

MACY'S, INC.
Credit Ratios and Other Financial Information
(\$ in millions)

The company tracks two key credit ratios to measure our liquidity and the strength of our balance sheet. In order to assess the degree of leverage, we look at debt relative to EBITDA. To assess interest expense coverage, we look at EBITDA relative to interest expense. For both of these ratios, we adjust debt, EBITDA and interest expense to take into account the impact of operating leases and retirement obligations and certain non-recurring items. This methodology is similar to those used by credit rating agencies to assess a company's capital structure.

These credit ratios are non-GAAP financial measures. 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. These 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 these 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 financial condition and performance. In particular, these financial measures have material limitations because they exclude cash and non-cash expenses that are necessary to operate the company's business or that may be otherwise incurred or experienced in connection with the operation of its business. 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.

The company adopted Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers*, on February 4, 2018. This standard was retrospectively adopted and the financial information below has been recast to reflect the requirements of the new standard. Further information on the impact of the new standard can be found in the company's first quarter 2018 earnings release and associated Form 8-k and on the company's investor relations page at www.macysinc.com.

The values for short-term debt and long-term debt are from the balance sheets for the identified dates, the value of the underfunded status of postemployment and postretirement benefits is based on the year-end funded status of the relevant retirement plans and benefit obligations, and the capitalized value of gross rent expense is based on gross rent expense for the applicable period multiplied by a factor as discussed below. The calculation of the capitalized value of non-capitalized leases is consistent with industry and credit rating agency practice.

In the calculation of the company's credit ratios, both the Moody's rating agency and the company utilize a present value calculation that incorporates a rent factor in determining the capitalized value of gross rent expense. This factor is adjusted annually based on an updated Moody's prepared present value calculation using an estimated intermediate term interest rate for Macy's. Beginning with the 53 weeks ended February 3, 2018, the rent factor is 8.0x. For the period presented below prior to this date, the rent factor was 8.1x.

The following financial information, including non-GAAP financial measures, should be read in conjunction with the audited financial statements, including the related notes, and other financial information contained in the company's Securities and Exchange Commission filings.

	Target	As of and for the 53 weeks ended May 5, 2018	As of and for the 53 weeks ended February 3, 2018	As of and for the 52 weeks ended April 29, 2017
Leverage ratio *	2.5 - 2.8	2.7	2.7	3.2
Coverage ratio	6.4 - 6.6	8.1	7.8	6.8

* As adjusted for the change in the factor used to capitalize operating leases.

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Adjusted EBITDA

Management believes that Adjusted EBITDA is a useful measure in evaluating the company's ability to generate cash flow from its operations.

As computed below, Adjusted EBITDA represents earnings before interest, taxes and depreciation and amortization, adjusted to exclude the effects of impairment, restructuring, store closing and other costs, settlement charges, gross rent expense, and the excess of the net periodic benefit costs of the company's postemployment and postretirement benefit obligations over the related service cost components of such benefit costs.

	As of and for the 53 weeks ended May 5, 2018	As of and for the 53 weeks ended February 3, 2018	As of and for the 52 weeks ended April 29, 2017
Most Comparable GAAP Measure:			
Net income	\$ 1,609	\$ 1,555	\$ 574
Non-GAAP Measure:			
Net income	\$ 1,609	\$ 1,555	\$ 574
Add back interest expense	306	321	354
Add back (deduct) net premiums on early retirement of debt	(13)	(10)	3
Deduct interest income	(14)	(11)	(5)
Add back (deduct) federal, state and local income tax expense (benefit)	(54)	(39)	346
Add back restructuring, impairment, store closing and other costs	204	186	479
Add back settlement charges	105	105	85
Add back depreciation and amortization	983	991	1,041
Add back gross rent expense (Note 1)	338	338	339
Deduct net periodic benefit costs of the postemployment and postretirement benefit obligations in excess of the service cost components (Note 2)	(55)	(57)	(57)
Adjusted EBITDA	<u>\$ 3,409</u>	<u>\$ 3,379</u>	<u>\$ 3,159</u>

Note 1

The add back of gross rent expense in calculating Adjusted EBITDA treats the company's periodic rent expense under the relevant lease agreements in a manner consistent with the company's owned properties.

Real estate		\$ 328	
Personal property		10	
	<u>\$ 338</u>	<u>\$ 338</u>	<u>\$ 339</u>

Note 2

The add back of the excess net periodic benefit cost of the company's postemployment and postretirement benefit obligations over the service cost component of such benefit costs in calculating Adjusted EBITDA recognizes the fact that the service cost components of the net periodic benefit costs are primarily operating type costs and should be included in Adjusted EBITDA, while all other components of the net periodic benefit costs are primarily financing type costs and should be excluded from Adjusted EBITDA. Net periodic benefit costs include, where applicable, service cost, interest cost, expected return on assets, amortization of net actuarial gains and losses and the amortization of prior service costs or credits.

Net periodic benefit costs:			
Pension plan	\$ (79)	\$ (82)	\$ (84)
Supplementary retirement plan	31	31	31
Postretirement benefit obligations	-	-	1
Less service cost component of net periodic benefit costs:			
Pension plan	(7)	(6)	(5)
Supplementary retirement plan	-	-	-
Postretirement benefit obligations	-	-	-
	<u>\$ (55)</u>	<u>\$ (57)</u>	<u>\$ (57)</u>

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Leverage ratio

Management believes that the leverage ratio, as computed below and defined as Adjusted debt divided by Adjusted EBITDA, is a useful measure in evaluating the company's ability to cover its debt-like obligations.

As computed below, Adjusted debt represents the company's short-term and long-term debt, adjusted to include (exclude) certain items as identified below.

As computed above, Adjusted EBITDA represents earnings before interest, taxes and depreciation and amortization, adjusted to exclude the effects of impairment, restructuring, store closing, and other costs, settlement charges, gross rent expense, and the excess of the net periodic benefit costs of the company's postemployment and postretirement benefit obligations over the related service cost components of such benefit costs.

	As of and for the 53 weeks ended May 5, 2018	As of and for the 53 weeks ended February 3, 2018	As of and for the 52 weeks ended April 29, 2017
Most Comparable GAAP Ratio:			
Short-term debt	\$ 25	\$ 22	\$ 313
Long-term debt	5,857	5,861	6,412
Total debt	<u>\$ 5,882</u>	<u>\$ 5,883</u>	<u>\$ 6,725</u>
Net income	<u>\$ 1,609</u>	<u>\$ 1,555</u>	<u>\$ 574</u>
	<u>3.7</u>	<u>3.8</u>	<u>11.7</u>
Non-GAAP Ratio:			
Short-term debt	\$ 25	\$ 22	\$ 313
Long-term debt	5,857	5,861	6,412
Underfunded status of postemployment and postretirement benefits (Note 1)	535	535	648
Capitalized value of gross rent expense (Note 2)	<u>2,704</u>	<u>2,704</u>	<u>2,746</u>
Adjusted debt	<u>\$ 9,121</u>	<u>\$ 9,122</u>	<u>\$ 10,119</u>
Adjusted EBITDA	<u>\$ 3,409</u>	<u>\$ 3,379</u>	<u>\$ 3,159</u>
	<u>2.7</u>	<u>2.7</u>	<u>3.2</u>

Note 1

The inclusion of the underfunded status (the amount by which the projected benefit obligation or accumulated postretirement benefit obligation exceeds the fair value of plan assets) of the company's postemployment and postretirement obligations in Adjusted debt treats the company's net liability under the relevant benefit plans as debt equivalents. The assumed tax benefit of 26% represents the tax deductibility of contributions which impact the funded status of the plans.

Underfunded (overfunded) status:

Pension plan	\$ (138)	\$ (138)	\$ 95
Supplementary retirement plan	703	703	747
Postretirement benefit obligations	156	156	186
Less income tax effect of net underfunded status of the pension and supplementary retirement plans and postretirement benefit obligations	<u>(186)</u>	<u>(186)</u>	<u>(380)</u>
	<u>\$ 535</u>	<u>\$ 535</u>	<u>\$ 648</u>

Note 2

The inclusion of the capitalized value of gross rent expense, as calculated by multiplying the periodic annual reported gross rent expense by a factor of 8.0x for the periods ending on February 3, 2018 and later, and 8.1x for the prior period presented above.

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Coverage ratio

Management believes that the coverage ratio, as computed below and defined as Adjusted EBITDA divided by Adjusted interest expense is a useful measure in evaluating the company's ability to cover its interest-like costs on its debt-like obligations.

As computed above, Adjusted EBITDA represents earnings before interest, taxes and depreciation and amortization, adjusted to exclude the effects of impairment, restructuring, store closing and other costs, settlement charges, gross rent expense, and the excess of the net periodic benefit costs of the company's postemployment and postretirement benefit obligations over the related service cost components of such benefit costs.

As computed below, Adjusted interest expense represents interest expense, excluding the net premium on early retirement of debt, a portion of the company's gross rent expense deemed to be equivalent of interest (estimated as 1/3 of gross rent expense) and the excess of the interest cost components of the net periodic benefit costs of the company's postemployment and postretirement benefit obligations over the expected return on asset components of such benefit costs, if any.

	As of and for the 53 weeks ended May 5, 2018	As of and for the 53 weeks ended February 3, 2018	As of and for the 52 weeks ended April 29, 2017
Most Comparable GAAP Ratio:			
Net income	\$ 1,609	\$ 1,555	\$ 574
Interest expense	\$ 306	\$ 321	\$ 354
	5.3	4.8	1.6
Non-GAAP Ratio:			
Adjusted EBITDA	\$ 3,409	\$ 3,379	\$ 3,159
Interest expense	\$ 306	\$ 321	\$ 354
Add portion of rents representative of the interest factor	113	113	113
Postemployment and postretirement benefit obligations adjustment, if any (Note 1)	-	-	-
Adjusted interest expense	\$ 419	\$ 434	\$ 467
	8.1	7.8	6.8

Note 1

The adjustment (i.e., representing the inclusion of any incremental financing costs) for the excess of the interest cost component of net periodic benefit costs of the company's postemployment and postretirement benefit obligations over the expected return on asset component of such benefit costs in adjusted interest expense recognizes the additional financing cost associated with the use of cash to fund the postemployment and postretirement obligations and also that the economic benefits of overfunded postemployment and postretirement benefit plans are limited.

Interest cost component of net periodic benefit costs:			
Pension plan	\$ 103	\$ 104	\$ 107
Supplementary retirement plan	22	22	22
Postretirement benefit obligations	5	5	5
Expected return on asset component of net periodic benefit costs:			
Pension plan	(220)	(223)	(227)
Supplementary retirement plan	-	-	-
Postretirement benefit obligations	-	-	-
Excess, if any, of the interest cost component of net periodic benefit costs over the expected return on asset component	\$ -	\$ -	\$ -