



Investor Meeting

June 6, 2017

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

★ macy's inc

★ macy's bloomingdales bluemercury®



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



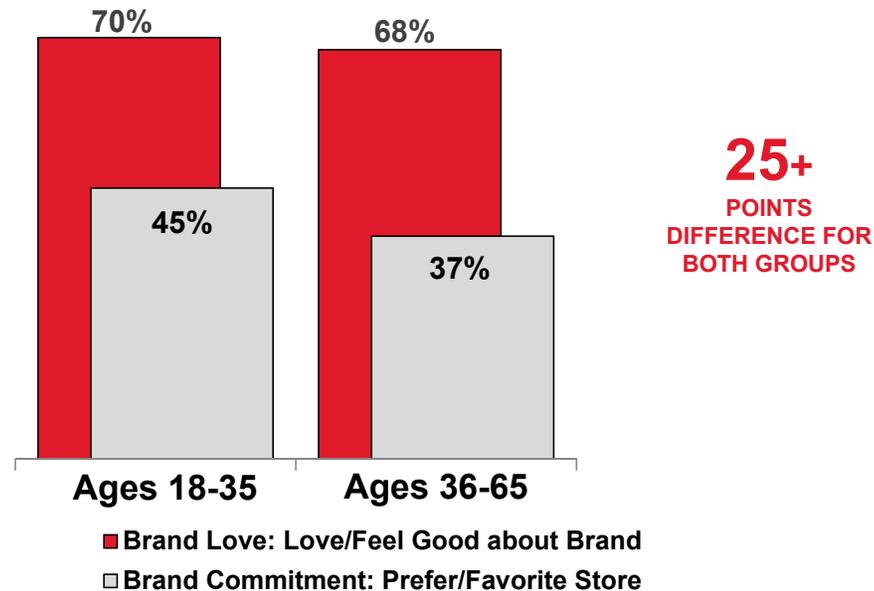
1.5B VISITS
ANNUALLY
TO MACYS.COM



600M+
TRANSACTIONS
PER YEAR MADE AT MACY'S
IN STORE AND ONLINE

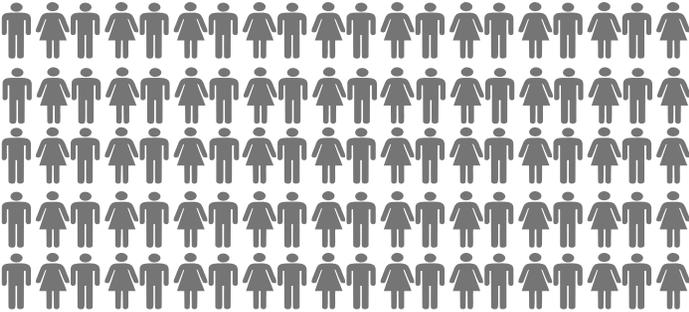
The Challenge: Close the Brand Engagement Gap

Brand Love vs. Brand Commitment



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



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



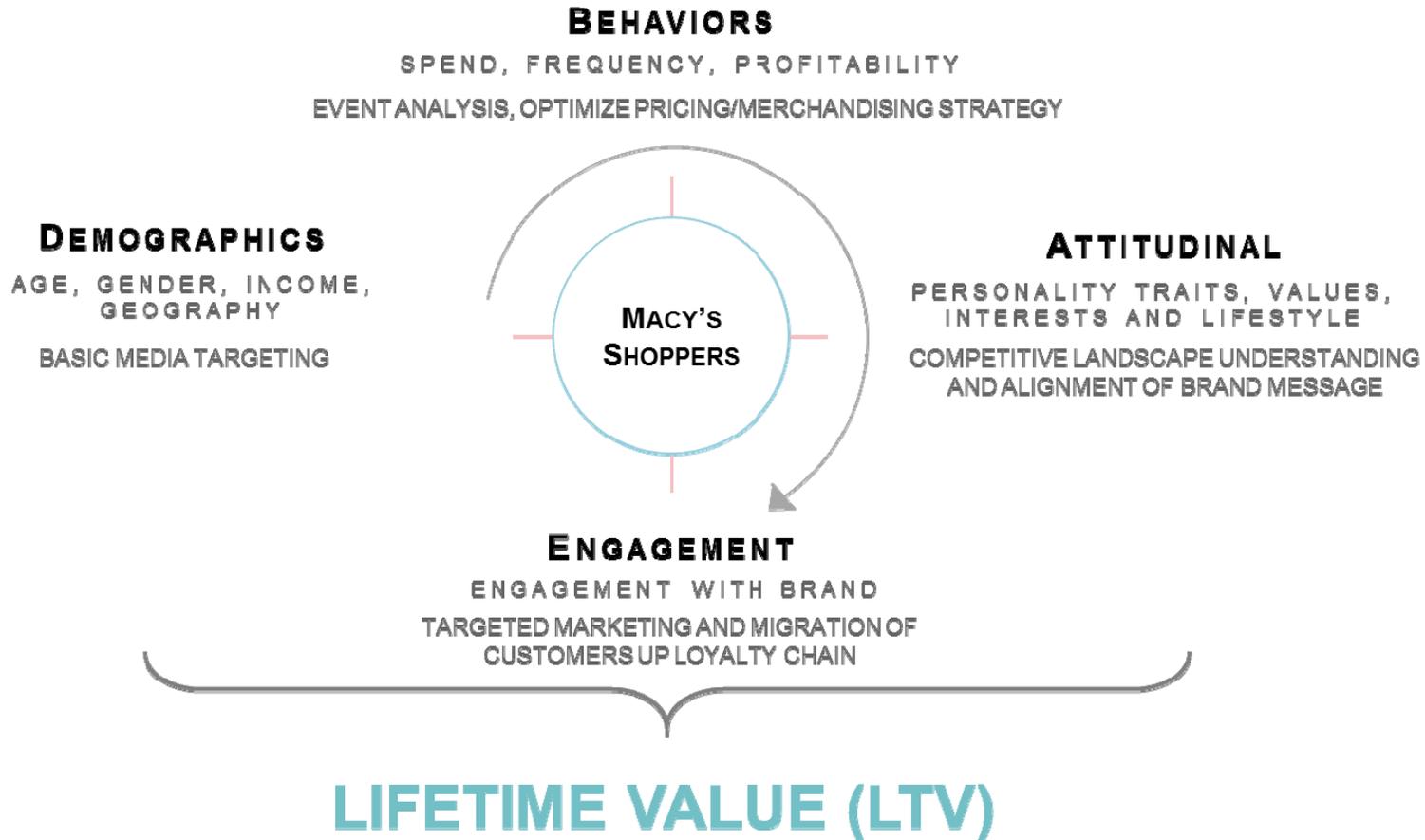
13 customers. 9 visits, \$574/yr. = 19% of sales



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

Customer Acquisition / Migration / Retention / Activation

Deep Understanding of Our Customers



Meet Our **Amazing Customer**



“I am an
optimist.”

“People say my
enthusiasm is
contagious.”

“I make friends
easily.”

“I like to stand out in a
crowd.”

“I am affectionate,
passionate, loving,
romantic.”

Reinvent the Marketing Strategy

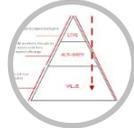


CUSTOMER INSIGHT AND SEGMENT STRATEGY

translated to our 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

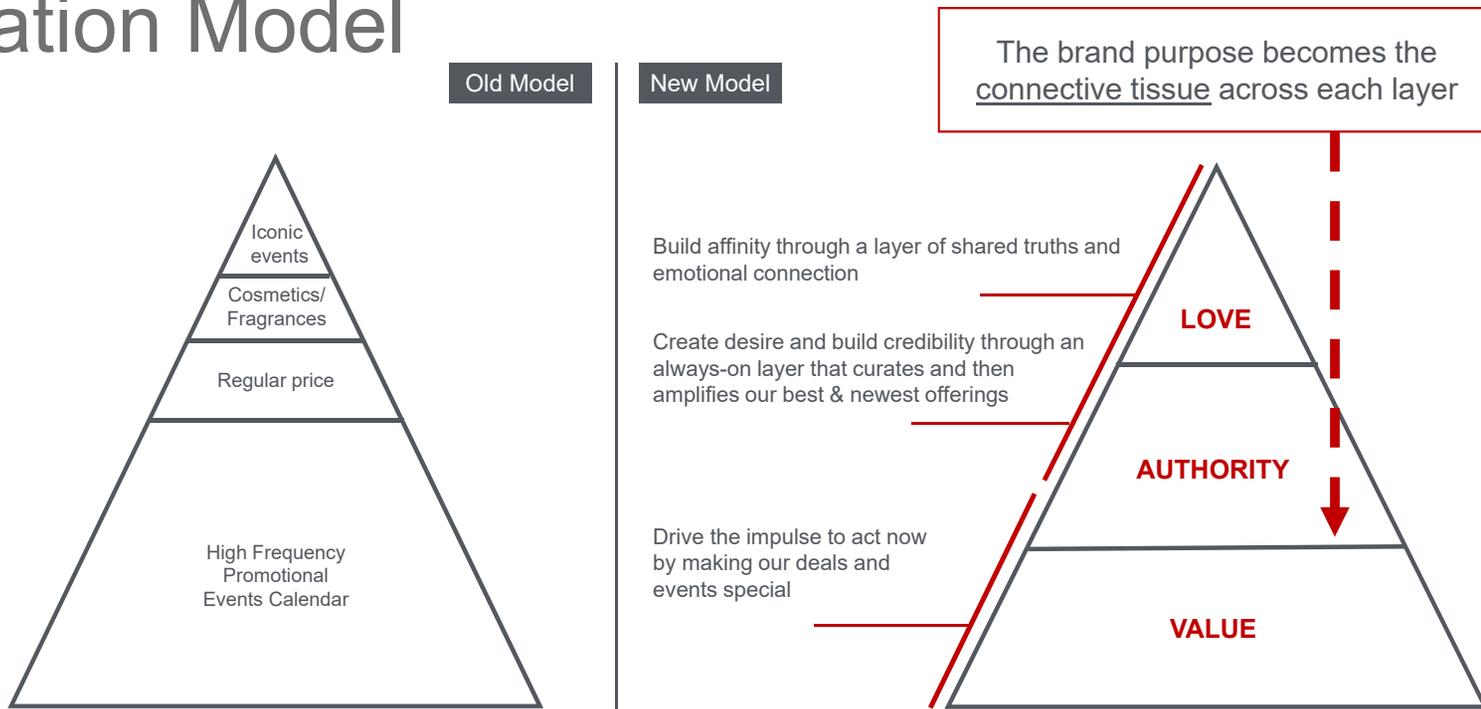


High promotional intensity with value proposition that activates our customers



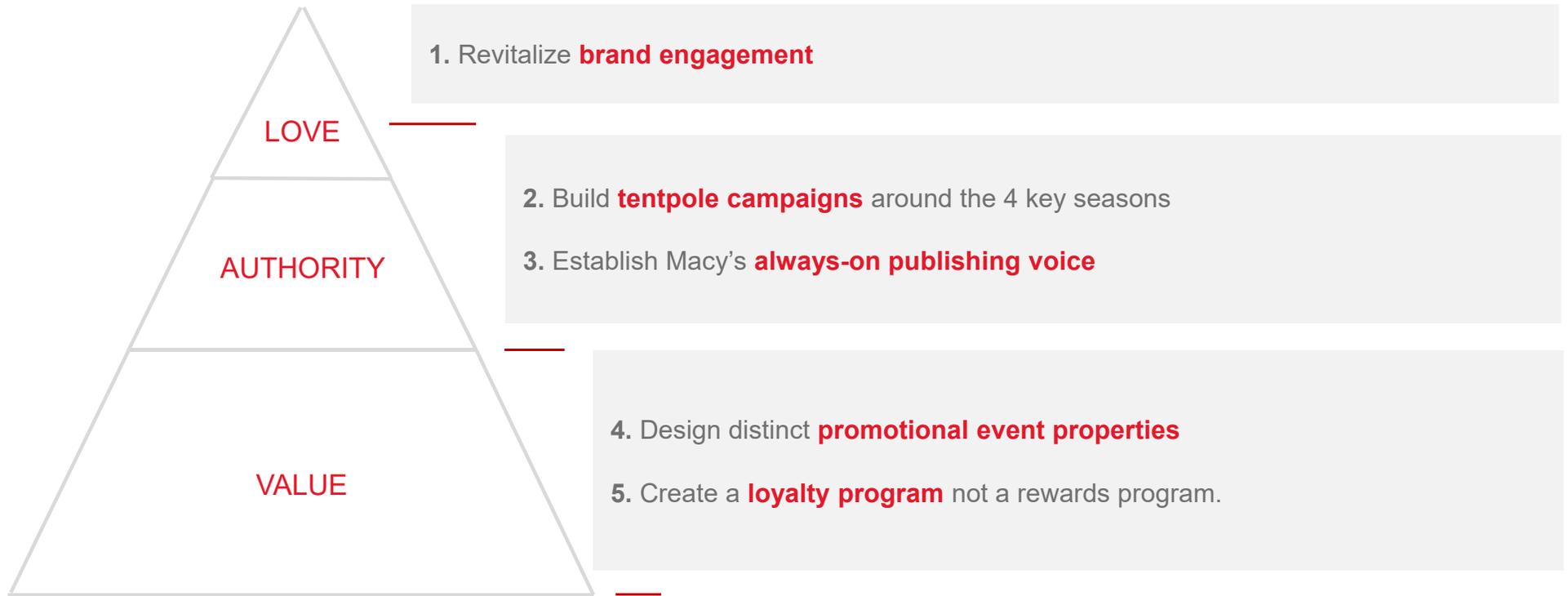
Re-engineered loyalty to encourage customer migration to higher value

A Relationship-Centric Brand Engagement and Activation Model



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



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

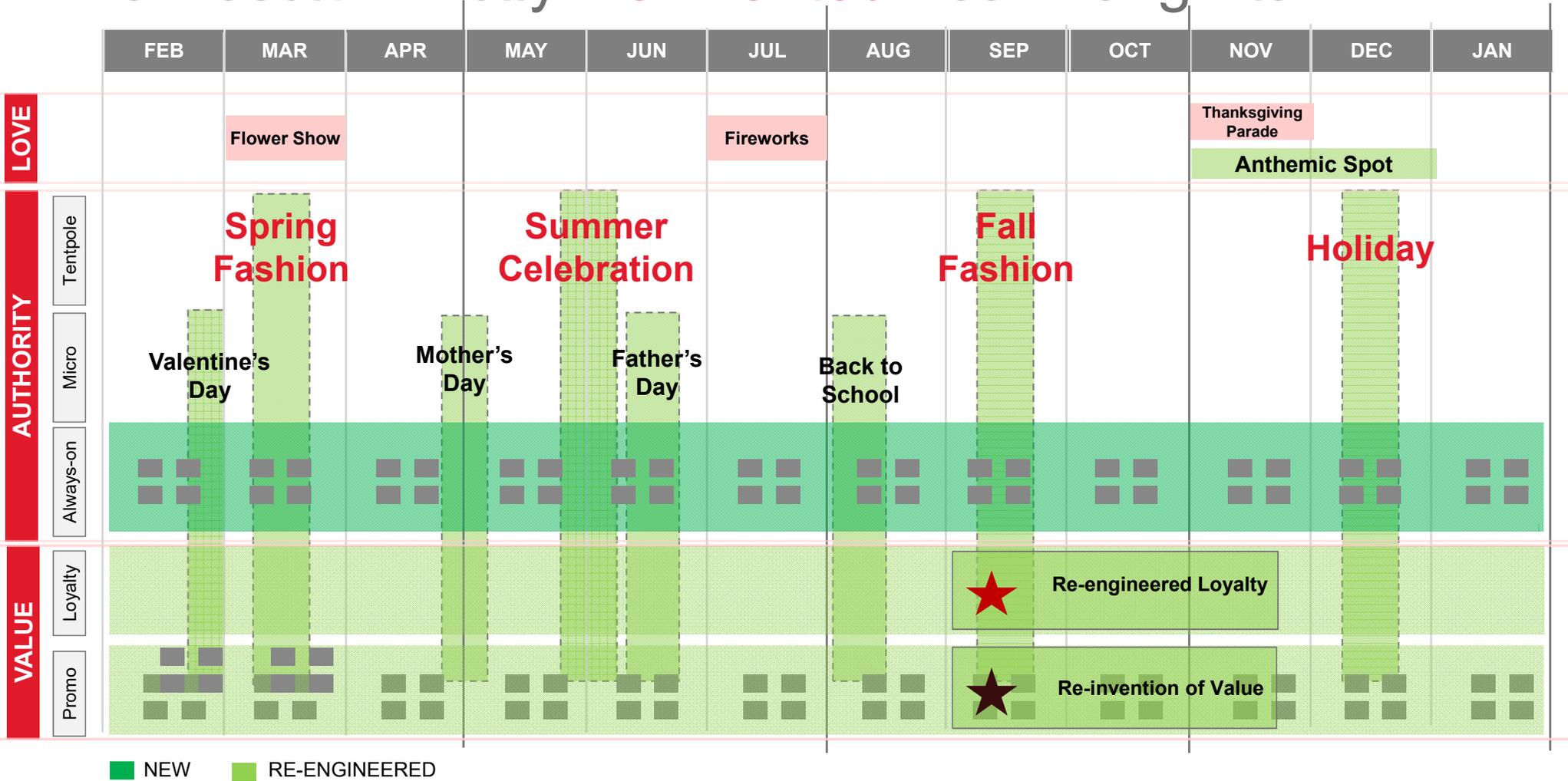
- ★ **Rebalance owned, earned, and paid media**

- ★ **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

ILLUSTRATIVE



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...

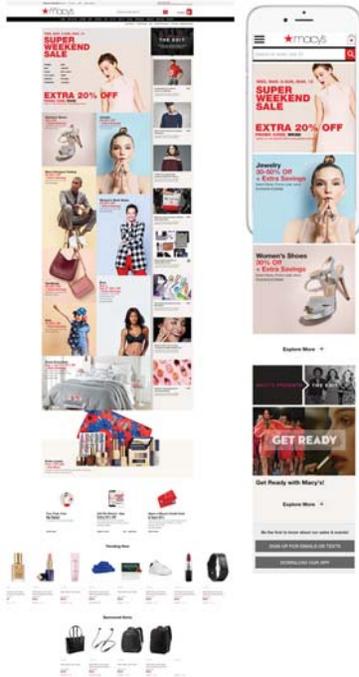
Always On



Macy's Presents.....



HOME PAGE



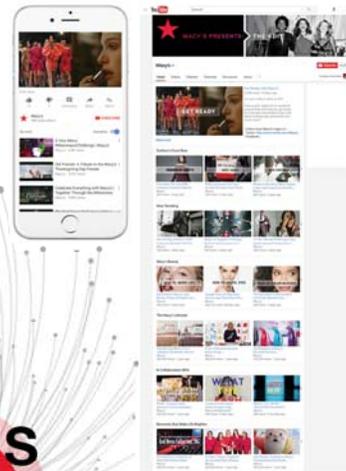
mBLOG



THE HUB



YOUTUBE



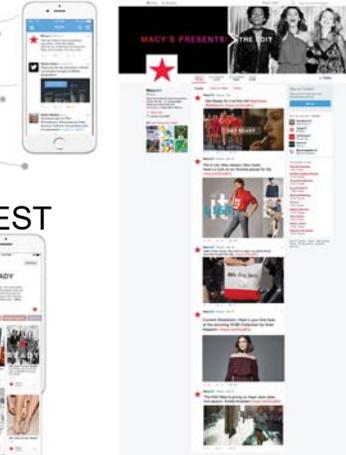
FACEBOOK



EMAIL



TWITTER



PINTEREST



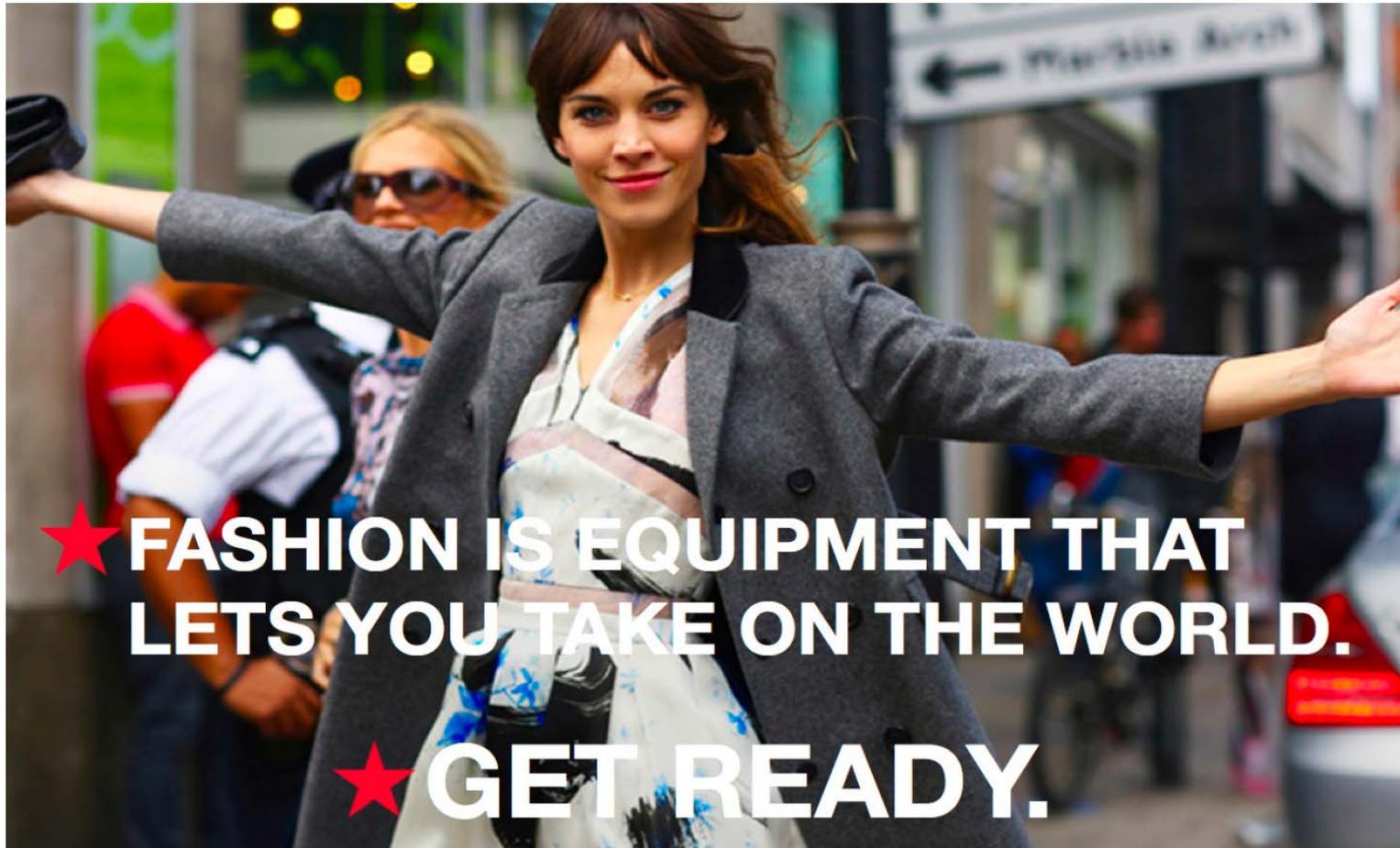
INSTAGRAM



SNAPCHAT



Fall Fashion Tentpole



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

★ GET READY.

EMAIL: MEN'S



EMAIL: RTW



DIRECT MAIL: MEN'S & RTW



TV / VIDEO



HOME PAGE



BROWSER AD



FALL 2017
GET READY
TENT-POLE

EMAIL BANNER



PINTEREST



TWITTER INSTAGRAM



SNAPCHAT



mBLOG



YOUTUBE



FACEBOOK



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**

EDITED

Focus on the core brands and products she loves – making it easier to find what she wants

ELEVATED

Elevate the taste level – curate fashion that she desires

EXCLUSIVE

Be her only destination for compelling Market Exclusives and Private Brands

★ 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



CHARTER CLUB®

Martha
STEWART

ALFANI®



Big Brands

KENNETH COLE
NEW YORK



Sean John
collection

DKNY
Donna Karan New York

RACHEL ROY



Capsules

Calvin Klein



ANNA
SUI

YÿIGAL

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 pts

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

NET SALES INCREASE

Category	Backstage Opened 2016	Backstage Opened 2017
Mens	Flat	4.2
RTW	4.0	9.2
Women's shoes	26.3	27.6
Home	25.0	24.4
Overall	4.6	6.4

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



26% of customers are shopping both Backstage and main store on same shopping trip.

Incremental shopping trips



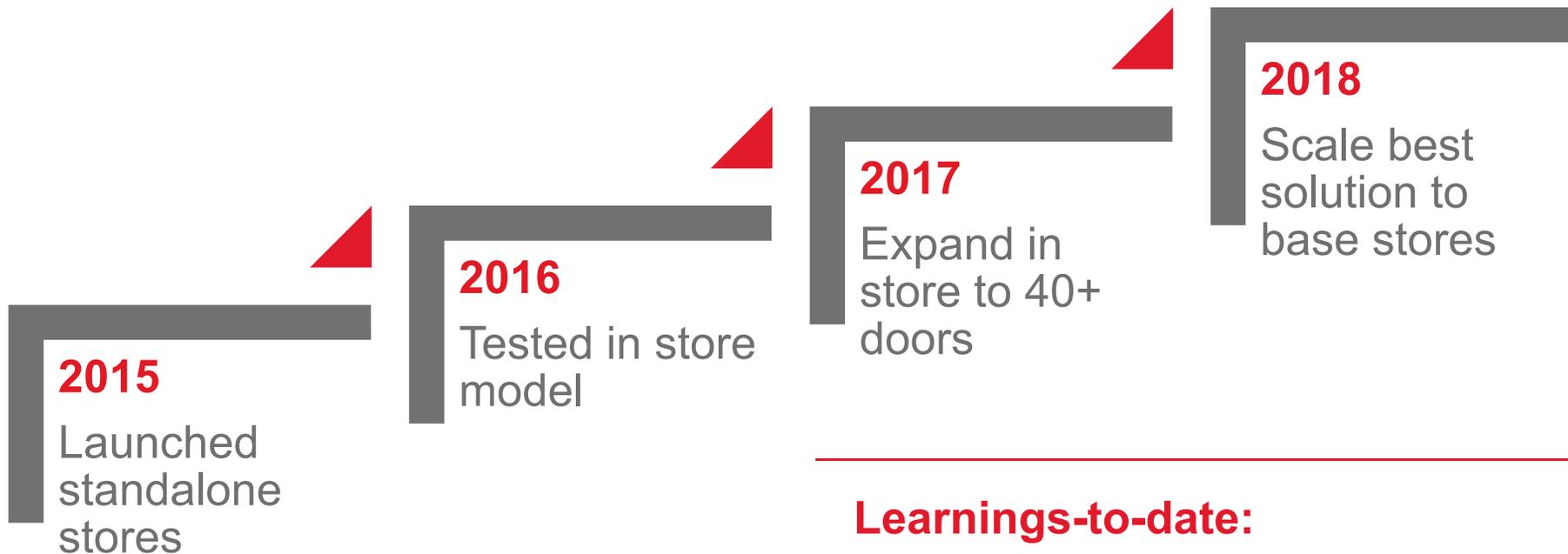
Additional trips. Customers that purchased in both Backstage and main store logged 6 purchasing trips v. 4 in main store only and purchase was +32%.

New customer



No evidence yet; marketing support has not yet started.

Macy's Backstage: Test, Iterate, **Scale**



Learnings-to-date:

- ★ Backstage is lifting store business
- ★ Faster turns, speed of delivery, maintain liquidity
- ★ Separate merchant team important



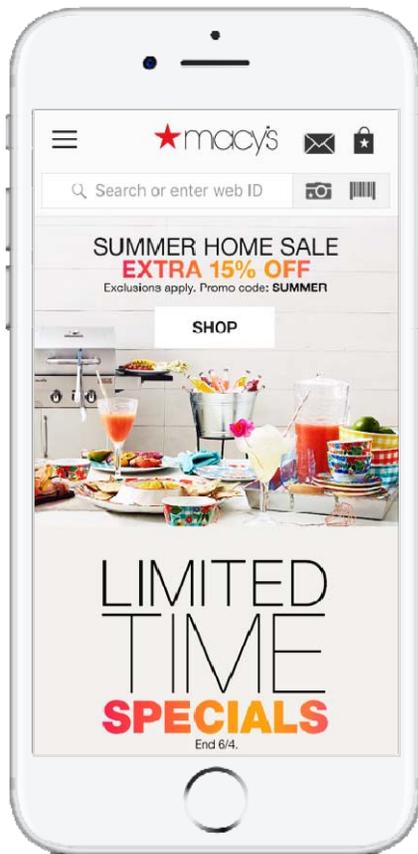
Every Experience Matters

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**

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

Financial Update

Macy's Inc. is a highly **profitable** company generating significant **cash flow** with a strong **balance sheet**

	2016 ROIC	2016 Adjusted EBITDA (% of Sales)	2012-2016 Average Annual Cash Flow Before Financing (\$MM)
Macy's	18.5%	11.4%	1481
Dillard's	10.7%	9.3%	405
JCP	10.3%	8.0%	(529)
Kohl's	13.7%	12.3%	1096
Nordstrom	16.4%	10.8%	947

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

Comp Sales Guidance Range	Annualized May YTD Trend*	Annualized Q1 Trend*
	(3.0)%	(4.0)%
(2)%	\$250MM	\$500MM
(3)%	\$0MM	\$250MM

*Reflects increase in penetration of digital sales in 2H

Estimated Incremental Sales from **Added Initiatives**

Estimated Incremental Sales in Q2-Q4 (\$MM)

	Low	High
Merchant Initiatives	\$100	\$125
Retention from closed stores	\$75	\$100
Backstage	\$25	\$35
Subtotal	\$200	\$260

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**

Risks	Opportunities
<ul style="list-style-type: none">• Gross margin rate	<ul style="list-style-type: none">• Expense reduction (ex. asset gains)• Asset sales

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**.

Year	Asset Sale Proceeds (\$MM)
2015	\$204
2016	\$673



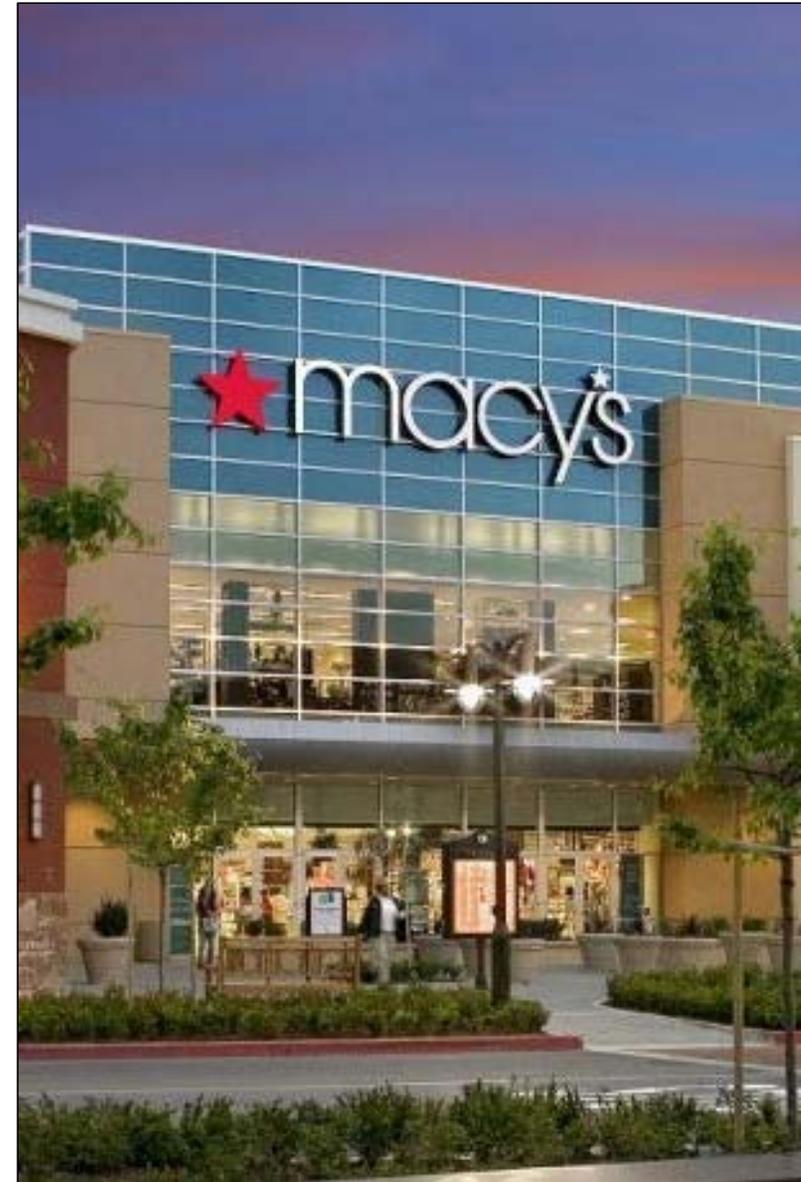
Doug Sesler

EVP, Real Estate

Appeal of Macy's Real Estate

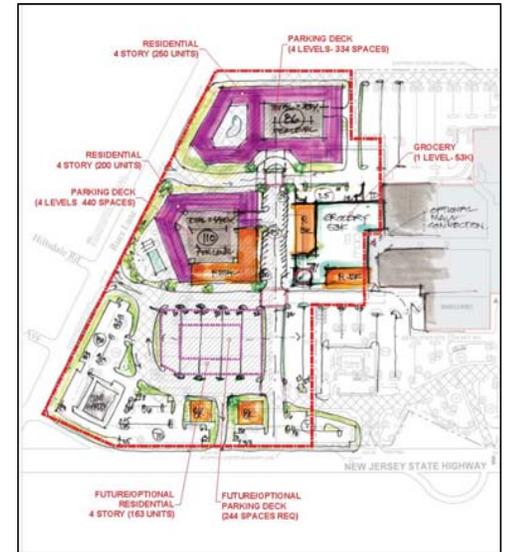
- ★ Substantial portfolio: 841 stores; over 130 million square feet
- ★ Majority owned and ground leased
- ★ Lease structure – long with multiple options (typically fixed)
- ★ High quality
 - Macy's, Inc. department stores occupy 72% of the “A”-rated malls in the U.S.*
 - Superior locations within malls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



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)

	<u>2016</u>
Most Comparable GAAP Ratio:	
Operating income	\$ 1,315
Property and equipment - net	\$ 7,317
	18.0%
Non-GAAP Ratio:	
Operating income	\$ 1,315
Add back impairments, store closing and other costs	479
Add back settlement charges	98
Add back depreciation and amortization	1,058
Add back rent expense, net	
Real estate	319
Personal property	11
Deferred rent amortization	9
Adjusted operating income	\$ 3,289
Property and equipment - net	\$ 7,317
Add back accumulated depreciation and amortization	5,088
Add capitalized value of non-capitalized leases	2,712
Add (deduct) selected assets and liabilities:	
Receivables	411
Merchandise inventories	6,012
Prepaid expenses and other current assets	456
Other assets	881
Merchandise accounts payable	(2,182)
Accounts payable and accrued liabilities	(2,924)
Total Average Invested Capital	\$ 17,771
ROIC	18.5%

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

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

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

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

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

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

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 <u>April 29, 2017</u>
Most Comparable GAAP Measure:	
Net income	\$ <u>566</u>
Non-GAAP Measure:	
Net income	\$ 566
Add back interest expense	354
Add back premium on early retirement of debt	3
Deduct interest income	(5)
Add back federal, state and local income tax expense	341
Add back impairments, store closing and other costs	479
Add back settlement charges	85
Add back depreciation and amortization	1,041
Add back gross rent expense	339
Add back net periodic benefit costs of the postemployment and postretirement benefit obligations in excess of the service cost components	(57)
Adjusted EBITDA	\$ <u>3,146</u>
Most Comparable GAAP Ratio:	
Short-term debt	\$ 313
Long-term debt	6,412
Total debt	\$ <u>6,725</u>
Net income	\$ <u>566</u>
	<u>11.9</u>
Non-GAAP Ratio:	
Short-term debt	\$ 313
Long-term debt	6,412
Underfunded status of postemployment and postretirement benefits	648
Capitalized value of gross rent expense	2,746
Adjusted debt	\$ <u>10,119</u>
Adjusted EBITDA	\$ <u>3,146</u>
	<u>3.2</u>

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.