVINGS (%)
Cut & Sew			
Legging Program	6.76	5.16	24%
Mockneck Program	5.61	5.01	11%
Shirts			
Printed Dress Shirts	9.91	9.07	9%
Rayon Casual Shirts	13.81	11.92	14%
Materials Management			
Core Fabric for Basic Knits	1.80	1.60	12%

SUPPLY CHAIN STRATEGY – SOURCING

2019



DESIGN AND PILOT

Achieved significant reduction in COGS

Cut & Sew Knits	\$6.4M
Bedding and Bath	\$4.0M
Sweaters	\$6.3M
Shirts	\$2.3M
Total	\$19.0M*

* Savings based on addressable spend targeted

2020-2022

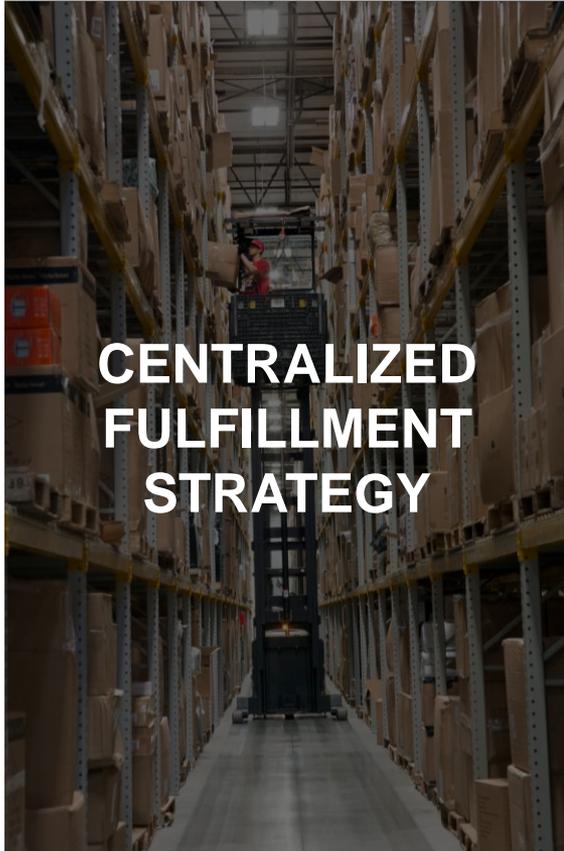


SCALE AND OPTIMIZE

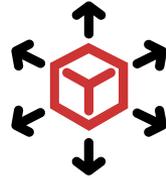
\$120

Reduction in COGS

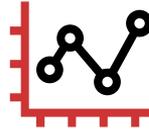
At least **30** day
improvement in lead time



CENTRALIZED FULFILLMENT STRATEGY



Inventory
Management
& Analytics



Distribution
& Operations



Transportation



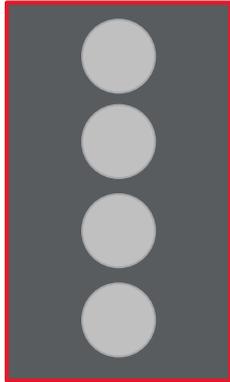
Changing and building new capabilities across
several supply chain competencies

SUPPLY CHAIN STRATEGY — CENTRALIZED FULFILLMENT

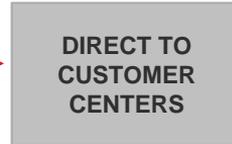
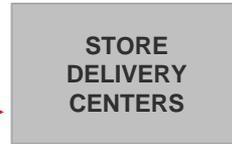


CURRENT STATE

VENDORS



DISTRIBUTION



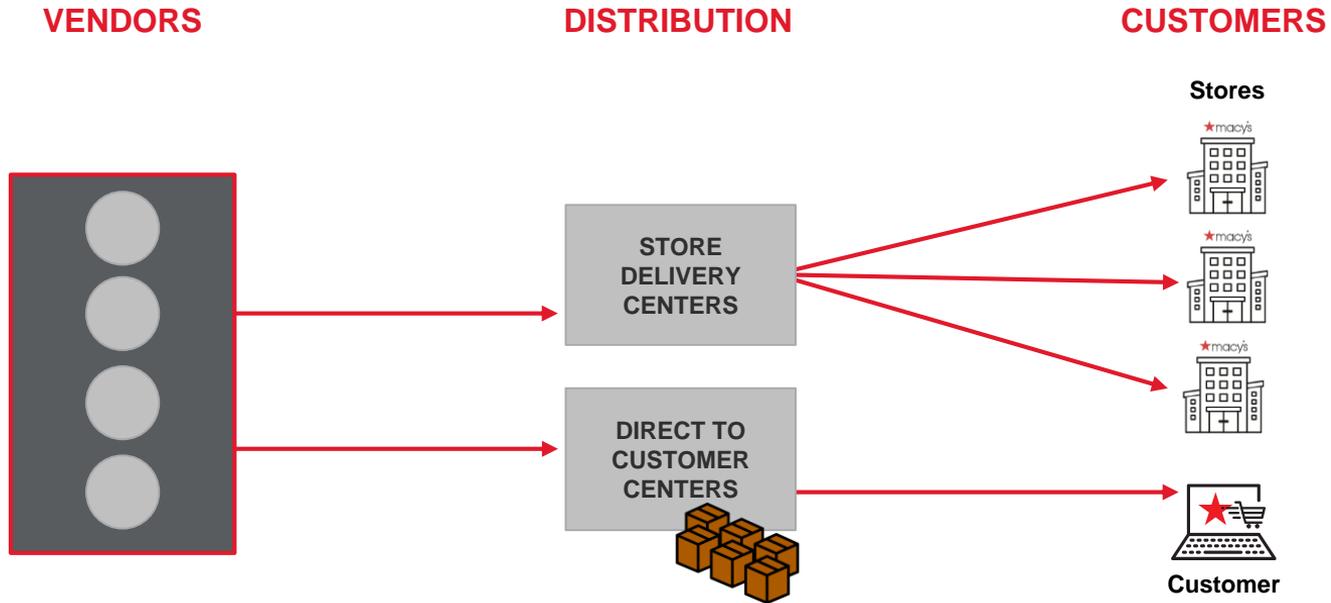
CUSTOMERS

Stores

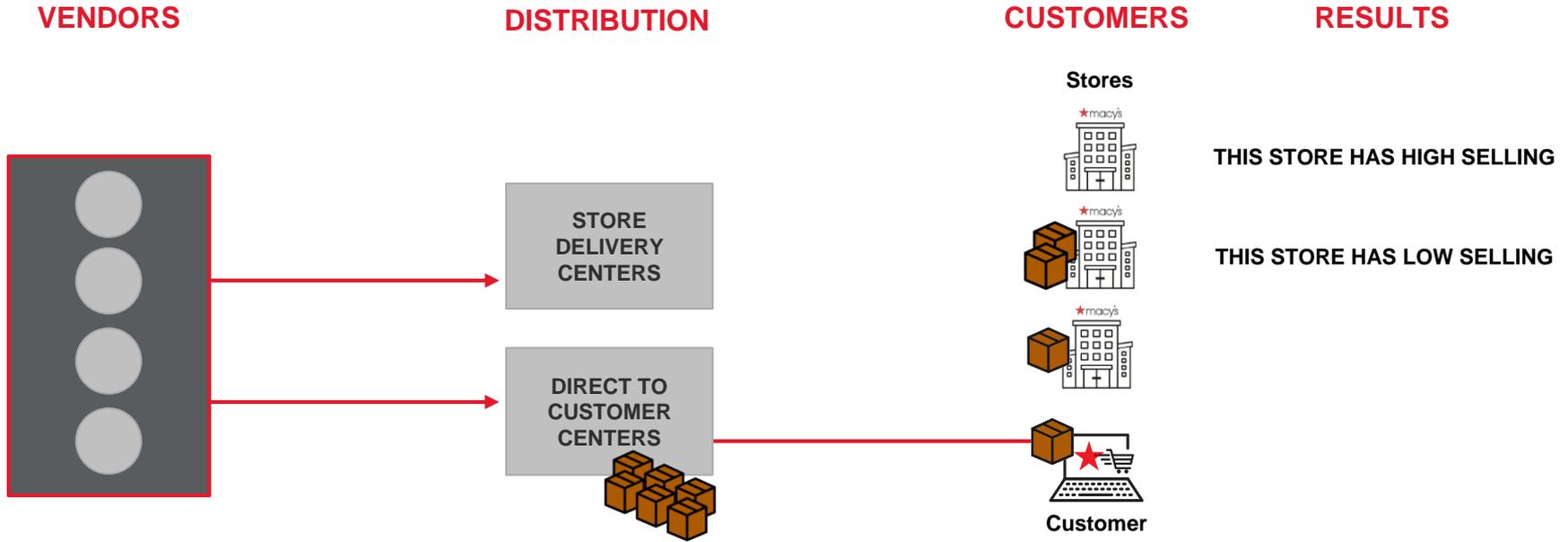


Customer

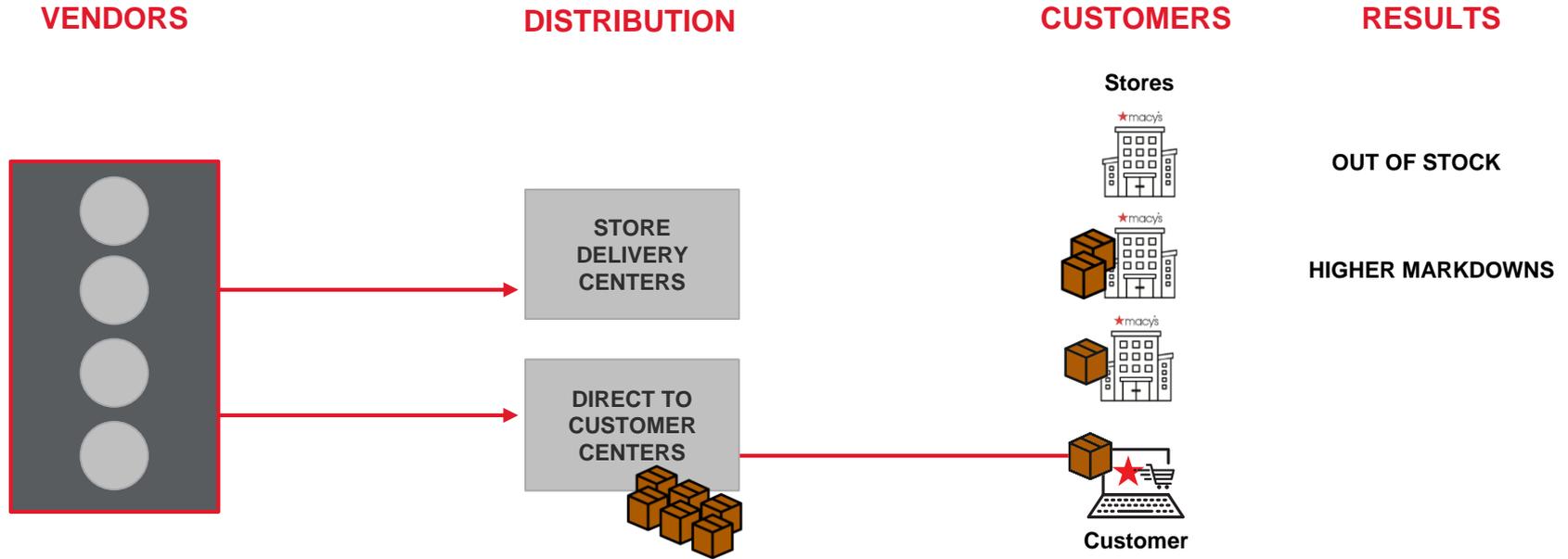
CURRENT STATE

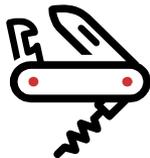


CURRENT STATE



CURRENT STATE





Flexibility



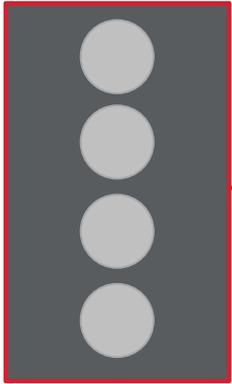
Speed



**Cost
Management**

FUTURE STATE

VENDORS



DISTRIBUTION



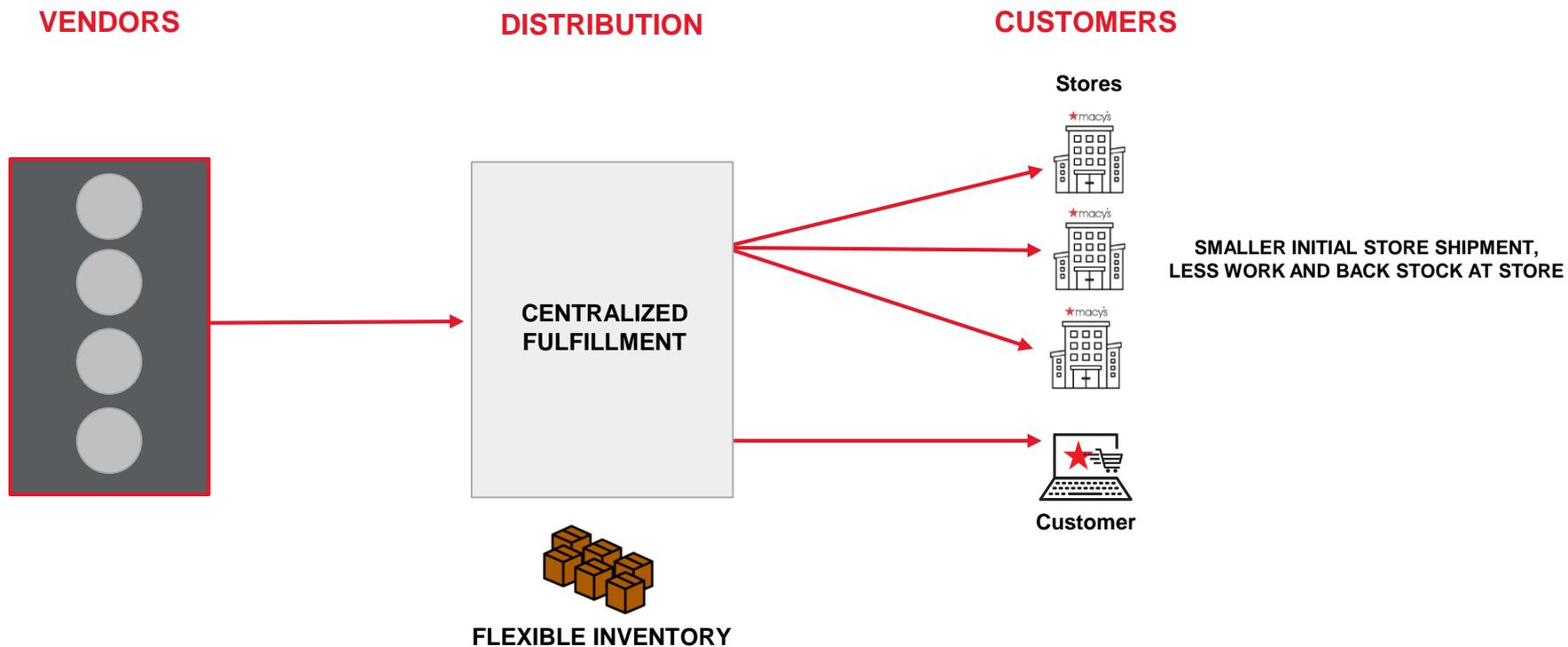
CUSTOMERS

Stores



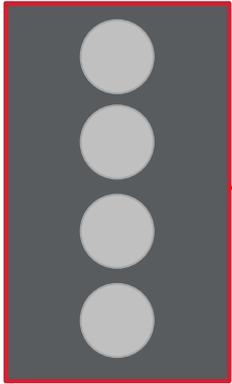
Customer

FUTURE STATE

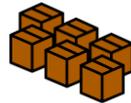
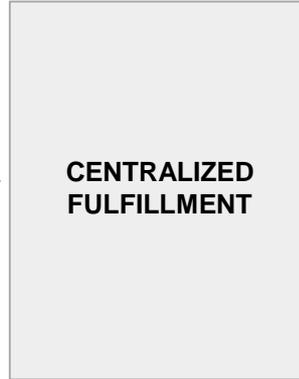


FUTURE STATE

VENDORS



DISTRIBUTION



FLEXIBLE INVENTORY

CUSTOMERS

Stores



THIS STORE HAS HIGH SELLING



THIS STORE HAS LOW SELLING



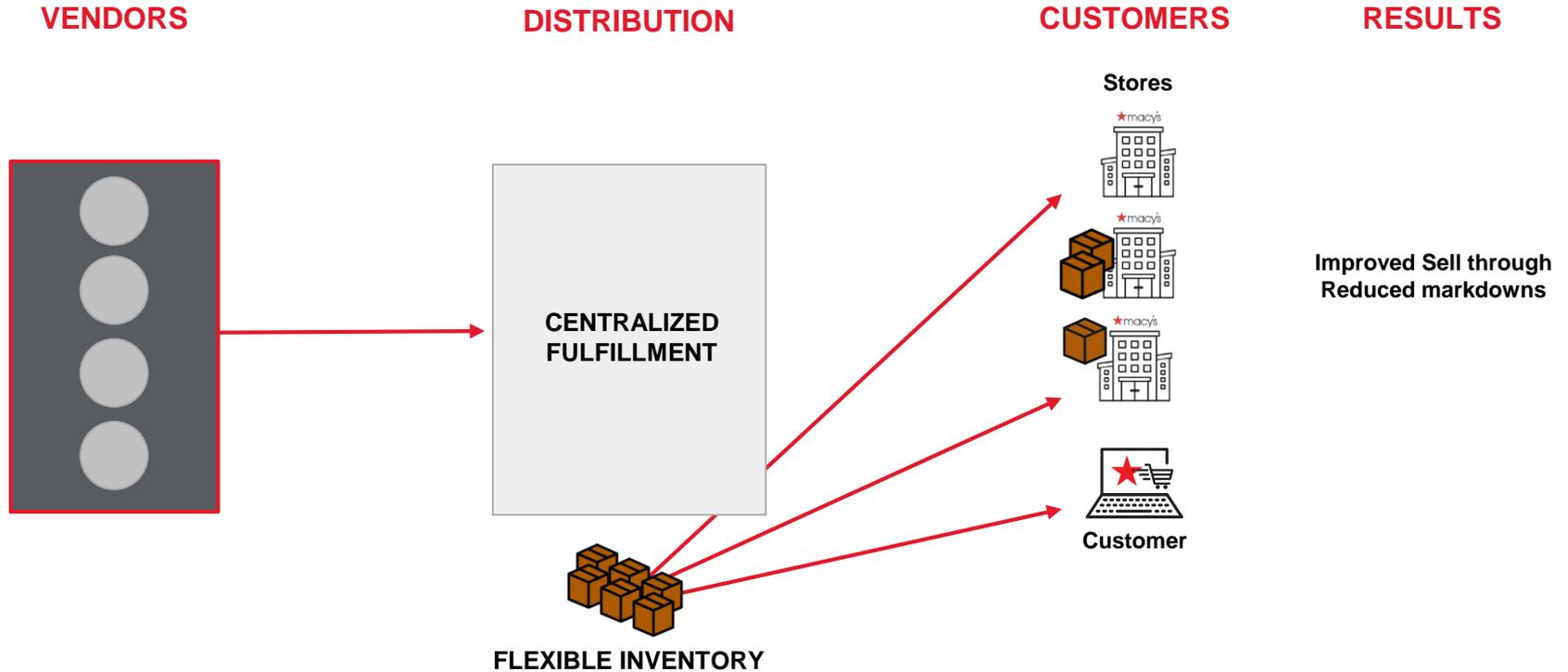
THIS STORE SELLS TO PLAN



CUSTOMER ORDERS ONLINE

Customer

FUTURE STATE



SUPPLY CHAIN STRATEGY – CENTRALIZED FULFILLMENT





PRODUCT	SELL-THROUGH	EFFECTIVE
Spring Dress Capsules	22% improvement	6% lower
Missy Top	13% improvement	8% lower

SUPPLY CHAIN STRATEGY – CENTRALIZED FULFILLMENT

2019



DESIGN AND PILOT

- 01 Improved sell through by **5%**
- 02 Lowered effective markdown rate by **2.5%**
- 03 Improved ecommerce fulfillment
 - Increased speed
 - Reduced costs

2020-2022

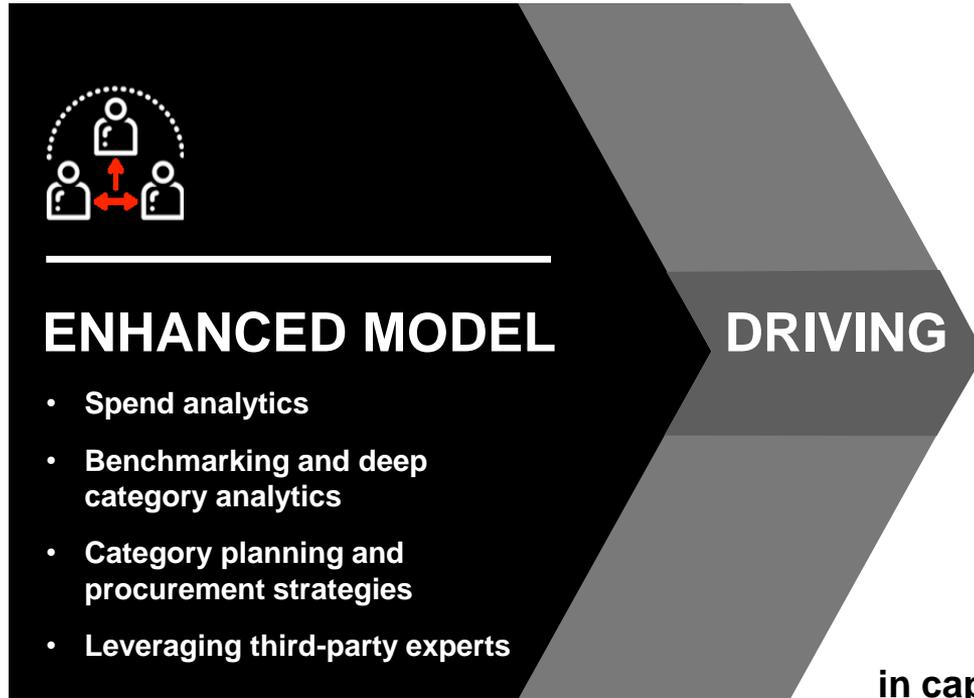


SCALE AND OPTIMIZE

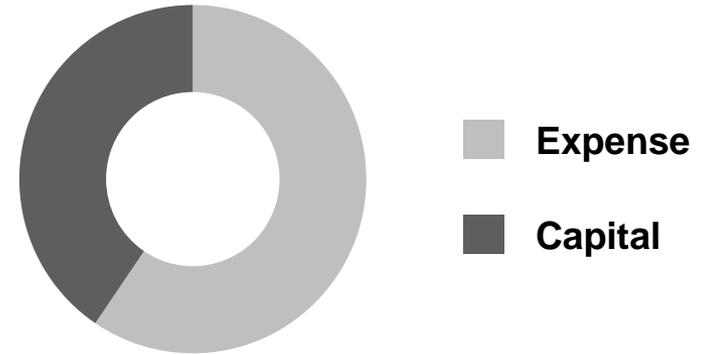
- 01 **2-3%** improvement in effective markdown rate ~ **\$180 M**
- 02 **3.5%** reduction in average inventory ~ **\$200M**
- 03 Support the new store ecosystem
- 04 Further improve ecommerce fulfillment

* Savings based on addressable spend targeted

PROCUREMENT TRANSFORMATION



Procurement Targets



\$200M

in capital and expense savings opportunities

SUSTAINABILITY



2019 report published in accordance with SASB guidelines



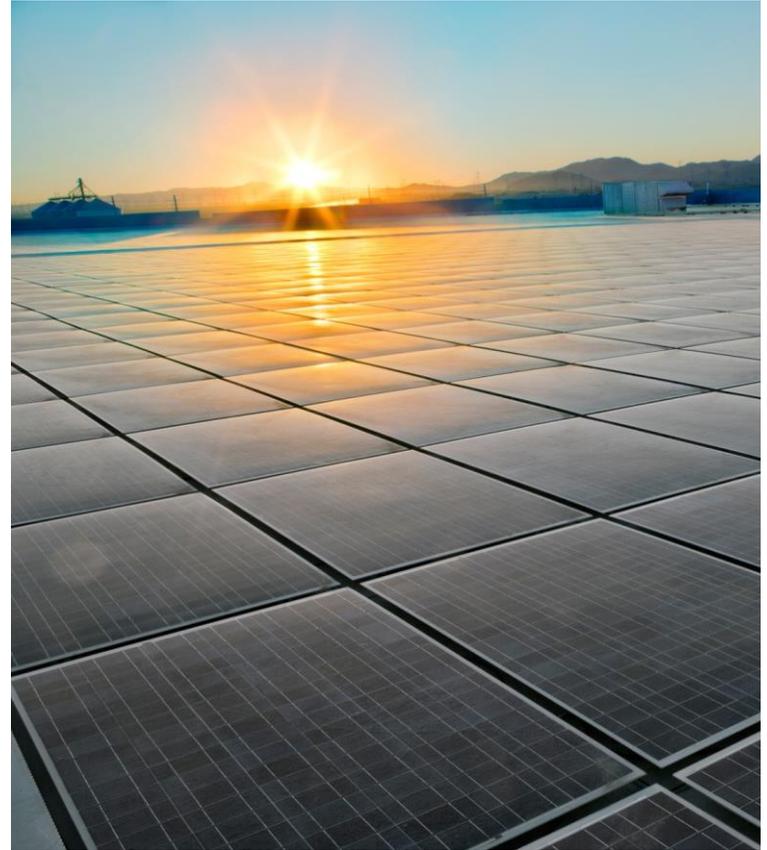
Organized new sustainability team under one leader



Improvements in **sustainability** over last 10 years



Focused on driving sustainable solutions while **reducing costs**



THE CASE FOR CHANGE

Macy's is Reshaping Its Supply Chain Strategy By...

Creating a best-in-class **sourcing** capability

Redesigning **inventory movement** using analytics, advanced algorithms, improved operations and optimized transportation

Enhancing our **procurement capabilities** to leverage strategy and analytics

Emphasizing the importance of **sustainability**

To Deliver...

1

\$120M

in COGS improvement

2

\$180M

in markdown reduction

3

\$ 200M

in inventory reduction

4

\$200M in expense and capital savings



STABILIZING PROFITABILITY, POSITIONING FOR GROWTH

Paula Price
Chief Financial Officer



AGENDA

1

RESET THE COST BASE

Right sizing the organization and expense base

2

2019 REVIEW

FY19 operating performance and capital allocation highlights

3

LONG-TERM OUTLOOK

Plan to stabilize sales, profitability and cash flows

Introduction of three-year financial targets

4

2020 GUIDANCE REVIEW

FY20 guidance and expectations

AGENDA



RESET THE COST BASE

Right sizing the organization and expense base



2019 REVIEW

FY19 operating performance and capital allocation highlights



LONG-TERM OUTLOOK

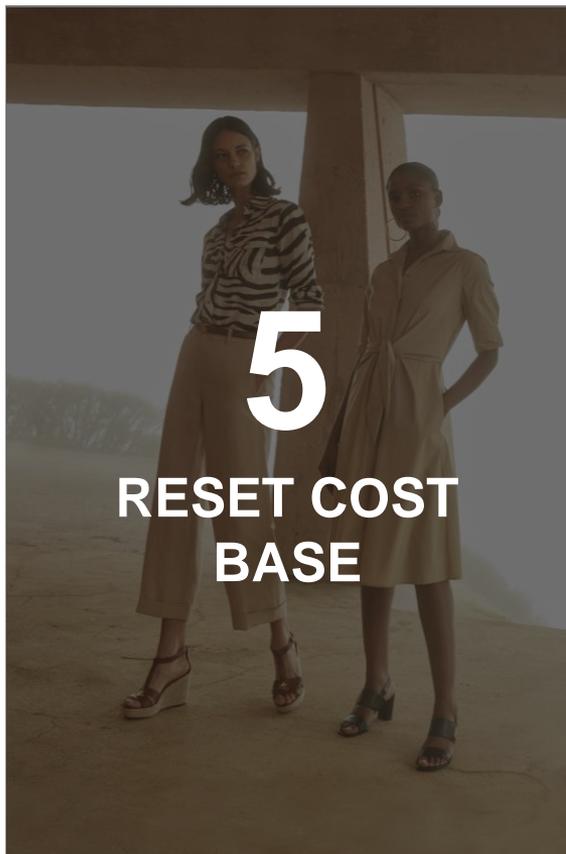
Plan to stabilize sales, profitability and cash flows

Introduction of three-year financial targets



2020 GUIDANCE REVIEW

FY20 guidance and expectations



★ POLARIS



**Right-size organization
& expense base**



Balance sales & profit



**Improve productivity of
working capital**

SUBSTANTIVE RESET OF FIXED COST BASE IN 2020

ACTIONS

- Closing San Francisco, Lorain, and downtown Cincinnati offices
- Relocating Macy's digital headquarters to NYC
- Expanding Atlanta technology hub
- Moving NYC corporate team to Long Island City
- Consolidating NYC offices into Herald Square office for merchants

BENEFITS

- Teams working closer together in fewer locations
- Asset monetization or facilities sub-lease
- Better coordination across all aspects of digital, merchandising, marketing, infrastructure, and mobile



Right-sizing of the organization expected to deliver ~\$250 million in SG&A savings in 2020

AGENDA



RESET THE COST BASE

Right sizing the organization and expense base



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FY19 operating performance and capital allocation highlights



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2020 GUIDANCE REVIEW

FY20 guidance and expectations

2019 PERFORMANCE: NARROWING EARNINGS GUIDANCE

OPERATING PERFORMANCE

FY19 PRELIMINARY SALES RESULTS

~\$24.5B Net sales

~(0.7)% Owned + licensed comp sales

FY19 ADJUSTED DILUTED EPS GUIDANCE

\$2.72 to \$2.77 With asset sales gains

\$2.35 to \$2.40 Without asset sales gains

HOLIDAY 2019

- Strategic initiatives – Growth 150, Backstage, Vendor Direct and Destination Businesses – were strong vs. expectations
- Accelerating comp trend from Q3 in flagships and magnets, and digital
- Store Pickup results were strong
- Planned improvements in promotional calendar were successful



Commitment to delivering Holiday 2019 showed up in execution and results

2019 PERFORMANCE: NARROWING EARNINGS GUIDANCE

OPERATING PERFORMANCE

FY19 PRELIMINARY SALES RESULTS

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~(0.7)% Owned + licensed comp sales

FY19 ADJUSTED DILUTED EPS GUIDANCE

\$2.72 to \$2.77 With asset sales gains

\$2.35 to \$2.40 Without asset sales gains

CAPITAL ALLOCATION (estimated)

~ \$1B Capital expenditures

~ \$565M Debt repayment

~ 2.9x Adj. EBITDA leverage

~ 3.0x Adj. EBITDA leverage excluding ASG

~ \$465M Dividends paid to shareholders



Consistent execution against capital allocation strategy

AGENDA



RESET THE COST BASE

Right sizing the organization and expense base



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2020 GUIDANCE REVIEW

FY20 guidance and expectations

POSITIVE GROWTH TARGETED BY 2022

FY22 SALES

Net sales:
~ **\$23.2B to \$23.9B**

2019-2022 O+L comp sales CAGR:
~ **(1.0)% to flat**

streamlining our portfolio and driving digital growth

FY22 EARNINGS

Adjusted diluted EPS:
\$2.50 to \$3.00

Adjusted diluted EPS
(excluding asset sale gains):
\$2.25 to \$2.75

via improvements in Gross Margin & SG&A

FY22 CASH

Free cash flow¹:
~ **\$1.0B**

for value creation for shareholders



Execution on the Polaris strategy will be a critical enabler of delivering targets

INVESTING IN WAYS CUSTOMERS SHOP TODAY AND IN THE FUTURE



Expand Growth treatment strategy
to stabilize sales in the face of secular headwinds



Sustain healthy growth in digital channels
and continue to improve our website capabilities



Develop further in off-price
drive Backstage Store-within-Store and test Freestanding concepts



Test new concepts
tie the omni-channel format together through new store formats



Investing to stabilize and drive topline growth

COMMITTED TO SALES STABILIZATION

	2019 Preliminary	2020 Guidance	2022 Target
Net sales	~\$24.5B	\$23.6B to \$23.9B	\$23.2B to \$23.9B
Neighborhood stores Impact on net sales ¹		~(\$240M)	~(\$960M)
O+L comp sales	~(0.7)%	(2.5)% to (1.5)%	(0.5)% to 0.5%



Planned strategies will stabilize comp sales trajectory after declining to grow topline sales

SEPTEMBER 2019: MULTI-YEAR PRODUCTIVITY PROGRAM



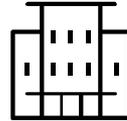
Supply Chain



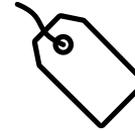
Merchandising Mix & Pricing



Marketing



Stores



Private Brand Sourcing



Indirect Spend Procurement

By ...

- Improving gross margin
- Improving SG&A productivity
- Improving working capital



We will ...

- Counter macro headwinds
- Fund strategic initiatives
- Drive profitability



Targeted reduction of annual costs by \$400 million to \$550 million and improvement in working capital of approximately \$100 million over two to four years

BROADENED SCOPE OF PRODUCTIVITY IMPROVEMENT GOALS



**We will stabilize
profitability and
fund strategies**

Stabilize and then expand gross margin

- proactively mitigate headwinds through profitable merchandising strategies and implementation of productivity initiatives

Improve average profitability of fleet

- redeploy capital as we exit lowest performing stores

Right-size SG&A cost base

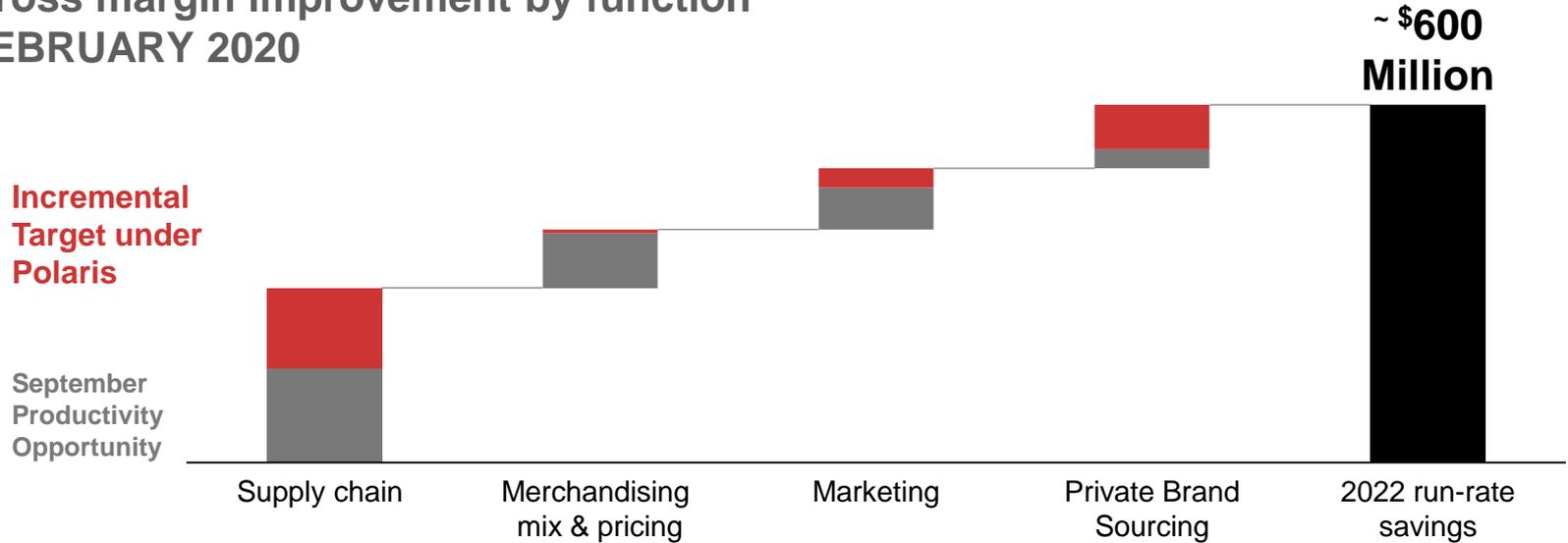
- optimize to more sustainable levels that mirror the needs of streamlined retail platform



2022: Generate productivity of ~\$1.5 billion; improve working capital by ~\$200 million

EARNINGS: POLARIS WILL STABILIZE AND GROW GROSS MARGINS

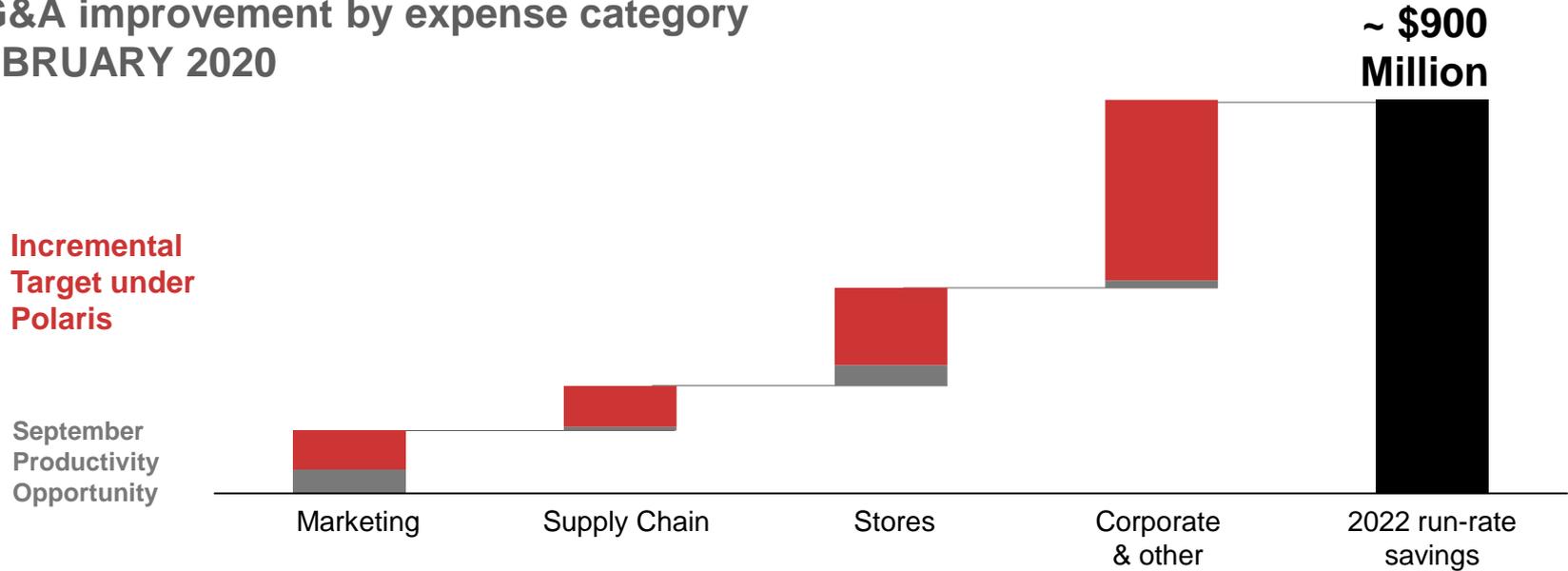
Gross margin improvement by function
FEBRUARY 2020



Plans broadened to stem margin compression now, and expand margin through 2022

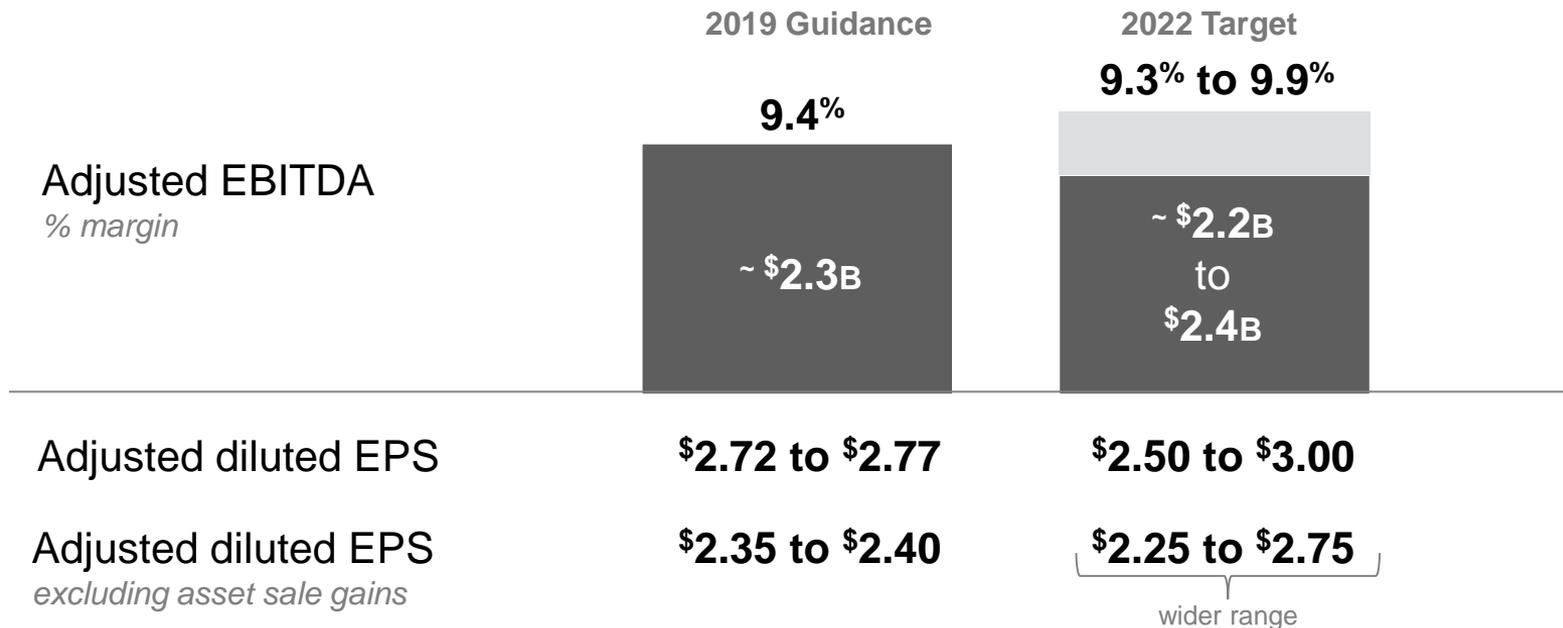
EARNINGS: POLARIS WILL RIGHT-SIZE OUR COST BASE

SG&A improvement by expense category
FEBRUARY 2020



More resilient and flexible cost structure accelerates timeline to profitability stabilization

EXPANDING ADJUSTED EBITDA RATE THROUGH STABILIZATION



Polaris will stabilize profitability and reposition business to deliver top-line growth

GENERATING SUFFICIENT CASH TO SUPPORT STRATEGY

CUMULATIVE CASH FROM OPERATIONS

\$B



Target Range for Future Three Years
(2020 through 2022 Target)

KEY DRIVERS OF CASH FLOW IMPROVEMENT

01

Stabilizing profitability by investing in merchandising and supply chain capabilities to mitigate margin headwinds and optimize SG&A spend

02

Revitalizing sales by strategically closing doors, driving digital sales, leveraging proven concepts (e.g., Backstage SwS), and testing new retail concepts

03

Implementing disciplined working capital management by reducing receipts, driving turns improvements and optimizing payables terms to yield **approximately \$200M** improvement over next three years

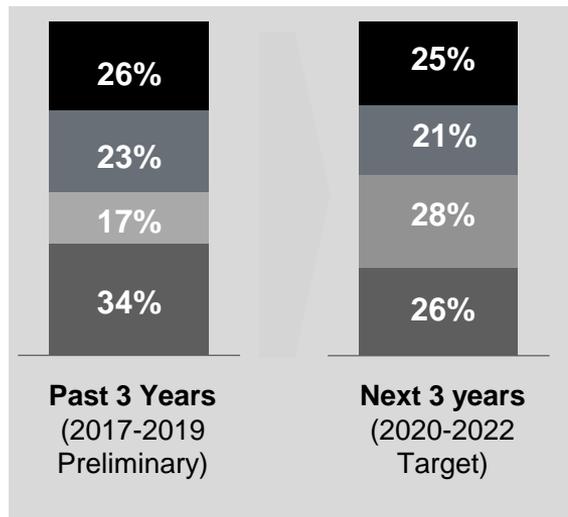


Reversing profitability trend, optimizing working capital leads to cash flow stabilization

REFOCUS CAPITAL TO PRIORITIZE HIGH POTENTIAL BUSINESSES

CUMULATIVE CAPITAL EXPENDITURES

Targeting ~\$1 billion annually 2020-2022

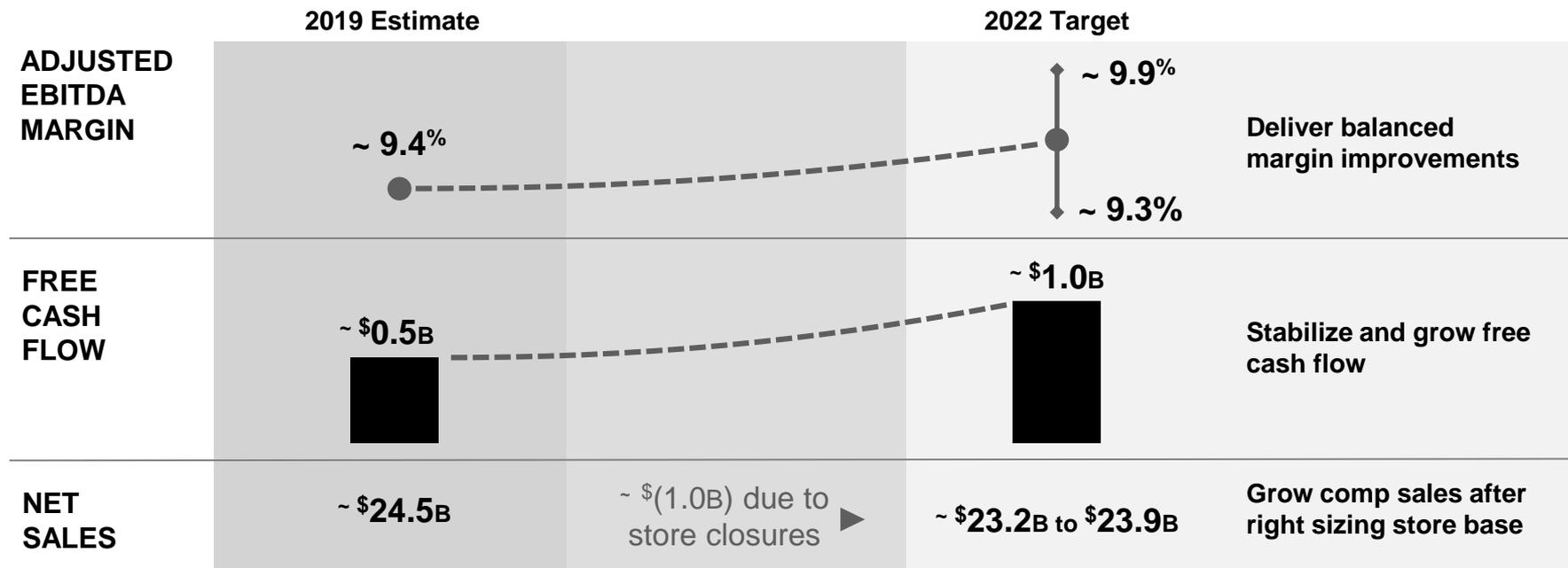


 Investing in assets that can be our future	<ul style="list-style-type: none"> Investing for sustainable digital growth Testing and scaling new retail concepts
 Reinvigorating our retail platform	<ul style="list-style-type: none"> Upgrading the highest potential areas of our store fleet
 Modernizing our foundation	<ul style="list-style-type: none"> Developing merch and supply chain to bolster operating performance
 Making brand right improvements	<ul style="list-style-type: none"> Improving our customer touch points and upgrading our infrastructure



Reallocating resources to drivers/capabilities critical to delivering growth and profitability

IMPROVING EARNINGS AND CASH FLOW TRAJECTORY



Stabilization of profitability and cash flows in 2020 ... positioning Macy's for future growth

CASHFLOW: CONSISTENT CAPITAL ALLOCATION STRATEGY

VALUE-ENHANCING INVESTMENTS

- Investing in the business to support growth initiatives

CAPITAL STRUCTURE

- Return to **2.5x to 2.8x** debt-to-EBITDA leverage ratio
- Consistent with maintaining investment grade credit rating

CAPITAL RETURNED TO SHAREHOLDERS

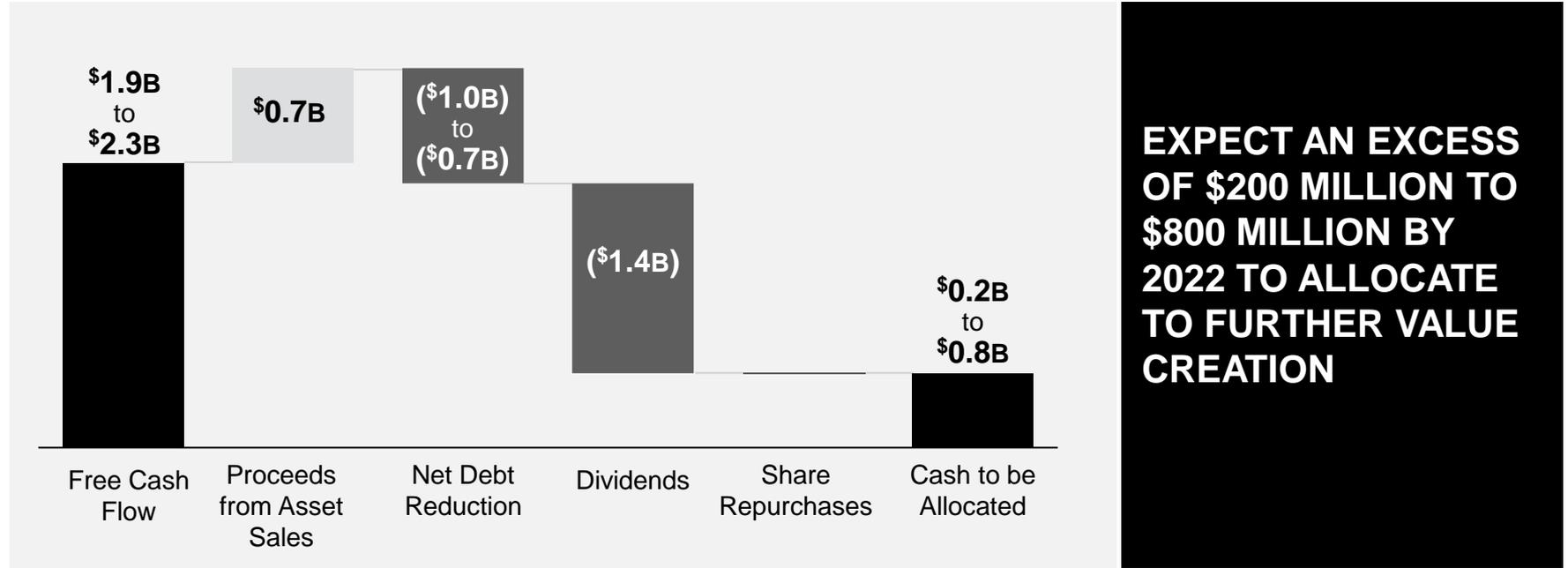
- Maintain dividend
- Consider return to stock buyback once targeted leverage ratio is achieved



Aligns capital with business priorities, maximizes flexibility, optimizes use of excess cash

CASHFLOW: EXPECT TO ACHIEVE TARGET LEVERAGE BY 2022

Cumulative 3-Year Targets



AGENDA



RESET THE COST BASE

Right sizing the organization and expense base



2019 REVIEW

FY19 operating performance and capital allocation highlights



LONG-TERM OUTLOOK

Plan to stabilize sales, profitability and cash flows

Introduction of three-year financial targets



2020 GUIDANCE REVIEW

FY20 guidance and expectations

2020 GUIDANCE

Sales

Net sales:

\$23.6B to \$23.9B

O+L comp:

(2.5)% to (1.5)%

Comp sales decline driven by:

- Trajectory of our business over the last year
- Continued challenged performance in mall-based retail
- Disruption from significant structural changes to reset cost base
- Economic environment still healthy, but slower growth than prior years

Earnings

Adjusted diluted EPS:

\$2.45 to \$2.65

Adjusted diluted EPS excluding asset sale gains:

\$2.20 to \$2.40



2020 will be a transition year: stabilize profitability and prepare for future long-term growth

STABILIZING MARGINS AND RIGHT SIZING SG&A COST BASE

FY20 Gross Margin Rate: Approximately flat

- Greatest pressure in Q1; sequential improvement throughout the year
- Polaris to contribute **~\$100 million** of savings
- Headwinds:
 - Working hard to mitigate impact of Tranche 3 tariffs introduced during 2019
 - Growth of lower-margin businesses

FY20 comp inventory: down significantly

FY20 SG&A rate: approximately flat, despite lower sales

- Polaris to generate at least **\$500 million** of savings.



Polaris expected to contribute at least \$600 million of savings in 2020



1

Stabilizing profitability and cash flows in transition year of 2020

2

Right sizing cost base and expanding future gross margins

3

Capital allocation strategy enhances long-term financial stability and value creation

★
**CLOSING
REMARKS**



★ POLARIS

WILL



Strengthen Customer Relationships



Curate Quality Fashion



Accelerate Digital Growth



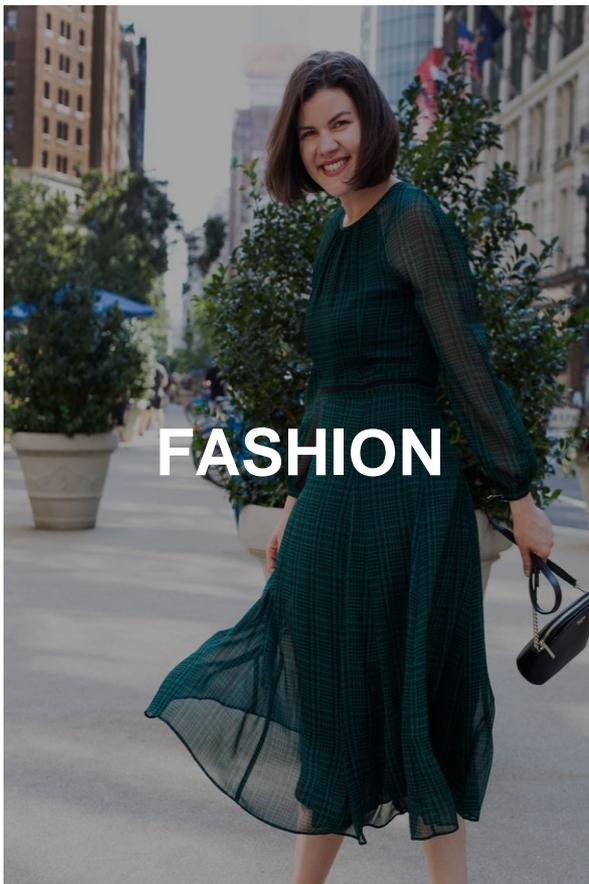
Optimize Store Portfolio



Reset our Cost Base

AMERICA'S DEPARTMENT STORE

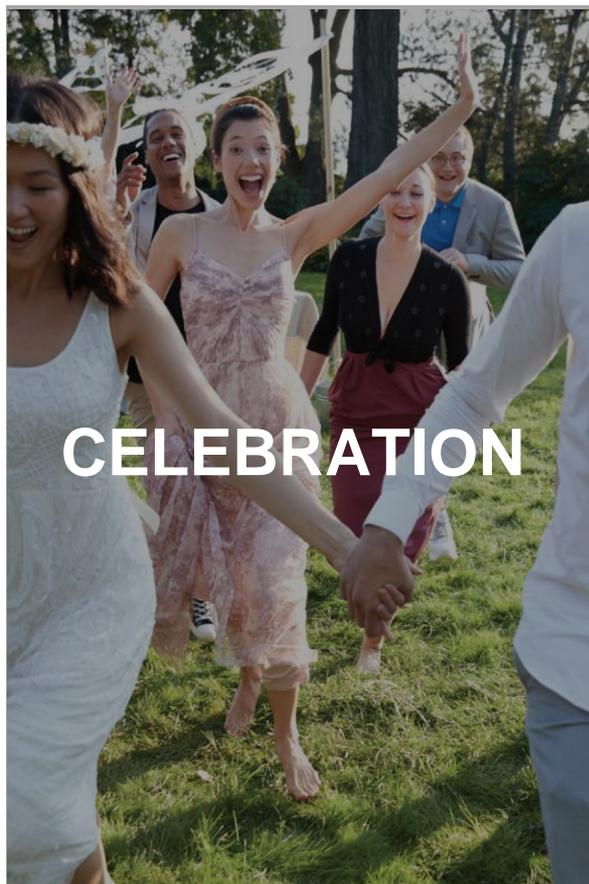




FASHION



VALUE



CELEBRATION



★
Q&A



Macy's, Inc.

Forward-Looking Statements

All statements in this presentation that are not statements of historical fact are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are based upon the current beliefs and expectations of Macy's management and are subject to significant risks and uncertainties. Actual results could differ materially from those expressed in or implied by the forward-looking statements contained in this presentation because of a variety of factors, including the possible invalidity of the underlying beliefs and assumptions; Macy's ability to successfully implement its Polaris strategy, including the ability to realize the anticipated benefits within the expected timeframe or at all; the success of Macy's operational decisions, such as product sourcing, merchandise mix and pricing, and marketing, and strategic initiatives, such as Growth stores, Backstage on-mall off-price business, and vendor direct expansion; general consumer-spending levels, including the impact of general economic conditions, consumer disposable income levels, consumer confidence levels, the availability, cost and level of consumer debt, the costs of basic necessities and other goods and the effects of the weather or natural disasters; competitive pressures from department and specialty stores, general merchandise stores, manufacturers' outlets, off-price and discount stores, and all other retail channels, including the Internet, catalogs and television; Macy's ability to remain competitive and relevant as consumers' shopping behaviors migrate to other shopping channels and to maintain its brand and reputation; possible systems failures and/or security breaches, including any security breach that results in the theft, transfer or unauthorized disclosure of customer, employee or company information, or the failure to comply with various laws applicable to Macy's in the event of such a breach; the cost of employee benefits as well as attracting and retaining quality employees; transactions and strategy involving Macy's real estate portfolio; the seasonal nature of Macy's business; conditions to, or changes in the timing of, proposed transactions, and changes in expected synergies, cost savings and non-recurring charges; the potential for the incurrence of charges in connection with the impairment of intangible assets, including goodwill; possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions; possible actions taken or omitted to be taken by third parties, including customers, suppliers, business partners, competitors and legislative, regulatory, judicial and other governmental authorities and officials; changes in relationships with vendors and other product and service providers; currency, interest and exchange rates and other capital market, economic and geo-political conditions; unstable political conditions, civil unrest, terrorist activities and armed conflicts; the possible inability of Macy's manufacturers or transporters to deliver products in a timely manner or meet Macy's quality standards; Macy's reliance on foreign sources of production, including risks related to the disruption of imports by labor disputes, regional health pandemics, and regional political and economic conditions; duties, taxes, other charges and quotas on imports; and other factors identified in documents filed by Macy's with the Securities and Exchange Commission. Macy's disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Macy's, Inc.

Reconciliation of GAAP to non-GAAP Financial Measures

(All amounts in millions except for percentages)

The company reports its financial results in accordance with U.S. generally accepted accounting principles (GAAP). However, management believes that certain non-GAAP financial measures provide users of the company's financial information with additional useful information in evaluating operating performance. Management believes that providing supplemental changes in comparable sales on an owned plus licensed basis, which includes adjusting for growth in comparable sales of departments licensed to third parties, assists in evaluating the company's ability to generate sales growth, whether through owned businesses or departments licensed to third parties, and in evaluating the impact of changes in the manner in which certain departments are operated. Earnings before interest, taxes, depreciation and amortization (EBITDA) and EBITDA as a percent of net sales are non-GAAP financial measures which the company believes provides meaningful information about its operational efficiency by excluding the impact of changes in tax law and structure, debt levels and capital investment. In addition, management believes that excluding restructuring, impairment and other costs, settlement charges and losses on the early retirement of debt from EBITDA and diluted earnings per share attributable to Macy's, Inc. shareholders that are not associated with the company's core operations and that may vary substantially in frequency and magnitude from period-to-period provides useful supplemental measures that assist in evaluating the company's ability to generate earnings and to more readily compare these metrics between past and future periods.

Free cash flow provides a better indication of the ongoing cash being generated that is ultimately available for both debt and equity holders as well as other investment opportunities. Unlike cash flow provided by operating activities, free cash flow includes the impact of capital expenditures, providing a more complete picture of cash generation. Free cash flow has certain limitations, including that it does not reflect adjustment for certain non-discretionary cash flows such as mandatory debt repayments. The amount of mandatory versus discretionary expenditures can vary significantly between periods.

The reconciliation of the forward-looking non-GAAP financial measure of changes in comparable sales on an owned plus licensed basis to GAAP comparable sales (i.e., on an owned basis) and free cash flow is in the same manner as illustrated within. In addition, the company does not provide the most directly comparable estimated and forward-looking GAAP measure of EBITDA, EBITDA as a percent of net sales, and diluted earnings per share attributable to Macy's, Inc. shareholders excluding certain items, because the timing and amount of excluded items are unreasonably difficult to fully and accurately estimate.

Non-GAAP financial measures should be viewed as supplementing, and not as an alternative or substitute for, the company's financial results prepared in accordance with GAAP. Certain of the items that may be excluded or included in non-GAAP financial measures may be significant items that could impact the company's financial position, results of operations or cash flows and should therefore be considered in assessing the company's actual and future financial condition and performance. Additionally, the amounts received by the company on account of sales of departments licensed to third parties are limited to commissions received on such sales. The methods used by the company 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 presented herein may not be comparable to similar measures provided by other companies.

Macy's, Inc.
Reconciliation of GAAP to non-GAAP Financial Measures
(All amounts in millions except for percentages)

Estimated changes in comparable sales	52 Weeks Ended February 1, 2020
Decrease in comparable sales on an owned basis (Note 1)	(0.8)%
Impact of growth in comparable sales of departments licensed to third parties (Note 2)	0.1%
Decrease in comparable sales on an owned plus licensed basis	<u><u>(0.7)%</u></u>

Notes:

- (1) Represents the period-to-period percentage change in net sales from stores in operation throughout the year presented and the immediately preceding year and all online sales, excluding commissions from departments licensed to third parties. Stores impacted by a natural disaster or undergoing significant expansion or shrinkage remain in the comparable sales calculation unless the store, or material portion of the store, is closed for a significant period of time. Definitions and calculations of comparable sales may differ among companies in the retail industry.
- (2) Represents the impact of including the sales of departments licensed to third parties occurring in stores in operation throughout the year presented and the immediately preceding year and all online sales in the calculation of comparable sales. The company licenses third parties to operate certain departments in its stores and online and receives commissions from these third parties based on a percentage of their net sales. In its financial statements prepared in conformity with GAAP, the company includes these commissions (rather than sales of the departments licensed to third parties) in its net sales. The company does not, however, include any amounts in respect of licensed department sales (or any commissions earned on such sales) in its comparable sales in accordance with GAAP (i.e., on an owned basis). The amounts of commissions earned on sales of departments licensed to third parties are not material to its net sales for the periods presented.

Macy's, Inc.
Reconciliation of GAAP to non-GAAP Financial Measures
(All amounts in millions except for percentages)

Adjusted EBITDA as a percent to Net Sales

**52 Weeks Ended
February 2, 2019**

**53 Weeks Ended
February 3, 2018**

Most Comparable GAAP measure:

Net income attributable to Macy's, Inc. shareholders	\$ 1,108	\$ 1,566
Net sales	<u>24,971</u>	<u>24,939</u>
Net income attributable to Macy's, Inc. shareholders as a percent to net sales	<u>4.4%</u>	<u>6.3%</u>

Non-GAAP measure:

Net income attributable to Macy's, Inc. shareholders	\$ 1,108	\$ 1,566
Interest expense, net	236	310
Losses (gains) on early retirement of debt	33	(10)
Federal, state and local income tax expense (benefit)	322	(39)
Depreciation and amortization	<u>962</u>	<u>991</u>
EBITDA	2,661	2,818
Settlement charges	88	105
Restructuring, impairment, store closing and other costs (Note 1)	<u>128</u>	<u>186</u>
Adjusted EBITDA	<u>\$ 2,877</u>	<u>\$ 3,109</u>
Adjusted EBITDA as a percent to net sales	<u>11.5%</u>	<u>12.5%</u>

Note:

(1) For the 52 weeks ended February 2, 2019, the above pre-tax adjustment excludes impairment, restructuring and other costs attributable to the noncontrolling interest shareholder of \$8 million.

Macy's, Inc.
Reconciliation of GAAP to non-GAAP Financial Measures
(All amounts in millions except for percentages)

Free Cash Flow	52 Weeks Ended February 2, 2019	53 Weeks Ended February 3, 2018
Most comparable GAAP measure:		
Net cash provided by operating activities	<u>\$ 1,735</u>	<u>\$ 1,976</u>
Non-GAAP measure:		
Net cash provided by operating activities	\$ 1,735	\$ 1,976
Capital expenditures	<u>(932)</u>	<u>(760)</u>
Free cash flow	<u>\$ 803</u>	<u>\$ 1,216</u>

FY GUIDANCE

	FY20 GUIDANCE
Net Sales	\$23.6B to \$23.9B
Comp sales - owned	Approximately 40BPS better than OL
Comp sales - owned + licensed (OL)	(2.5)% to (1.5)%
Credit card revenues, net	\$700M to \$715M
Gross margin rate	Approximately flat to FY19
SG&A expense rate	Approximately flat to FY19
Gains on sale of real estate	Approximately \$100M
Benefit plan income, net	Approximately \$30M
Depreciation and amortization	Approximately \$1B
Interest expense, net	Approximately \$190M
Tax rate	23.25%
Adjusted Diluted EPS	\$2.45 to \$2.65
Adjusted Diluted EPS excluding gains on sale of real estate	\$2.20 to \$2.40
Capital Expenditures	Approximately \$1B
Comp Inventory	Down significantly to FY19

STORE COUNT RECONCILIATION

	Boxes	Locations
Macy's Flagships	16	11
Macy's Magnets	432	386
Macy's Core	448	397
Macy's Neighborhood	130	123
Macy's Furniture	54	49
Macy's Other	4	4
Freestanding Backstage	7	7
Bloomingdale's Dept. Stores	35	33
Bloomingdale's Furniture/Other	3	3
Bloomingdale's The Outlet	19	19
Bluemercury	171	171
Total	871	806

The location-based approach to store segmentation combines multi-boxes stores into a single location, providing a more accurate count of the store fleet. At the end of 3Q19, Macy's Inc. had a total of 871 boxes in 806 locations nationwide.