

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, a conference call hosted by the management of Macy's, Inc. on February 27, 2018 to discuss the Company's financial condition, results of operations and cash flows as of and for the 14 and 53 weeks ended February 3, 2018. An audio archive of the conference call and the text of the related press release can be accessed at www.macysinc.com/ir/.

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 in evaluating operating performance. See the 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 to GAAP comparable sales (i.e., on an owned basis) is in the same manner as illustrated below, where the impact of growth in comparable sales of departments licensed to third parties is the only reconciling item. In addition, the Company does not provide the most directly comparable forward-looking GAAP measure of diluted earnings per share attributable to Macy's, Inc. shareholders excluding certain items because the timing and amount of excluded items 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, the Company'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 the Company's financial position, results of operations or cash flows and should therefore be considered in assessing the Company's actual and future financial condition and performance. Additionally, the amounts received by the Company on sales of departments licensed to third parties are limited to commissions received on such sales. 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.

Change in Comparable Sales

	14 Weeks Ended February 3, 2018	53 Weeks Ended February 3, 2018
Increase (decrease) in comparable sales on an owned basis (Note 1)	<u>1.3%</u>	<u>(2.2)%</u>
Impact of growth in comparable sales of departments licensed to third parties (Note 2)	<u>0.1%</u>	<u>0.3%</u>
Increase (decrease) in comparable sales on an owned plus licensed basis	<u>1.4%</u>	<u>(1.9)%</u>

Notes:

(1) Represents the period-to-period percentage change in net sales from stores in operation throughout the year presented and the immediately preceding year and all online sales, adjusting for the 53rd week in 2017, excluding commissions from departments licensed to third parties. Stores impacted by a natural disaster or undergoing significant expansion or shrinkage remain in the comparable sales calculation unless the store is closed for a significant period of time. Definitions and calculations of comparable sales differ among companies in the retail industry.

(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, adjusting for the 53rd week in 2017, in the calculation of comparable sales. The Company 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, the Company includes these commissions (rather than sales of the departments licensed to third parties) in its net sales. The Company 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 its net sales for the periods presented.

Macy's, Inc. 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 the Company'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.

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Diluted earnings per share attributable to Macy's, Inc. shareholders, excluding certain items

	14 Weeks Ended February 3, <u>2018</u>	13 Weeks Ended January 28, <u>2017</u>
Most comparable GAAP measure:		
Diluted earnings per share attributable to Macy's, Inc. shareholders	<u>\$ 4.31</u>	<u>\$ 1.54</u>
Non-GAAP measure:		
Diluted earnings per share attributable to Macy's, Inc. shareholders	\$ 4.31	\$ 1.54
Add back the pre-tax impact of restructuring, impairment, store closing and other costs	0.50	0.75
Add back the pre-tax impact of settlement charges	0.10	0.05
Deduct the pre-tax impact of net premiums on the early retirement of debt	(0.03)	-
Deduct the income tax impact of certain items identified above	(0.20)	(0.32)
Deduct the deferred tax effects of federal tax reform	<u>(1.86)</u>	<u>-</u>
Diluted earnings per share attributable to Macy's, Inc. shareholders, excluding certain items	<u>\$ 2.82</u>	<u>\$ 2.02</u>
	53 Weeks Ended February 3, <u>2018</u>	52 Weeks Ended January 28, <u>2017</u>
Most comparable GAAP measure:		
Diluted earnings per share attributable to Macy's, Inc. shareholders	<u>\$ 5.04</u>	<u>\$ 1.99</u>
Non-GAAP measure:		
Diluted earnings per share attributable to Macy's, Inc. shareholders	\$ 5.04	\$ 1.99
Add back the pre-tax impact of restructuring, impairment, store closing and other costs	0.61	1.54
Add back the pre-tax impact of settlement charges	0.34	0.31
Deduct the pre-tax impact of net premiums on the early retirement of debt	(0.03)	-
Deduct the income tax impact of certain items identified above	(0.33)	(0.73)
Deduct the deferred tax effects of federal tax reform	<u>(1.86)</u>	<u>-</u>
Diluted earnings per share attributable to Macy's, Inc. shareholders, excluding certain items	<u>\$ 3.77</u>	<u>\$ 3.11</u>

Management believes that providing a measure of diluted earnings per share attributable to Macy's, Inc. shareholders excluding the impact of certain items, as disclosed above, is a useful measure to assist the reader in evaluating the Company's ability to generate earnings and that providing such a measure will allow investors to more readily compare the earnings referred to in the press release to the earnings reported by the Company in past and future periods. Management believes that excluding the impact of these items from the calculation of this measure is particularly useful where the items are not associated with the Company's core operations and the amounts of such items are not consistent in the periods presented.

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Operating income and operating income as a percent to net sales, excluding certain items

	14 Weeks Ended February 3, 2018	13 Weeks Ended January 28, 2017
Most comparable GAAP measure:		
Net sales	<u>\$ 8,666</u>	<u>\$ 8,515</u>
Operating income	<u>\$ 1,213</u>	<u>\$ 815</u>
	<u>14.0%</u>	<u>9.6%</u>
Non-GAAP measure:		
Net sales	<u>\$ 8,666</u>	<u>\$ 8,515</u>
Operating income	<u>\$ 1,213</u>	<u>\$ 815</u>
Add back the impact of restructuring, impairment, store closing and other costs	152	230
Add back the impact of settlement charges	<u>32</u>	<u>17</u>
Operating income, excluding the impact of certain items identified above	<u>\$ 1,397</u>	<u>\$ 1,062</u>
	<u>16.1%</u>	<u>12.5%</u>
	53 Weeks Ended February 3, 2018	52 Weeks Ended January 28, 2017
Most comparable GAAP measure:		
Net sales	<u>\$ 24,837</u>	<u>\$ 25,778</u>
Operating income	<u>\$ 1,807</u>	<u>\$ 1,315</u>
	<u>7.3%</u>	<u>5.1%</u>
Non-GAAP measure:		
Net sales	<u>\$ 24,837</u>	<u>\$ 25,778</u>
Operating income	<u>\$ 1,807</u>	<u>\$ 1,315</u>
Add back the impact of restructuring, impairment, store closing and other costs	186	479
Add back the impact of settlement charges	<u>105</u>	<u>98</u>
Operating income, excluding the impact of certain items identified above	<u>\$ 2,098</u>	<u>\$ 1,892</u>
	<u>8.4%</u>	<u>7.3%</u>

Management believes that operating income and operating income as a percent to net sales excluding the impact of certain items, as disclosed above, are useful measures in evaluating the Company's ability to generate earnings. Management believes that excluding these items from the calculation of these measures is particularly useful where the items are not associated with the Company's core operations and the amounts of such items are not consistent in the periods presented.

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Cash flow from operating activities, net of cash used in investing activities

	53 Weeks Ended February 3, 2018	52 Weeks Ended January 28, 2017	Increase (Decrease)
Most comparable GAAP measure:			
Net cash provided by operating activities	<u>\$ 1,944</u>	<u>\$ 1,801</u>	<u>\$ 143</u>
Non-GAAP measure:			
Net cash provided by operating activities	\$ 1,944	\$ 1,801	
Net cash used by investing activities	<u>(373)</u>	<u>(187)</u>	
Net cash flow from operating activities, net of cash used in investing activities	<u>\$ 1,571</u>	<u>\$ 1,614</u>	<u>\$ (43)</u>

Management believes cash flow from operating activities, net of cash used in investing activities, is a useful measure in evaluating the Company's ability to generate cash from operations after giving effect to cash used by investing activities.