

Macy's, Inc.

Consolidated Statements of Income (Unaudited) (Note 1)

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

	13 Weeks Ended October 28, 2017		13 Weeks Ended October 29, 2016	
	\$	% to Net sales	\$	% to Net sales
Net sales	\$ 5,281		\$ 5,626	
Cost of sales (Note 2)	<u>3,175</u>	<u>60.1%</u>	<u>3,386</u>	<u>60.2%</u>
Gross margin	2,106	39.9%	2,240	39.8%
Selling, general and administrative expenses	(1,995)	(37.8%)	(2,112)	(37.5%)
Gains on sale of real estate	65	1.2%	41	0.7%
Restructuring and other costs (Note 3)	(33)	(0.6%)	-	-%
Settlement charges (Note 4)	<u>(22)</u>	<u>(0.4%)</u>	<u>(62)</u>	<u>(1.1%)</u>
Operating income	121	2.3%	107	1.9%
Interest expense - net	<u>(74)</u>		<u>(81)</u>	
Income before income taxes	47		26	
Federal, state and local income tax expense (Note 5)	<u>(13)</u>		<u>(11)</u>	
Net income	34		15	
Net loss attributable to noncontrolling interest	<u>2</u>		<u>2</u>	
Net income attributable to Macy's, Inc. shareholders	<u>\$ 36</u>		<u>\$ 17</u>	
Basic earnings per share attributable to Macy's, Inc. shareholders	<u>\$ 0.12</u>		<u>\$ 0.05</u>	
Diluted earnings per share attributable to Macy's, Inc. shareholders	<u>\$ 0.12</u>		<u>\$ 0.05</u>	
Average common shares:				
Basic	305.5		308.4	
Diluted	306.5		310.6	
End of period common shares outstanding	304.6		305.7	
Depreciation and amortization expense	\$ 254		\$ 267	

Notes:

- (1) Because of the seasonal nature of the retail business, the results of operations for the 13 weeks ended October 28, 2017 and October 29, 2016 (which do not include the Christmas season) are not necessarily indicative of such results for the fiscal year.
- (2) Merchandise inventories are valued at the lower of cost or market using the last-in, first-out (LIFO) retail inventory method. Application of the LIFO retail inventory method did not result in the recognition of any LIFO charges or credits affecting cost of sales for the 13 weeks ended October 28, 2017 or October 29, 2016.
- (3) For the 13 weeks ended October 28, 2017, restructuring and other costs amounted to \$33 million on a pre-tax basis, \$21 million after tax or \$.07 per diluted share attributable to Macy's, Inc. These charges primarily relate to severance and other human resource related costs associated with organizational restructuring.
- (4) For the 13 weeks ended October 28, 2017 and October 29, 2016, non-cash settlement charges of \$22 million and \$62 million, respectively, were recognized on a pre-tax basis. The after tax effect of these charges during the 13 weeks ended October 28, 2017 was \$14 million, or \$.04 per diluted share attributable to Macy's, Inc. The after tax effect of these charges during the 13 weeks ended October 29, 2016 was \$37 million, or \$.12 per diluted share attributable to Macy's, Inc. These charges result from an increase in lump sum distributions from the Company's defined benefit retirement plans and are associated with store closings, a voluntary separation program and organizational restructuring, in addition to periodic distribution activity.
- (5) Federal, state and local income taxes differ from the federal income tax statutory rate of 35%, principally because of the effect of state and local taxes, including the settlement of various tax issues and tax examinations.