

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 earnings before interest, taxes, depreciation and amortization (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 values of 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 total lease liabilities from the balance sheet or the capitalized value of gross rent expense. The capitalized value of gross rent expense is based on gross rent expense for the applicable period multiplied by a factor. The calculation of the capitalized value of non-capitalized leases is consistent with industry and credit rating agency practice.

The company adopted Accounting Standards Update No. 2016-02 (ASU 2016-02), *Leases*, on February 3, 2019. This new standard resulted in the company recognizing lease liabilities and related right of use assets on the balance sheet for its operating leases. In the calculation of the company's credit ratios for the 52 weeks ended August 3, 2019, the company utilized the total lease liabilities in lieu of the rent factor calculation as a result of the adoption of ASU 2016-02. In the calculation of the company's credit ratios for the 52 weeks ended February 2, 2019 and the 53 weeks ended August 4, 2018, both the Moody's rating agency and the company utilized a present value calculation that incorporated a rent factor in determining the capitalized value of gross rent expense. This factor was adjusted annually based on an updated Moody's prepared present value calculation using an estimated intermediate term interest rate for Macy's. For the 52 weeks ended February 2, 2019, the rent factor used was 8.9x. For the 53 weeks ended August 4, 2018, the rent factor used was 8.0x.

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.

	As of and for the 52 weeks ended	As of and for the 52 weeks ended	As of and for the 53 weeks ended
Target	August 3, 2019	February 2, 2019	August 4, 2018
Leverage ratio *	2.5 - 2.8	2.7	2.6
Coverage ratio	6.4 - 6.6	8.7	8.5

* As adjusted for the change in the factor used to capitalize operating leases for the 52 weeks ended February 2, 2019.

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Adjusted EBITDA, excluding rent expense and benefit plan income, net

As computed below, Adjusted EBITDA, excluding rent expense and benefit plan income, net represents earnings before interest, taxes and depreciation and amortization, adjusted to exclude the effects of restructuring, impairment, 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. This methodology is similar to those used by credit rating agencies to assess a company's capital structure. Management believes that Adjusted EBITDA, excluding rent expense and benefit plan income, net is a useful measure in evaluating the company's ability to generate cash flow from its operations.

	As of and for the 52 weeks ended August 3, 2019	As of and for the 52 weeks ended February 2, 2019	As of and for the 53 weeks ended August 4, 2018
Most Comparable GAAP Measure:			
Net income	\$ 1,024	\$ 1,098	\$ 1,665
Non-GAAP Measure:			
Net income	\$ 1,024	\$ 1,098	\$ 1,665
Add back interest expense	227	261	293
Add back (deduct) losses (gains) on early retirement of debt	28	33	(6)
Deduct interest income	(25)	(25)	(18)
Add back (deduct) federal, state and local income tax expense (benefit)	295	322	(81)
Add back restructuring, impairment, store closing and other costs	103	136	221
Add back settlement charges	38	88	104
Add back depreciation and amortization	965	962	974
Add back gross rent expense (Note 1)	339	337	341
Deduct net periodic benefit costs of the postemployment and postretirement benefit obligations in excess of the service cost components (Note 2)	(32)	(39)	(52)
Adjusted EBITDA, excluding rent expense and benefit plan income, net	\$ 2,962	\$ 3,173	\$ 3,441

Note 1

The add back of gross rent expense in calculating Adjusted EBITDA, excluding rent expense and benefit plan income, net 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	9		
	\$ 339	\$ 337	\$ 341

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, excluding rent expense and benefit plan income, net 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	\$ (58)	\$ (64)	\$ (76)
Supplementary retirement plan	32	31	31
Postretirement benefit obligations	(2)	(1)	(1)
Less service cost component of net periodic benefit costs:			
Pension plan	(4)	(5)	(6)
Supplementary retirement plan	—	—	—
Postretirement benefit obligations	—	—	—
	\$ (32)	\$ (39)	\$ (52)

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Leverage ratio

The leverage ratio, as computed below, is defined as Adjusted debt divided by Adjusted EBITDA, excluding rent expense and benefit plan income, net. 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, excluding rent expense and benefit plan income, net represents earnings before interest, taxes and depreciation and amortization, adjusted to exclude the effects of restructuring, impairment, 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. These methodologies are similar to those used by credit rating agencies to assess a company's capital structure. Management believes that the leverage ratio is a useful measure in evaluating the company's ability to cover its debt-like obligations.

	As of and for the 52 weeks ended August 3, 2019	As of and for the 52 weeks ended February 2, 2019	As of and for the 53 weeks ended August 4, 2018
Most comparable GAAP Ratio:			
Short-term debt	\$ 6	\$ 43	\$ 63
Long-term debt	4,680	4,708	5,473
Total debt	<u>\$ 4,686</u>	<u>\$ 4,751</u>	<u>\$ 5,536</u>
Net income	<u>\$ 1,024</u>	<u>\$ 1,098</u>	<u>\$ 1,665</u>
	<u>4.6</u>	<u>4.3</u>	<u>3.3</u>
Non-GAAP Ratio:			
Short-term debt	\$ 6	\$ 43	\$ 63
Long-term debt	4,680	4,708	5,473
Underfunded status of postemployment and postretirement benefits (Note 1)	575	575	535
Total lease liabilities	2,784	—	—
Capitalized value of gross rent expense (Note 2)	—	2,999	2,728
Adjusted debt	<u>\$ 8,045</u>	<u>\$ 8,325</u>	<u>\$ 8,799</u>
Adjusted EBITDA, excluding rent expense and benefit plan income, net	<u>\$ 2,962</u>	<u>\$ 3,173</u>	<u>\$ 3,441</u>
	<u>2.7</u>	<u>2.6</u>	<u>2.6</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	\$ (7)	\$ (7)	\$ (138)
Supplementary retirement plan	644	644	703
Postretirement benefit obligations	137	137	156
Less income tax effect of net underfunded status of the pension and supplementary retirement plans and postretirement benefit obligations	(199)	(199)	(186)
	<u>\$ 575</u>	<u>\$ 575</u>	<u>\$ 535</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 8.9x for the period ending on February 2, 2019 and 8.0x for the period ending on May 5, 2018.

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Coverage ratio

The coverage ratio, as computed below, is defined as Adjusted EBITDA, excluding rent expense and benefit plan income, net, divided by Adjusted interest expense. As computed above, Adjusted EBITDA, excluding rent expense and benefit plan income, net represents earnings before interest, taxes and depreciation and amortization, adjusted to exclude the effects of impairment, restructuring, store closings 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 losses or gains on early retirement of debt, a portion of the company's gross rent expense deemed to be equivalent of interest (estimated at 1/3 of gross rent expense) and the excess of the interest cost components of the periodic benefit costs of the company's postemployment and postretirement benefit obligations over the expected return of asset components of such benefit costs, if any. These methodologies are similar to those used by credit rating agencies to assess a company's capital structure. Management believes that the coverage ratio is a useful measure in evaluating the company's ability to cover its interest-like costs on its debt-like obligations.

	As of and for the 52 weeks ended August 3, 2019	As of and for the 52 weeks ended February 2, 2019	As of and for the 53 weeks ended August 4, 2018
Most Comparable GAAP Ratio:			
Net income	\$ 1,024	\$ 1,098	\$ 1,665
Interest expense	\$ 227	\$ 261	\$ 293
	4.5	4.2	5.7
Non-GAAP Ratio:			
Adjusted EBITDA, excluding rent expense and benefit plan income, net	\$ 2,962	\$ 3,173	\$ 3,441
Interest expense	\$ 227	\$ 261	\$ 293
Add portion of rents representative of the interest factor	113	112	114
Postemployment and postretirement benefit obligations adjustment, if any (Note 1)	—	—	—
Adjusted interest expense	\$ 340	\$ 373	\$ 407
	8.7	8.5	8.5

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 economic benefits of overfunded postemployment and postretirement benefit plans are limited.

Interest cost component of net periodic benefit costs:

Pension plan	\$ 108	\$ 109	\$ 103
Supplementary retirement plan	24	23	22
Postretirement benefit obligations	4	5	4
Expected return on asset component of net periodic benefit costs:			
Pension plan	(196)	(206)	(216)
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	\$ —	\$ —	\$ —