Safe Harbor

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 conditions to, or changes in the timing of, proposed real estate and other transactions, prevailing interest rates and non-recurring charges, store closings, competitive pressures from specialty stores, general merchandise stores, off-price and discount stores, manufacturers’ outlets, the Internet, mail-order catalogs and television shopping and general consumer spending levels, including the impact of the availability and level of consumer debt, the effect of weather and other factors identified in documents filed by the company 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.

For a reconciliation of non-GAAP items, please see the appendix.
Jeff Gennette
President & Chief Executive Officer
Agenda

★ Setting the context
★ Moving Macy’s forward: The North Star Strategy
★ Financial update
★ Real estate update
★ Wrap up
★ Q&A
Our Focus in 2017

- Continue strong growth of mobile and digital
- Stabilize our brick-and-mortar business
- Set up foundation for future growth
Retail Dynamics

- Competitive Set
- Consumer Shopping Patterns
- Technology

Macy’s strengths will meet retail’s challenges
Macy’s **Strengths & Opportunities**

- Highly profitable
- Loved brand
- Great product assortment
- Industry leading digital & mobile
- Strong physical store footprint
Profitability

Macy’s Inc. is a **highly profitable** company with **significant cash flow**

- **18.5%**
  - 2016 ROIC
- **11.4%**
  - 2016 adjusted EBITDA
- **1.48B**
  - 2012-2016 average annual cash flow

We will enhance shareholder value through profitable growth and our substantial real estate portfolio
The Macy’s Brand

★ Macy’s is a well-recognized, powerful and loved brand
  – Shopping frequency
  – Iconic events with wide consumer exposure
★ Our best customer loves us

50% of Americans shop at Macy’s 1+ times a year

1.5B visits to macys.com each year

We will create more best customers with a strong attachment to our brand
Great Product Assortment

★ Key category strength

★ Strong brand partner relationships to deliver desirable & exclusive merchandise

★ Robust private brand capabilities

#1 or #2 market position

★ Ready-to-wear
★ Women’s dresses
★ Fashion jewelry & watches
★ Handbags
★ Fragrance
★ Men’s
★ Luggage

We will curate the fashion our customers love, desire, and can only find at Macy’s at value they expect and understand
Industry-Leading Digital & Mobile

★ Top e-commerce business in our core competitive set
★ Mobile first since 2014 with top-rated retail mobile app that lets her ‘shop the way she lives’
★ Omnichannel customer is highly engaged

Value of omnichannel customer:

Online only: $  
In store only: $$  
Online & In store: $$$$$$

We will make our omnichannel experience even better
Strong Physical Store Footprint

- Brick-and-mortars in the top DMAs including the best malls in America and the best locations in those malls
- Expanding digital capabilities complements our brick-and-mortar portfolio
- Robust logistics and fulfillment network

Stores in **72%** of “A” malls

Stores in **49 of 50** largest DMAs

Peak season ships more than **1M** units/day DTC

We will continue to improve the in store experience
★ Strengths
★ Challenges
★ Opportunities
From Familiar to Favorite
Re-engineer the Macy’s marketing machine

What’s New, What’s Next
Think differently on how to find future growth

It Must Be Macy’s
Products & experiences that can only be found at Macy’s

Funding Our Future
Create value

Every Experience Matters
Seamless omnichannel experience

North Star Strategy
From Familiar to **Favorite**
Re-engineer the Macy’s **marketing machine**

**Today, we’ll cover:**

- Close brand engagement gap to become favorite retailer
- Drive customer lifetime value and loyalty
- Increase marketing efficiency and effectiveness
Rich Lennox
Chief Marketing Officer
Macy’s is an Iconic Brand

1 IN 2 AMERICANS
SHOP AT MACY’S ON AN ANNUAL BASIS

1.5B VISITS
ANNUALLY TO MACYS.COM

600M+
TRANSACTIONS
PER YEAR MADE AT MACY’S IN STORE AND ONLINE
The Challenge: Close the Brand Engagement Gap

Brand Love vs. Brand Commitment

Ages 18-35

Brand Love: Love/Feel Good about Brand
45%

Brand Commitment: Prefer/Favorite Store
37%

Ages 36-65

Brand Love: Love/Feel Good about Brand
70%

Brand Commitment: Prefer/Favorite Store
68%

25+ POINTS DIFFERENCE FOR BOTH GROUPS

Question: Q6. Which statement best captures how you feel about the following brands? Base: Ages 18-35 n=1,420; Ages 36-65 n=2,638

Source: Brand Tracker Wave 4 – 1/2017, Primary Research – Market Research
All Customers Are Important, but…

- 100 customers

- 38 customers. 3 visits, $246/yr. = 23% of sales

- 13 customers. 9 visits, $574/yr. = 19% of sales

- 9 customers. 18 visits, $2010/yr. = 46% of sales

Customer Acquisition / Migration / Retention / Activation
Deep Understanding of Our Customers

**Behaviors**
- Spend
- Frequency
- Profitability
- Event analysis, optimize pricing/merchandising strategy

**Demographics**
- Age, Gender, Income, Geography
- Basic media targeting

**Attitudinal**
- Personality traits, values, interests and lifestyle
- Competitive landscape understanding and alignment of brand message

**Engagement**
- Engagement with brand
- Targeted marketing and migration of customers up loyalty chain

**Lifetime Value (LTV)**

---

*macys*
Meet Our Amazing Customer

“I am an optimist.”

“I like to stand out in a crowd.”

“I make friends easily.”

“People say my enthusiasm is contagious.”

“I am affectionate, passionate, loving, romantic.”
Reinvent the Marketing Strategy

- **Brand purpose** to articulate our ‘why?’
- **Campaign architecture** based on love, authority, value
- **Big ideas** to win emotional high ground
- **Media strategy** to migrate from low to high ROI
- **Marketing investment** with greater impact and efficiency
- **High promotional intensity** with value proposition that activates our customers
- **Re-engineered loyalty** to encourage customer migration to higher value
A Relationship-Centric Brand Engagement and Activation Model

New Model

- **LOVE**
  - Build affinity through a layer of shared truths and emotional connection

- **AUTHORITY**
  - Create desire and build credibility through an always-on layer that curates and then amplifies our best & newest offerings

- **VALUE**
  - Drive the impulse to act now by making our deals and events special

The brand purpose becomes the connective tissue across each layer

Old Model

- **Value**
  - High Frequency Promotional Events Calendar

- **Authority**
  - Regular price

- **Love**
  - Cosmetics/Fragrances

- **Iconic Events**

Built on a simple truth: If you love the brand and believe in the product, you won’t want to miss the sale
5 Big Changes

1. Revitalize brand engagement

2. Build tentpole campaigns around the 4 key seasons

3. Establish Macy’s always-on publishing voice

4. Design distinct promotional event properties

5. Create a loyalty program not a rewards program.

In a new marketing equation, LOVE and AUTHORITY together balance VALUE and alleviates us from the unsustainable promotional battle.
Bigger Ideas. Greater Impact.
A more effective and efficient use of our marketing investment

Deepen the use of customer data and insights using a test and learn approach to:

★ **Strengthen media mix**
  - Migration from low ROI to high ROI channels
  - Shift from Broadcast to Narrowcast
  - Launch real-time targeting
  - Evolve from “Push” to “Pull” strategy

★ **Rebalance owned, earned, and paid media**

★ **Reengineer the promotional calendar**
  - Reduce complexity
  - Build event equity

★ **Drive creative efficiencies, i.e. TV (:30s to :15s)**
The Result: A Fully Reinvented Year-Long Plan

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<th>FEB</th>
<th>MAR</th>
<th>APR</th>
<th>MAY</th>
<th>JUN</th>
<th>JUL</th>
<th>AUG</th>
<th>SEP</th>
<th>OCT</th>
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<th>DEC</th>
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<td>LOVE</td>
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<td>LOYALTY</td>
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<td></td>
<td>Valentine’s Day</td>
<td>Spring Fashion</td>
<td>Summer Celebration</td>
<td>Fall Fashion</td>
<td>Holiday</td>
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<td>Flower Show</td>
<td>Fireworks</td>
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<td>Thanksgiving Parade</td>
<td>Anthemic Spot</td>
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<td></td>
<td>Re-engineered Loyalty</td>
<td>Re-invention of Value</td>
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</table>

NEW | RE-ENGINEERED
Loyalty Program: Coming Q4 2017

**Tier 1**  
Base Value Tier  
14% of customers prefer over the current program

**Tier 2**  
Mid-Value Tier  
35% of customers prefer over the current program

**Tier 3**  
High-Value Tier  
75% of customers prefer over current program and 56% would shop more with Macy’s overall

**Guiding Principles For Macy’s Loyalty**

★ **Simple program** with clear value

★ **Incentives that motivate change** in customer behavior

★ **Tiered benefits** that benefit our best customers

★ **Deliver the program mobile first**

★ **Develop a loyalty program**, not a rewards program
The most important way to make our marketing investment work harder is through **BIG IDEAS** that become an economic multiplier

**Ideas launching in Q3…**
Always On

MACYS PRESENTS THE EDIT
Macy’s Presents.....

THE EDIT

NEWNESS  CREATED FOR MACY'S  THE IT LIST  MARKET LEADERSHIP
Fall Fashion Tentpole

⭐⭐⭐⭐⭐ FASHION IS EQUIPMENT THAT LETS YOU TAKE ON THE WORLD.

⭐⭐⭐⭐⭐ GET READY.
BIG ideas that break through

A marketing model evolution to reignite our customer relationships

An innovative media strategy designed to operate in today’s landscape

Re-engineered Loyalty to fuel customer engagement and change behavior

Activate our customers to win the upcoming season and maximize lifetime value
Jeff Gennette
President & Chief Executive Officer
It Must Be Macy’s
Products & experiences that can only be found at Macy’s

Today, we’ll cover:

★ Product Assortment that is Edited, Elevated, Exclusive
★ Backstage: Macy’s off-price strategy
**Edited, Elevated, Exclusive Assortment**

<table>
<thead>
<tr>
<th><strong>EDITED</strong></th>
<th>Focus on the core brands and products she loves – making it easier to find what she wants</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ELEVATED</strong></td>
<td>Elevate the taste level – curate fashion that she desires</td>
</tr>
<tr>
<td><strong>EXCLUSIVE</strong></td>
<td>Be her only destination for compelling Market Exclusives and Private Brands</td>
</tr>
</tbody>
</table>

⭐ We have the confidence, vision, and means to curate & create fashion that our customer loves
Edited & Elevated Assortment

Deliver a common assortment in all stores and on .com
★ New merchandise vision by lifestyle and budget
★ Edit duplicative key items
★ Balance brand & classification distortions
★ Elevated fashion in every door
★ Congruent inventory for last mile

Tailor local assortment
★ By lifestyle, size, weather patterns and demographics
Exclusive Assortment

Private Brands
- I.N.C International Concepts
- Charter Club
- Martha Stewart
- ALFANI

Big Brands
- KENNETH COLE
- TOMMY HILFIGER
- Sean John collection
- DKNY Donna Karan New York
- RACHEL ROY

Capsules
- Calvin Klein
- LEVI'S
- ANNA SUI
- YYIGAL
- RALPH LAUREN
Our Private Brand Supply Chain

- Focused supplier network
- Integrated buying process
- Clear goals for the future

We are taking time and cost out of our private brand supply chain and sharing learnings with our brand partners
Simplified Pricing

Macy’s is a promotional department store. Our customers come to us looking for great fashion at an affordable price.

- Clear value
- Coupons
- Clearance
- Backstage In Store

We are going to make it easier for her to shop with us
Assortment Metrics

★ Grow private brands and exclusives from 29% to 40% by 2020
★ Increase inventory turns
★ Improve weekly regular price sell-through
★ Increase target AUR
Customers Respond to Edited, Elevated, Exclusive

**INC Women**
- Edited duplicative items
- Elevated trend and fashion
- Exclusive capsule collections (i.e. Iris Apfel, Anna Sui)
- Reduced pricing complexity
- Embedded supply chain team to speed cycle time

Women’s INC: AUR = +10%, sell-through = +1-2 ppts
Backstage: Macy’s **Off-Price** Option

- In store
- On mall
- Additive product categories & experience for our customers
Backstage in Store is Giving Incremental Lift, and Lift is Growing

<table>
<thead>
<tr>
<th>Category</th>
<th>Backstage Opened 2016</th>
<th>Backstage Opened 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mens</td>
<td>Flat</td>
<td>4.2</td>
</tr>
<tr>
<td>RTW</td>
<td>4.0</td>
<td>9.2</td>
</tr>
<tr>
<td>Women’s shoes</td>
<td>26.3</td>
<td>27.6</td>
</tr>
<tr>
<td>Home</td>
<td>25.0</td>
<td>24.4</td>
</tr>
<tr>
<td>Overall</td>
<td>4.6</td>
<td>6.4</td>
</tr>
</tbody>
</table>

Net sales = full line sales (TY v LY) + Backstage sales (TY)
Lift = % increase vs. control stores
Cross-Shopping Trends are **Encouraging**

**Objective**

- Incremental same day sales
- Incremental shopping trips
- New customer

**Results**

- 26% of customers are shopping both Backstage and main store on same shopping trip.
- Additional trips. Customers that purchased in both Backstage and main store logged 6 purchasing trips v. 4 in main store only and purchase was +32%.
- No evidence yet; marketing support has not yet started.
Macy’s Backstage: Test, Iterate, Scale

2015
Launched standalone stores

2016
Tested in store model

2017
Expand in store to 40+ doors

2018
Scale best solution to base stores

Learnings-to-date:
★ Backstage is lifting store business
★ Faster turns, speed of delivery, maintain liquidity
★ Separate merchant team important
Every Experience Matters
Delivering benefits of a **seamless omnichannel experience**

**Today, we’ll cover:**
- ★ Mobile first
- ★ BOPS
- ★ Improved in store experience
M is for Mobile

App before the store
- Marketing
- Browsing
- Push Offers
- Loyalty

App in store
- Mobile checkout
- Navigation / self-service
- Reviews and comparisons
BOPS: Our Most Profitable Transaction

Increased Profitability
★ Generates radiated sales
★ Improves margins by cutting out shipping costs

Improved Shopability
★ Access to items ASAP
★ Customers avoid shipping fees
★ Ability to order familiar items online
★ Research before store visit

When she gets to the store, she shops more.....
25% increase in transaction

Source: MCOM BOPS NPS survey
Growing BOPS transactions

Availability

Awareness

Experience
Bringing it All Together to Improve Experience in Next Generation of Stores

- Edited, Elevated, Exclusive product
- Open sell formats
- Backstage
- Mobile & tech service improvements
- BOPS
- Loyalty benefits for best customers
- New businesses and attractions
- Elevated, flexible environment
Funding Our Future

Constant cost management & process improvement to free up resources for growth
What’s New, What’s Next
Think differently on how to find future growth

We are exploring white space where Macy’s can credibly fill an unmet need, whether through physical or digital concepts, brand partnerships, or acquisitions.
Karen Hoguet
Chief Financial Officer
Macy’s Inc. is a highly profitable company generating significant cash flow with a strong balance sheet.

<table>
<thead>
<tr>
<th></th>
<th>2016 ROIC</th>
<th>2016 Adjusted EBITDA (% of Sales)</th>
<th>2012-2016 Average Annual Cash Flow Before Financing ($MM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Macy’s</td>
<td>18.5%</td>
<td>11.4%</td>
<td>1481</td>
</tr>
<tr>
<td>Dillard’s</td>
<td>10.7%</td>
<td>9.3%</td>
<td>405</td>
</tr>
<tr>
<td>JCP</td>
<td>10.3%</td>
<td>8.0%</td>
<td>(529)</td>
</tr>
<tr>
<td>Kohl’s</td>
<td>13.7%</td>
<td>12.3%</td>
<td>1096</td>
</tr>
<tr>
<td>Nordstrom</td>
<td>16.4%</td>
<td>10.8%</td>
<td>947</td>
</tr>
</tbody>
</table>

Reconciliation to GAAP shown in the appendix.
Financial Objective: Enhance Shareholder Value

★ Stabilize performance in 2017 to position us to achieve desired results in 2018-2019
  - Comp O+L Sales: (2)-(3)%
  - Adjusted EPS: $3.37-$3.62

★ Return to target range for leverage metric
  - Target: 2.5-2.8
  - Rolling 4Q: 3.2

★ Continue to identify strategies to improve profitability and fund growth
Achieving 2017 Sales **Guidance**

### Approximate Incremental Sales Needed To Achieve Annual Comp Sales Guidance

<table>
<thead>
<tr>
<th>Comp Sales Guidance Range</th>
<th>Annualized May YTD Trend*</th>
<th>Annualized Q1 Trend*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(3.0)%</td>
<td>(4.0)%</td>
</tr>
<tr>
<td>(2)%</td>
<td>$250MM</td>
<td>$500MM</td>
</tr>
<tr>
<td>(3)%</td>
<td>$0MM</td>
<td>$250MM</td>
</tr>
</tbody>
</table>

*Reflects increase in penetration of digital sales in 2H*
Estimated Incremental Sales from **Added Initiatives**

<table>
<thead>
<tr>
<th>Estimated Incremental Sales in Q2-Q4 ($MM)</th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Merchant Initiatives</td>
<td>$100</td>
<td>$125</td>
</tr>
<tr>
<td>Retention from closed stores</td>
<td>$75</td>
<td>$100</td>
</tr>
<tr>
<td>Backstage</td>
<td>$25</td>
<td>$35</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>$200</strong></td>
<td><strong>$260</strong></td>
</tr>
</tbody>
</table>

While harder to quantify, we believe that the benefits from the new marketing approach in the back half of the year and the loyalty program in the fourth quarter will be meaningful.

These initiatives and the base trend we see for the year give us confidence in our guidance of (2)-(3)% Comp O+L Sales.
Achieving 2017 Guidance

<table>
<thead>
<tr>
<th>Risks</th>
<th>Opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Gross margin rate</td>
<td>• Expense reduction (ex. asset gains)</td>
</tr>
<tr>
<td></td>
<td>• Asset sales</td>
</tr>
</tbody>
</table>
Leverage / Use of Cash

★ In short term, excess cash to be used to:
  – Fund the business and support strategies
  – Maintain dividend
  – Reduce debt

★ Expect to return to buying back stock once leverage target reached
Funding the Future

★ Since 2015, we have reduced annual expense by over $1.5 billion, with roughly a third reinvested in growth strategies.

★ We recognize we need to continue to find ways to operate more effectively and efficiently. This is an ongoing priority.

★ We are also looking for ways of being more efficient with our uses of cash.
  - Capital Spending
  - Inventory

★ Real Estate strategy is also leading to significant cash flow and value creation.

<table>
<thead>
<tr>
<th>Year</th>
<th>Asset Sale Proceeds ($MM)</th>
</tr>
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<tbody>
<tr>
<td>2015</td>
<td>$204</td>
</tr>
<tr>
<td>2016</td>
<td>$673</td>
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</table>
Doug Sesler
EVP, Real Estate
Appeal of Macy’s Real Estate

★ Substantial portfolio: 841 stores; over 130 million square feet
★ Majority owned and ground leased
★ Lease structure – long with multiple options (typically fixed)
★ High quality
   − Macy’s, Inc. department stores occupy 72% of the “A”-rated malls in the U.S.*
   − Superior locations within malls
   − Freestanding locations: dense urban markets

*As categorized Green Street Advisors
Value Creation Opportunities

★ **VCO** – A modification of the use of an asset (or a portion of an asset) to higher and better use
★ Prime focus is to **identify and realize value** from VCO’s
★ Could be realized through sale or joint venture

**Impact on Store Operations:**

- **None**
  - Outparcel and “wrap and hug” development

- **Downsize**
  - Development on excess land (e.g. residential and office)
  - Reduce footprint/sell off floors

- **Close**
  - Full redevelopment of box
Brookfield **Strategic Alliance**

- 50 assets targeted
- Brookfield exclusive redevelopment rights 12-24 months
- If Macy’s accepts plan, it has the option to contribute asset plus cash into a joint venture or sell for cash

**Benefits**
- Targets assets with redevelopment potential
- Enhances capability to redevelop
- Aligns interests
- Provides capital source

**Projects**
- Typically involve a continued operation of the store
- Mostly on mall; some free standing assets
Brookfield: Example Projects

**Wrap & Hug / Outparcel**
- Additional retail on separate parcels or adjacent to box
- Restaurant and entertainment typical uses
- Creates additional traffic
- Enhances engagement

**Development of Excess Land**
- Substantial parking fields with reduced parking requirements
- Alternative uses for sites:
  - Retail
  - Residential
  - Office
  - Hotel
San Francisco Union Square

Value Maximization Plan
★ Sold Men’s building for $250 million
  ($1,000/sf)
★ Recombine Men’s business into and upgrade
  933,786sf main building
★ Create 10,000sf of small shops fronting
  Union Square
  – Cut existing floor slab and reset at grade
  – Glass fronts with 18’-20’ ceilings
  – Rents of $600-700/sf
Herald Square

★ Flagship occupies a full city block and contains 2.2 million square feet

★ 4th most visited tourist attraction in New York City

★ In the path of midtown growth – shifting southwest towards Penn Station and Hudson Yards

Plans

★ Exploring potential for densification of site and additional alternative uses

★ Exploring ways to activate upper levels (e.g. rooftop) and overall property while retaining Macy’s store and presence
Jeff Gennette
President & Chief Executive Officer
Our Focus in 2017

- Continue strong growth of mobile and digital
- Stabilize our brick-and-mortar business
- Set up foundation for future growth
Looking to the future

- Approach some aspects of our business differently
- Make technology trends work for us
- Move at the speed of our customer
Q&A
Thank You
Appendix
Macy's, Inc.
Reconciliation of GAAP to non-GAAP Financial Measures
(All amounts in millions except for percentages and per share figures)

The following information relates to, and should be read in conjunction with, the 2017 investor meeting hosted by the management of Macy's, Inc. on June 6, 2017 to discuss Macy's current strategies and initiatives. A link to the archive of the webcast can be accessed at www.macysinc.com/ir/.

Macy's 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 Macy's financial information with additional useful information in evaluating operating performance. See the following tables below for supplemental financial data and corresponding reconciliations to the most directly comparable GAAP financial measures. The reconciliation of the forward-looking non-GAAP financial measure of changes in comparable sales on an owned plus licensed basis, adjusted for certain sales metrics, to GAAP comparable sales (i.e., on an owned basis) is in the same manner as illustrated within the appendices, where the impact of growth in comparable sales of departments licensed to third parties is the only reconciling item. Macy's does not provide the most directly comparable forward-looking GAAP measure of diluted earnings per share attributable to Macy’s, Inc. shareholders because the timing and amount of excluded items (e.g., retirement plan settlement charges and premiums on the early retirement of debt) 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, Macy's financial results prepared in accordance with GAAP. Certain of the items that may be excluded or included in this non-GAAP financial measure may be significant items that could impact Macy's financial position, results of operations and cash flows and should therefore be considered in assessing Macy's actual and future financial condition and performance. Additionally, the amounts received by Macy's on sales of departments licensed to third parties are limited to commissions received on such sales. The methods used by Macy's 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.
## Return on Invested Capital (ROIC)

### 2016

<table>
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<tr>
<th>Description</th>
<th>Amount</th>
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<tbody>
<tr>
<td><strong>Most Comparable GAAP Ratio:</strong></td>
<td></td>
</tr>
<tr>
<td>Operating income</td>
<td>$1,315</td>
</tr>
<tr>
<td>Property and equipment - net</td>
<td>$7,317</td>
</tr>
<tr>
<td><strong>Non-GAAP Ratio:</strong></td>
<td></td>
</tr>
<tr>
<td>Operating income</td>
<td>$1,315</td>
</tr>
<tr>
<td>Add back impairments, store closing and other costs</td>
<td>$479</td>
</tr>
<tr>
<td>Add back settlement charges</td>
<td>$98</td>
</tr>
<tr>
<td>Add back depreciation and amortization</td>
<td>$1,058</td>
</tr>
<tr>
<td>Add back rent expense, net</td>
<td></td>
</tr>
<tr>
<td>- Real estate</td>
<td>$319</td>
</tr>
<tr>
<td>- Personal property</td>
<td>$11</td>
</tr>
<tr>
<td>- Deferred rent amortization</td>
<td>$9</td>
</tr>
<tr>
<td>Adjusted operating income</td>
<td>$3,289</td>
</tr>
<tr>
<td>Property and equipment - net</td>
<td>$7,317</td>
</tr>
<tr>
<td>Add back accumulated depreciation and amortization</td>
<td>$5,088</td>
</tr>
<tr>
<td>Add capitalized value of non-capitalized leases</td>
<td>$2,712</td>
</tr>
<tr>
<td>Add (deduct) selected assets and liabilities:</td>
<td></td>
</tr>
<tr>
<td>- Receivables</td>
<td>$411</td>
</tr>
<tr>
<td>- Merchandise inventories</td>
<td>$6,012</td>
</tr>
<tr>
<td>- Prepaid expenses and other current assets</td>
<td>$456</td>
</tr>
<tr>
<td>- Other assets</td>
<td>$881</td>
</tr>
<tr>
<td>- Merchandise accounts payable</td>
<td>$(2,182)</td>
</tr>
<tr>
<td>- Accounts payable and accrued liabilities</td>
<td>$(2,924)</td>
</tr>
<tr>
<td><strong>Total Average Invested Capital</strong></td>
<td>$17,771</td>
</tr>
<tr>
<td><strong>ROIC</strong></td>
<td>18.5%</td>
</tr>
</tbody>
</table>

Management believes that ROIC is a useful supplemental measure in evaluating how efficiently Macy's employs its capital. Macy's defines ROIC as adjusted operating income as a percent to average invested capital. Average invested capital is comprised of an annual two-point (i.e., end of the year presented and the immediately preceding year) average of gross property and equipment, a capitalized value of non-capitalized leases equal to periodic annual reported net rent expense multiplied by a factor of eight and a four-point (i.e., end of each quarter within the period presented) average of other selected assets and liabilities. The calculation of the capitalized value of non-capitalized leases is consistent with industry and credit rating agency practice and the specified assets are subject to a four-point average to compensate for seasonal fluctuations.
Adjusted EBITDA as a percent to Net Sales

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Most comparable GAAP measure:</td>
<td></td>
</tr>
<tr>
<td>Net sales</td>
<td>$25,778</td>
</tr>
<tr>
<td>Net income</td>
<td>$611</td>
</tr>
<tr>
<td>Net income as a percent to net sales</td>
<td>2.4%</td>
</tr>
<tr>
<td>Non-GAAP measure:</td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>$611</td>
</tr>
<tr>
<td>Add back impairments, store closing and other costs</td>
<td>479</td>
</tr>
<tr>
<td>Add back settlement charges</td>
<td>98</td>
</tr>
<tr>
<td>Add back interest expense - net</td>
<td>363</td>
</tr>
<tr>
<td>Add back federal, state and local income tax expense</td>
<td>341</td>
</tr>
<tr>
<td>Add back depreciation and amortization</td>
<td>1,058</td>
</tr>
<tr>
<td>Adjusted EBITDA</td>
<td>$2,950</td>
</tr>
<tr>
<td>Adjusted EBITDA as a percent to net sales</td>
<td>11.4%</td>
</tr>
</tbody>
</table>

Management believes that excluding certain items that may vary substantially in frequency and magnitude period-to-period from EBITDA as percentages to sales provide a useful supplemental measure that assists in evaluating Macy's ability to generate earnings and leverage sales, respectively, and to more readily compare this metric between past and future periods. Management also believes that EBITDA and Adjusted EBITDA are frequently used by investors and securities analysts in their evaluations of companies, and that such supplemental measures facilitate comparisons between companies that have different capital and financing structures and/or tax rates.
## Cash flow from operating activities, net of cash used in investing activities

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Most comparable GAAP measure:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>$1,801</td>
<td>$1,984</td>
<td>$2,709</td>
<td>$2,549</td>
<td>$2,179</td>
<td>$2,244</td>
</tr>
<tr>
<td>Non-GAAP measure:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>$1,801</td>
<td>$1,984</td>
<td>$2,709</td>
<td>$2,549</td>
<td>$2,179</td>
<td></td>
</tr>
<tr>
<td>Net cash used by investing activities</td>
<td>$(187)</td>
<td>$(1,092)</td>
<td>$(970)</td>
<td>$(788)</td>
<td>$(781)</td>
<td></td>
</tr>
<tr>
<td>Net cash flow from operating activities, net of cash used in investing activities</td>
<td>$1,614</td>
<td>$892</td>
<td>$1,739</td>
<td>$1,761</td>
<td>$1,398</td>
<td>$1,481</td>
</tr>
</tbody>
</table>

Management believes cash flow from operating activities, net of cash used in investing activities is a useful measure in evaluating Macy's ability to generate cash from operations after giving effect to cash used by investing activities. Management believes that excluding cash flows from financing activities from the calculation of this measure is particularly useful where the amounts of such items are not consistent in the periods presented.
Changes in Comparable Sales

<table>
<thead>
<tr>
<th>Description</th>
<th>Forecast 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decrease in comparable sales on an owned basis (Note 1)</td>
<td>(2.2)%-(3.3)%</td>
</tr>
<tr>
<td>Impact of growth in comparable sales of departments licensed to third parties (Note 2)</td>
<td>0.2%-0.3%</td>
</tr>
<tr>
<td>Decrease in comparable sales on an owned plus licensed basis</td>
<td>(2.0)%-(3.0)%</td>
</tr>
</tbody>
</table>

Notes:

(1) Represents the period-to-period change in net sales from stores in operation throughout the year presented and the immediately preceding year and all online sales of macys.com and bloomingdales.com, excluding commissions from departments licensed to third parties.

(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 of macys.com and bloomingdales.com in the calculation of comparable sales. Macy's 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, Macy's includes these commissions (rather than sales of the departments licensed to third parties) in its net sales. Macy's 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 Macy's results of operations for the periods presented.

Macy's believes that providing changes in comparable sales on an owned plus licensed basis, which includes the impact of growth in comparable sales of departments licensed to third parties, supplementally to its results of operations calculated in accordance with GAAP assists in evaluating Macy's ability to generate sales growth, whether through owned businesses or departments licensed to third parties, on a comparable basis, and in evaluating the impact of changes in the manner in which certain departments are operated.
### Leverage Ratio

**As of and for the 52 weeks ended April 29, 2017**

<table>
<thead>
<tr>
<th>Most Comparable GAAP Measure:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>$ 566</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Non-GAAP Measure:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>$ 566</td>
</tr>
<tr>
<td>Add back interest expense</td>
<td>354</td>
</tr>
<tr>
<td>Add back premium on early retirement of debt</td>
<td>3</td>
</tr>
<tr>
<td>Deduct interest income</td>
<td>(5)</td>
</tr>
<tr>
<td>Add back federal, state and local income tax expense</td>
<td>341</td>
</tr>
<tr>
<td>Add back impairments, store closing and other costs</td>
<td>479</td>
</tr>
<tr>
<td>Add back settlement charges</td>
<td>86</td>
</tr>
<tr>
<td>Add back depreciation and amortization</td>
<td>1,041</td>
</tr>
<tr>
<td>Add back gross rent expense</td>
<td>339</td>
</tr>
<tr>
<td>Add back net periodic benefit costs of the postemployment and postretirement benefit obligations in excess of the service cost components</td>
<td>(57)</td>
</tr>
<tr>
<td><strong>Adjusted EBITDA</strong></td>
<td>$ 3,146</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Most Comparable GAAP Ratio:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term debt</td>
<td>$ 313</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>$ 6,412</td>
</tr>
<tr>
<td><strong>Total debt</strong></td>
<td>$ 6,725</td>
</tr>
<tr>
<td>Net income</td>
<td>$ 566</td>
</tr>
<tr>
<td><strong>Adjusted EBITDA</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Non-GAAP Ratio:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term debt</td>
<td>$ 313</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>$ 6,412</td>
</tr>
<tr>
<td>Underfunded status of postemployment and postretirement benefits</td>
<td>648</td>
</tr>
<tr>
<td>Capitalized value of gross rent expense</td>
<td>2,746</td>
</tr>
<tr>
<td><strong>Adjusted debt</strong></td>
<td>$ 10,119</td>
</tr>
<tr>
<td><strong>Adjusted EBITDA</strong></td>
<td>$ 3,146</td>
</tr>
</tbody>
</table>

Macy’s 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.