

# Fourth Quarter 2020 Earnings and Polaris Strategy Update

macy's inc



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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 release because of a variety of factors, including the effects of the novel coronavirus (COVID-19) on Macy's customer demand and supply chain, as well as its consolidated results of operation, financial position and cash flows, Macy's ability to successfully implement its Polaris strategy and restructuring, including the ability to realize the anticipated benefits within the expected time frame or at all, conditions to, or changes in the timing of proposed real estate and other transactions, prevailing interest rates and non-recurring charges, the effect of potential changes to trade policies, store closings, competitive pressures from specialty stores, general merchandise stores, off-price and discount stores, manufacturers' outlets, the Internet and catalogs and general consumer spending levels, including the impact of the availability and level of consumer debt, possible systems failures and/or security breaches, the potential for the incurrence of charges in connection with the impairment of intangible assets, including goodwill, Macy's reliance on foreign sources of production, including risks related to the disruption of imports by labor disputes, regional or global health pandemics, and regional political and economic conditions, the effect of weather and other factors identified in documents filed by the company with the Securities and Exchange Commission, including under the captions "Forward-Looking Statements" and "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended February 1, 2020 and Quarterly Report on Form 10-Q for the quarterly period ended October 31, 2020. 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.

This presentation includes non-GAAP financial measures that exclude the impact of certain financial statement items. Additional important information regarding these non-GAAP financial measures as well as others used in the earnings release can be found on the Investors section of our website.

# Fourth Quarter and Full-year Results

# Fourth Quarter and Full-year Snapshot

<i>\$ millions, except per share figures and percentages</i>	<b>4Q20</b>	<b>FY20</b>
<b>Net sales</b>	6,780	17,346
<b>Comp sales - owned</b>	(17.0)%	(27.9)%
<b>Comp sales - owned + licensed</b>	(17.1)%	(27.9)%
<b>Credit card revenues, net</b>	258	751
<b>Gross margin</b>	2,282	5,060
<i>Gross margin rate</i>	33.7%	29.2%
<b>Selling, general &amp; administrative expense (SG&amp;A)</b>	2,045	6,767
<i>SG&amp;A rate</i>	30.2%	39.0%
<b>Asset sale gains</b>	40	60
<b>Earnings before interest, taxes, depreciation and amortization (EBITDA)</b>	636	(3,546)
<b>Adjusted EBITDA</b>	789	117
<b>GAAP diluted EPS</b>	\$ 0.50	\$ (12.68)
<b>Adjusted diluted EPS</b>	\$ 0.80	\$ (2.21)

# Fourth Quarter and Full-year Highlights

- Net income of **\$160 million**, with diluted EPS of **\$0.50** in 4Q20
  - 4Q20 adjusted net income of **\$253 million** and adjusted diluted EPS of **\$0.80**
  - Exceeded expectations for the quarter
- Net sales of **\$6.8 billion** and **\$17.3 billion** for 4Q20 and FY20, respectively
  - Owned-plus-licensed comps **down 17.1%** in 4Q20 and **down 27.9%** FY20
  - Strong holiday performance driven by digital sales growth and execution in COVID-related categories, such as Home and Beauty
  - **~ 7 million** new customers to Macy's during the 4Q20
  - Active bronze members **increased 45%** during 2020. ~40% of Bronze members are under 40 years old.
- Gross margin rate in 4Q20 was **33.7%**, **down 310 basis points** YOY and for FY20 was **29.2%**, **down 9 percentage points** YOY
  - Merchandise margin **relatively flat** to LY in 4Q20 and **down 560 basis points** for FY20
  - Delivery expense **increased about 300 basis points** from the fourth quarter 2019, partially caused by holiday surcharges
- SG&A of **\$2.0 billion** in 4Q20, **down ~18%** YOY, and FY20 of **\$6.8 billion**, **down ~25%** YOY
  - As a percent of sales, SG&A of **30.2%** in 4Q20 generally **in line** with LY and **higher by ~240 basis points** YOY, to **39.0%** for FY20

# Fourth Quarter and Full-year Earnings Highlights

<i>\$ millions, except percentages</i>	<b>4Q20</b>	<b>FY20</b>	<b>Notes</b>
<b>Credit Revenue</b>	258	751	<ul style="list-style-type: none"> <li>Profit share income drove 4Q20 result due to lower delinquency and bad debt levels resulting from a healthy credit customer</li> </ul>
change to LY	↑ 19	↓ 20	
<b>Gross Margin</b>	2,282	5,060	<ul style="list-style-type: none"> <li>4Q20: Delivery expense increased <b>about 300 basis points</b> year over year, partially due to holiday surcharges</li> <li>FY20: Margin was negatively impacted by COVID-19 and delivery expense, which accounted for <b>about 330 basis points</b> of margin degradation</li> </ul>
change to LY	↓ 789	↓ 4,329	
<b>Gross Margin Rate</b>	33.7%	29.2%	
change to LY	↓ 310 bps	↓ 9 ppt	
<b>SG&amp;A Expense</b>	2,045	6,767	<ul style="list-style-type: none"> <li>4Q20: SG&amp;A rate generally <b>in line</b> with LY. Lower SG&amp;A dollars reflects disciplined expense control, even as sales exceeded our expectations during the holiday season</li> </ul>
change to LY	↓ 464	↓ 2,231	
<b>SG&amp;A Rate</b>	30.2%	39.0%	<ul style="list-style-type: none"> <li>FY20: Strict expense management and disciplined with variable costs; reflects impacts for February and July restructurings and short-term furloughs – exited the year achieving <b>~\$900 million</b> in annualized run rate Polaris cost savings from the February and July restructurings</li> </ul>
change to LY	↑ 10 bps	↑ 240 bps	

# Digital Channel is contributing profitably to results

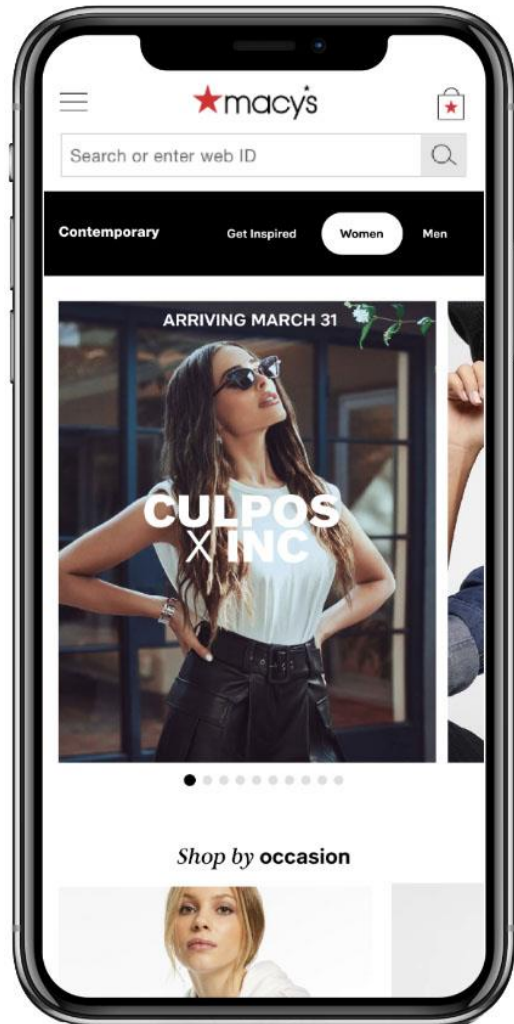
## *Illustrative example*

FY19 Economics Illustration	Digital Channel	Store Channel
Net sales	\$100	\$100
Gross margin rate	30%	41%
Selling and labor costs (including benefits)	\$3	\$12
Real estate costs	\$1	\$8
Other channel-specific costs	\$6	\$6
<b>Contribution margin</b>	<b>\$20</b>	<b>\$15</b>

- Delivery expense has largest impact on Digital Channel gross margin
- Digital Channel cost model is primarily variable
  - Lower payroll and benefits more than offset headwind from delivery expense
  - Lower real estate costs also benefit the Digital Channel as compared to the Store Channel.
- Contribution margin for Digital Channel is **mid-single digits higher** than stores.

*Note: Above reflects an example based on the comparative performance by channel, based on FY 2019 results. Example transaction of a \$100 sale used to illustrate the relative contribution margin rate parity between the two channels and is not intended to reflect all transactions.*

# Digital Channel: 4Q20 Highlights



## Performance Metrics

	4Q20 (unless otherwise noted)
Sales	Up 21%, ~44% of net sales
Average number of unique visitors*	~812 million, up ~11% to LY
Conversion rate*	4.2%, up ~3% to LY
Vendor direct % of digital sales*	~20% of Macy's digital sales
New vendor direct SKUs*	700 thousand Q4; 1.7 million FY20
New vendor direct vendors*	40 Q4; 183 FY20

\*: Figures above reflect macys.com only.



## Focused on Best Locations



Stores are an important part of the market eco-system



Represent **~93% of sales** and **~88% of stores** moving forward



Repositioning our store fleet within the highest quality malls primarily within A and B-malls

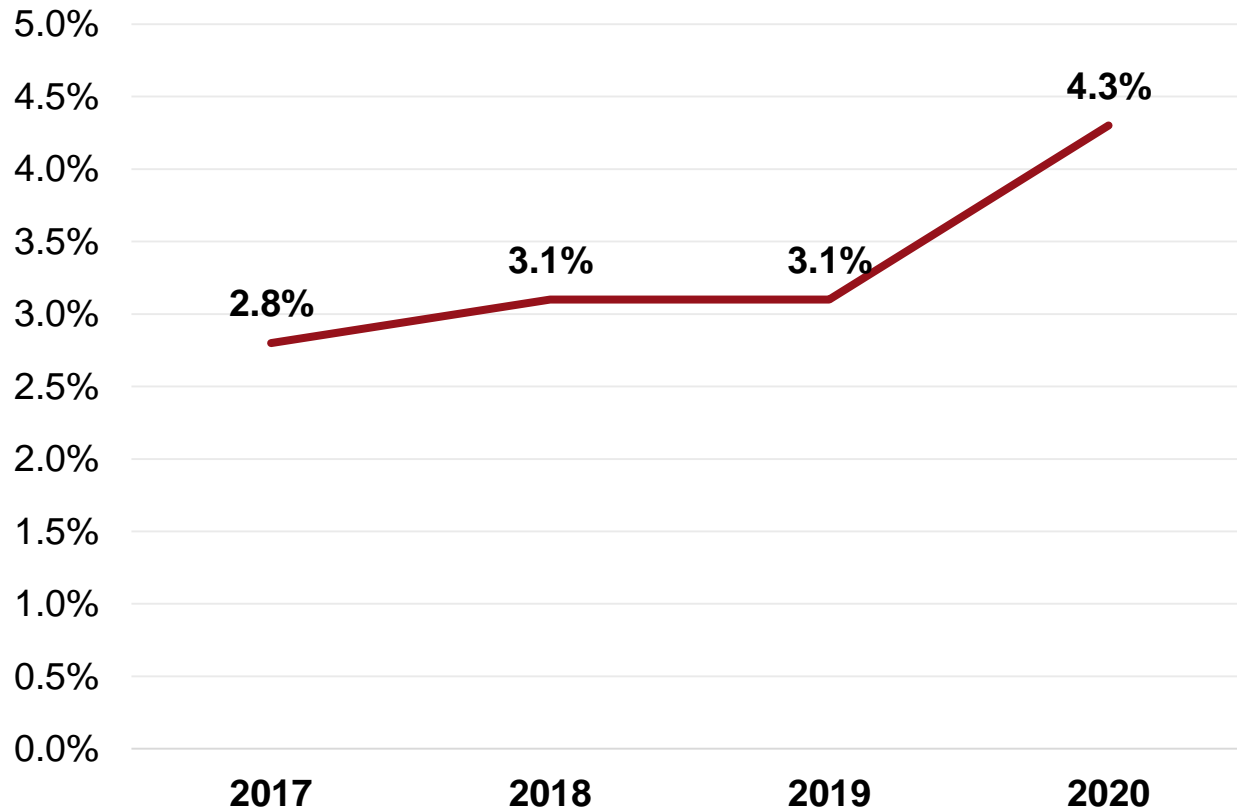
## Macy's Core Portfolio

GSA RATING	% PORTFOLIO	% SALES
A & B	85%	87%
<b>FREESTANDING</b> off-mall in urban setting	3%	6%
<b>TOTAL</b>	<b>~88%</b>	<b>~93%</b>

Note: Excludes neighborhood stores. Sales based on 2020 owned sales.

# Credit Card Revenue

Credit Card Revenue, as a % of Sales



- Expect future credit card revenue to trend near pre-2020 levels at **around 3%** on an annual basis

Performance Metrics	4Q20
New accounts	~608K, ~ -34% to LY
Proprietary card penetration rate	41.6%, - 480bps to LY

# Capital Allocation: Full-year Highlights

## Finished the year without drawing from the asset-backed credit facility



### Free cash flow\* of \$296 million in 2020

- ✓ Cash flow from operating activities of **\$649 million**, down from **\$1.6 billion** LY; variance driven primarily by lower earnings
- ✓ Capital expenditures of **\$466 million**, down from **\$1.2 billion** LY, due primarily to a reduction in capital projects and spend as result of COVID-19
- ✓ Proceeds from the disposition of property and equipment of **\$113 million**, down from **\$185 million** LY, due to a reduction in asset sales driven by COVID-19



### Working capital improved by \$516 million YOY largely driven by the improvement in inventory YOY (-27%)



### Debt repaid of \$2.0 billion in 2020 versus \$597 million in 2019

- ✓ 2020 includes the paydown of the draw on the revolver of **\$1.5 billion** in June 2020 and **~\$530 million** of debt repaid at maturity in January 2021

\*Free cash flow is defined as cash from operating activities plus proceeds from the disposition of property, plant and equipment net of capital expenditures.

# 2021 Guidance

	2021 Guidance
<b>Net sales</b>	\$19.75 billion to \$20.75 billion Increase between 14% and 20% compared to 2020
<b>Digital channel</b>	Annual penetration of approximately 35% of net sales
<b>Credit card revenues, net</b>	Approximately 3% of net sales
<b>Gross margin rate</b>	Increase by high-single digit percentage points, up to 37%
<b>SG&amp;A expense rate</b>	Increase approximately 75 basis points to 100 basis points compared to 2019 levels
<b>Gains on sale of real estate (ASG)</b>	Between \$60 million and \$90 million
<b>Benefit plan income</b>	Approximately \$60 million
<b>Depreciation and amortization</b>	Approximately \$900 million
<b>Adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) as a percent of sales</b>	Between 7% and 7.5%
<b>Interest expense, net</b>	Approximately \$325 million
<b>Adjusted tax rate</b>	Approximately 23.25%
<b>Diluted shares outstanding</b>	Approximately 318 million
<b>Adjusted diluted EPS</b>	Between \$0.40 and \$0.90
<b>Capital expenditures</b>	Approximately \$650 million

# 2021 Guidance: Seasonal and Q121

From a **seasonal standpoint**, 2021 earnings are expected to be **weighted more towards the back half of the year** as sales continue to improve

- **~75%** of adjusted EBITDA, excluding asset sales gains, will be generated in the second half, with the majority of that coming in the fourth quarter
- Asset sale gains are modeled entirely in the fourth quarter
- SG&A rate in the **first half** of 2021 is expected to be **elevated** as compared to 2019 levels
- SG&A rate in the **back half** of 2021 is expected to be more **in line** with 2019 levels

## 1Q21 Guidance

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**Net sales**

\$4,190 million to \$4,290 million

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**Adjusted EPS**

Loss of approximately \$(0.52) to \$(0.45)

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# Macy's, Inc. Store Count , as of January 30, 2021

	End of 3Q20		End of 4Q20		Change in Store Locations from 3Q20	Change in Store Locations Year to Date
	Boxes	Store Locations	Boxes	Store Locations		
Macy's Flagships	16	11	16	11		
Macy's Magnets	429	384	429	384		-1
Macy's Core	445	395	445	395		-1
Macy's Neighborhood	98	92	63	58	-34	-38
Macy's Furniture	53	48	52	47	-1	-2
Macy's Furniture Clearance	2	2	2	2		-2
Freestanding Backstage	6	6	6	6		
Macy's Small Format	1	1	2	2	+1	+2
Stores converted to Fullfilment Centers	2	2	2	2		+2
<b>Total Macy's</b>	<b>607</b>	<b>546</b>	<b>572</b>	<b>512</b>	<b>-34</b>	<b>-39</b>
Bloomingdale's Dept. Stores	36	34	35	33	-1	
Bloomingdale's Furniture/Other	1	1	1	1		
Bloomingdale's The Outlet	19	19	19	19		
<b>Total Bloomingdale's</b>	<b>56</b>	<b>54</b>	<b>55</b>	<b>53</b>	<b>-1</b>	
Bluemercury	166	166	162	162	-4	-9
<b>Total Macy's, Inc.</b>	<b>829</b>	<b>766</b>	<b>789</b>	<b>727</b>	<b>-39</b>	<b>-48</b>

Notes:

\* A and B malls included in the above store types are flagship of 11, magnets of 347, core of 358 and Neighborhood of 30.

(1) Using store locations combines multi-box stores into a single location, providing a more accurate count of the store fleet

 **POLARIS**

# 2020 Polaris Accomplishments

## Customer Relevance

Saw a 45% increase in active bronze memberships in 2020

Brought 7 million new customers during Q4, many under 40

Launched Macy's Media Network, a new fashion and beauty publishing model and new income stream

## Category Mix

Flexed with current customer demand and future potential by focusing efforts on key category areas

Improved mix drove success in both ends of value: luxury and off-price

## Digital Strength

Accelerated focus on digital to capitalize on 2020 opportunities

Improved integration of digital and physical assets; drove constant improvements in shopping experience

Macy's brand digital platforms saw double-digit increases in site visits and higher conversion rates

## Omnichannel Ecosystem

Focused on optimizing the current omnichannel experience, utilizing the entire network (stores, digital, DCs) to fill orders

Improved the placement and allocation of inventory

## Margins and Cash

Achieved positive EBITDA in Q3, one quarter ahead of schedule

Exited 2020 with annualized run-rate cost savings of ~\$900M, which is permanent in nature

Continued rigorous expense management, strong cash position and an untapped credit facility



# Key Pillars of Polaris

## 1 Win with fashion and style

**Deliver fashion and style that meet core and new customer needs across all occasions**, via existing and new retail platforms. Transform our assortment architecture, fashion curation, inventory productivity, and vendor relationships to support.

## 2 Deliver clear value

**Build trust and deliver value through simple, easy-to-understand pricing and promotions.** Deepen core and new customer engagement through hyper-personalized loyalty ecosystem, communication and personalized experiences.

## 3 Excel in digital shopping

**Provide a modern, frictionless digital shopping journey**, supported by seamless UI, immersive category-level experiences and a convenient delivery and returns experience that is fully connected to stores.

## 4 Enhance store experience

**Create a tech-enabled, connected omni-ecosystem** that supports reimagined store experiences focused on discovery, convenience, service and engagement; delivered through streamlined stores portfolio and new off-mall formats.

## 5 Modernize supply chain



**Move toward a faster and more efficient customer fulfillment infrastructure** while improving convenience and the delivery experience – profitably.

## 6 Enable transformation

**Ensure we have the right technology infrastructure and data and analytics** to execute and sustain our plans. **Ensure colleagues have the support, development and tools they need** while fostering a performance-driven operating model.



# 1. Win with Fashion and Style

## Key priorities to execute the strategy

		Priority	Strategy	Tactics	KPIs
1	Win with fashion and style				
2	Deliver clear value				
3	Excel in digital shopping				
4	Enhance store experience				
5	Modernize supply chain				
6	Enable transformation				
		 <b>Enabling personal style</b>	Establish Macy's as a source for customers to achieve their own unique style through compelling assortments with newness and experiences in stores and online	<ul style="list-style-type: none"> <li>▪ Create well-rounded assortments across private and market brands</li> <li>▪ Focus merchants on accelerating trendspotting skills and curating style</li> <li>▪ Go after industry whitespace and enter new categories</li> </ul>	<ul style="list-style-type: none"> <li>▪ Increased full-price sell-throughs</li> <li>▪ Under-40 customer acquisition &amp; sales</li> <li>▪ AUR improvement</li> </ul>
		 <b>Strengthened vendor relationships</b>	Strengthen relationships with existing vendors while building relationships with new, diverse vendors	<ul style="list-style-type: none"> <li>▪ Improve communications with vendor community</li> <li>▪ Build relationships with new brands</li> <li>▪ Evolve partnership models</li> </ul>	<ul style="list-style-type: none"> <li>▪ Increase in new vendors</li> <li>▪ Improved profitability</li> </ul>



## 2. Deliver Clear Value

### Key priorities to execute the strategy

		Priority	Strategy	Tactics	KPIs
1	Win with fashion and style				
2	<b>Deliver clear value</b>	 <b>Optimized pricing &amp; promotions</b>	<p>A new pricing approach that utilizes advanced analytics to drive increased sales and profit, while delivering simplified and compelling value for our customer.</p>	<ul style="list-style-type: none"> <li>Implement advanced analytics to optimize pricing and promotions</li> <li>Simplify pricing for customers</li> <li>Integrate tools and systems to support new strategies</li> </ul>	<ul style="list-style-type: none"> <li>Increased full-price sell-throughs</li> <li>Higher AUR</li> <li>Increased margin rate</li> </ul>
3	Excel in digital shopping				
4	Enhance store experience				
5	Modernize supply chain				
6	Enabler transformation	 <b>Personalized experiences and loyalty program; increased credit and loyalty engagement</b>	<p>Create immersive, connected, personalized experiences, leveraging data from Star Rewards Loyalty program while innovating and growing the program. Monetize insights and IP targeting with our vendor partners</p>	<ul style="list-style-type: none"> <li>Optimize timing, content, offer and design of personalized experiences; deliver across all customer touchpoints</li> <li>Increase engagement and customer lifetime value of top-tier segments</li> <li>Increase Credit Card Customers and Bronze membership base</li> </ul>	<ul style="list-style-type: none"> <li>Higher return on ad spend</li> <li>Increased engagement and conversion</li> <li>Higher loyalty member sales penetration &amp; member count</li> <li>New credit accounts and bronze members</li> </ul>



### 3. Excel in Digital Shopping

#### Key priorities to execute the strategy

		Priority	Strategy	Tactics	KPIs
1	Win with fashion and style				
2	Deliver clear value				
3	<b>Excel in digital shopping</b>	 <b>Digital foundations</b>	Improve the fundamental digital shopping experiences for our customers across our digital platforms	<ul style="list-style-type: none"> <li>Curate visual content</li> <li>Offer new ways to shop and pay</li> <li>Feature personalized fit solutions</li> <li>Improve bag and checkout experience</li> <li>Enhance shipping, pickup and return experience</li> </ul>	<ul style="list-style-type: none"> <li>Increased market share</li> <li>Improved NPS</li> </ul>
4	Enhance store experience				
5	Modernize supply chain				
6	Enable transformation				
		 <b>Differentiated experiences</b>	Deliver differentiated digital experiences through immersive category development, new consumer features, and testing new digital business models	<ul style="list-style-type: none"> <li>Launch enhanced Beauty experience with diagnostic tools, virtual try-ons, and one-to-one assistance tools</li> <li>Launch one-to-many live-stream shopping experiences</li> <li>Explore an off-price, online business model for Bloomingdale's Outlet</li> </ul>	<ul style="list-style-type: none"> <li>Increased market share</li> <li>Improved NPS</li> </ul>



## 4. Enhance Store Experience

### Key priorities to execute the strategy

		Priority	Strategy	Tactics	KPIs
1	Win with fashion and style				
2	Deliver clear value				
3	Excel in digital shopping				
4	<b>Enhance store experience</b>	 <b>Tech-enabled omni ecosystem with improved store experience</b>	Create a connected omni-ecosystem through store capabilities that accelerate digital growth. Elevate in-store experience to further connect online and in-store experience	<ul style="list-style-type: none"> <li>Establish and elevate customer experience standards</li> <li>Enhance omni fulfillment choices</li> <li>Unlock convenience no matter where the customer shops</li> <li>Enable seamless service and leverage Macy's app as self-service and brand experience tool</li> </ul>	<ul style="list-style-type: none"> <li>Cost of transaction</li> <li>Customer conversion</li> </ul>
5	Modernize supply chain	 <b>Localized off-mall shopping formats</b>	Launch and test off-mall formats to acquire new customers with a focus on discovery and convenience to capture omni demand	<ul style="list-style-type: none"> <li>Leverage Backstage, Market, Bloomies and Bloomingdale's Outlets to test, learn, and scale</li> <li>Build strategic approach to reporting and analytics to inform market-level decision making</li> </ul>	<ul style="list-style-type: none"> <li>Omni-market demand</li> </ul>
6	Enable transformation				

# 5. Modernize Supply Chain

## Key priorities to execute the strategy

		Priority	Strategy	Tactics	KPIs
1	Win with fashion and style				
2	Deliver clear value				
3	Excel in digital shopping				
4	Enhance store experience				
<b>5</b>	<b>Modernize supply chain</b>	 <p><b>Faster and more efficient fulfillment infrastructure</b></p>	<p>Identify modifications and network optimization required to support forecasted D2C demand through 2025. Optimize inventory across fulfillment network</p>	<ul style="list-style-type: none"> <li>▪ Build out store fulfillment model</li> <li>▪ Enhance capacity and increase productivity of existing fulfillment network</li> <li>▪ Improve delivery speed</li> <li>▪ Improve vendor direct fulfillment</li> <li>▪ Leverage fulfillment centers to balance inventory</li> </ul>	<ul style="list-style-type: none"> <li>▪ Improved fulfillment by channel</li> <li>▪ Increased units per package / decreased packages per order</li> <li>▪ Fewer days to ship</li> </ul>
6	Enabler transformation	 <p><b>Improved convenience and delivery experience</b></p>	<p>Enhance customer delivery options and offer customers options to ship to alternative locations. Create a convenient, fast and efficient omni returns process</p>	<ul style="list-style-type: none"> <li>▪ Consider delivery expense and speed in fulfillment and inventory placement strategies</li> <li>▪ Communicate delivery timing and promote options and alternatives</li> <li>▪ Provide easier omni experience for delivery and returns</li> </ul>	<ul style="list-style-type: none"> <li>▪ Lower delivery expense</li> <li>▪ Improved customer satisfaction scores</li> <li>▪ Faster delivery</li> <li>▪ Lower digital return rate</li> </ul>

## 6. Enablers

Win with fashion and style

Deliver clear value

Excel in digital shopping

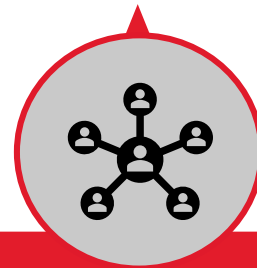
Enhance store experience

Modernize supply chain



### Technology Foundation

Modernizing technology platforms to support and enable growth, improve experience and increase speed and agility



### Enterprise Data and Analytics

Embedding data and analytics into every aspect of the business to increase capabilities, accelerate value and build profitable lifetime customer relationships



### Performance-driven Operating Model

Defining and creating a performance-driven operating model that sets the tone, pace and expectation across the business to execute at the highest level

**Added Pillar to Enable and Accelerate Core Priorities Through Foundational Improvements**



**Accelerate sustainable sales growth and profitability**

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**Generate solid free cash flow to achieve a healthier capital structure and enhance shareholder value**



# Healthy & Sustainable Future Growth Trajectory

## We are targeting:

Comparable owned + licensed sales growth:

**Low-single digits**

Gross margin rate:

**Stabilizing in the mid-30s**

*streamlining our portfolio and driving digital growth*

Adjusted EBITDA margin:

**Moving into the high single digits**

*via improvements in Gross Margin & SG&A*



**Execution on the Polaris strategy will be a critical enabler of delivering targets**

# Disciplined Capital Allocation Strategy Allows for Return to Investment Grade Capital Structure

## VALUE-ENHANCING INVESTMENTS

- Investing in the business to support growth initiatives
- De-lever balance sheet

## CAPITAL STRUCTURE

- Target  $< 3x$  debt-to-EBITDA leverage ratio
- Target interest coverage ratio of  $> 6.5x$

## CAPITAL RETURNED TO SHAREHOLDERS

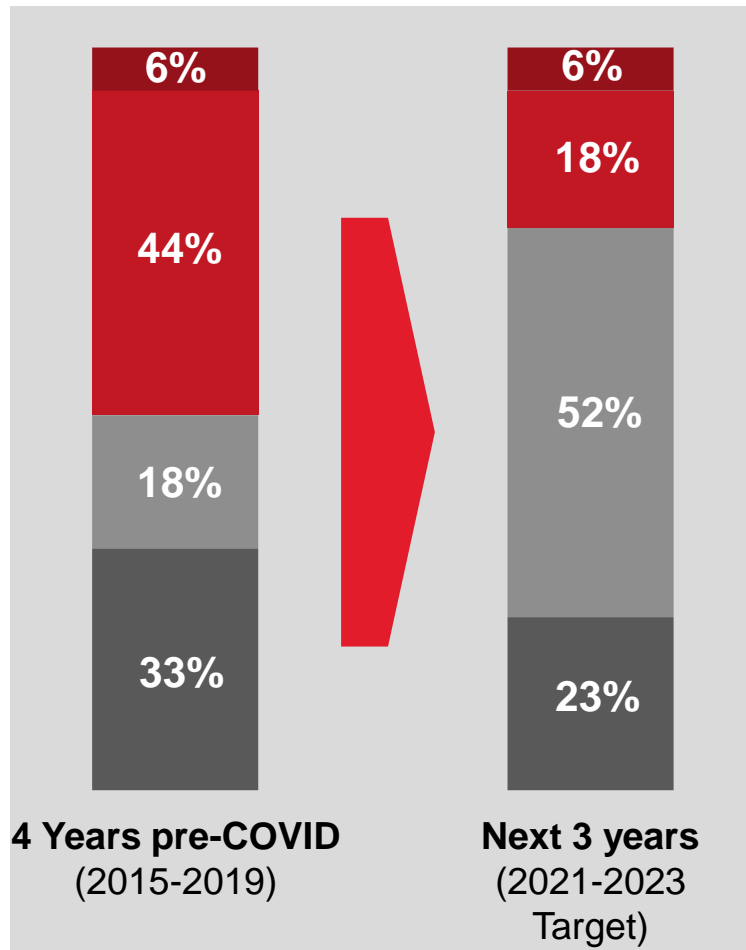
- When appropriate, based on approval from the Board of Directors:
  - Reinstate dividend
  - Return to stock buyback







Aligns capital with business priorities, maximizes flexibility, optimizes use of excess cash

# Refocus Capital Investment to Drive Growth and Profitability

## Historical versus Targeted Capital Expenditures



 <b>Investing in new store properties</b>	<ul style="list-style-type: none"><li>• Going forward, test and scale localized off-mall formats to acquire U-40 and value-driven customers</li></ul>
 <b>Enhance store experience in our highest quality mall-stores</b>	<ul style="list-style-type: none"><li>• Bring all stores to brand standard</li><li>• Invest in technology to enhance the omni-ecosystem</li></ul>
 <b>Provide a personalized, frictionless digital shopping journey</b>	<ul style="list-style-type: none"><li>• Investing for sustainable digital growth</li><li>• Invest in supply chain to bolster operating performance</li></ul>
 <b>Maintain our core retail assets</b>	<ul style="list-style-type: none"><li>• Foundational store and supply chain maintenance</li><li>• Modernize data, analytics and technology architecture</li></ul>

# Appendix

# Reconciliation of GAAP to 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 in evaluating operating performance. Management believes that providing supplemental changes in comparable sales on an owned plus licensed basis and changes in comparable sales on an owned plus licensed basis, which includes adjusting for growth in comparable sales of departments licensed to third parties, assists in evaluating the company's ability to generate sales growth, whether through owned businesses or departments licensed to third parties, and in evaluating the impact of changes in the manner in which certain departments are operated. Earnings (loss) before interest, taxes, depreciation and amortization (EBITDA) is a non-GAAP financial measure which the company believes provides meaningful information about its operational efficiency by excluding the impact of changes in tax law and structure, debt levels and capital investment. Cash flow from operating activities plus proceeds from the disposition of property and equipment, net of capital expenditures, or free cash flow, management believes is a useful measure in evaluating the company's ability to generate cash from operations. In addition, management believes that excluding certain items from EBITDA and diluted earnings (loss) per share that are not associated with the company's core operations and that may vary substantially in frequency and magnitude from period-to-period provides useful supplemental measures that assist in evaluating the company's ability to generate earnings and to more readily compare these metrics between past and future periods.

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 within. In addition, the company does not provide the most directly comparable forward-looking GAAP measure of EBITDA, earnings (loss) per share and the effective tax rate, 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 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 and future financial condition and performance. Additionally, the amounts received by the company on account of 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.

# Changes in Comparable Sales

	13 weeks ended January 30, 2021	52 weeks ended January 30, 2021
Decrease in comparable sales on an owned basis (Note 1)	(17.0%)	(27.9%)
Impact of comparable sales of departments licensed to third parties (Note 2)	(0.1%)	0.0%
Decrease in comparable sales on an owned plus licensed basis	(17.1%)	(27.9%)

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, 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, or material portion of the store, is closed for a significant period of time. No stores have been excluded as a result of the COVID-19 pandemic. Definitions and calculations of comparable sales may 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 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.

# Earnings (Loss) Before Interest, Taxes, Depreciation, and Amortization Excluding Certain Items

In millions	13 weeks ended January 30, 2021	13 weeks ended February 1, 2020	52 weeks ended January 30, 2021	52 weeks ended February 1, 2020
Most comparable GAAP measure: Net income (loss)	\$160	\$340	\$(3,944)	\$564
Non-GAAP measure: Net income (loss)	\$160	\$340	\$(3,944)	\$564
Interest expense, net	84	42	280	185
Losses on early retirement of debt	-	30	-	30
Financing costs	1	-	5	-
Federal, state and local income tax expense (benefit)	154	109	(846)	164
Depreciation and amortization	237	256	959	981
Earnings (loss) before interest, taxes, depreciation and amortization	636	777	(3,546)	1,924
Settlement charges	19	46	84	58
Impairment, restructuring, store closing and other costs	134	337	3,579	354
Adjusted EBITDA	\$789	\$1,160	\$117	\$2,336

# Net Income (Loss), Excluding Certain Items

	In millions	13 weeks ended January 30, 2021	13 weeks ended February 1, 2020
Most comparable GAAP measure: Net income (loss)		\$160	\$340
Non-GAAP measure: Net income (loss)		\$160	\$340
Impairment, restructuring, store closings and other costs		134	337
Settlement charges		19	46
Losses on early retirement of debt		-	30
Financing costs		1	-
Income tax impact of certain items identified above		(61)	(92)
As adjusted to exclude certain item above		\$253	\$661



# Diluted Earnings (Loss) Per Share, Excluding Certain Items

	13 weeks ended January 30, 2021	13 weeks ended February 1, 2020	52 weeks ended January 30, 2021	52 weeks ended February 1, 2020
Most comparable GAAP measure: Diluted earnings (loss) per share	\$0.50	\$1.09	(\$12.68)	\$1.81
Non-GAAP measure: Diluted earnings (loss) per share	\$0.50	\$1.09	(\$12.68)	\$1.81
Impairment, restructuring, store closings and other costs	0.42	1.08	11.50	1.13
Settlement charges	0.06	0.15	0.27	0.19
Losses on early retirement of debt	-	0.10	-	0.10
Financing costs	0.01	-	0.02	-
Income tax impact of certain items identified above	(0.19)	(0.30)	(1.32)	(0.32)
As adjusted to exclude certain item above	\$0.80	\$2.12	(\$2.21)	\$2.91

# Free Cash Flow

	In millions	52 weeks ended January 30, 2021	52 weeks ended February 1, 2020
Net cash provided by operating activities		\$649	\$1,608
Purchase of property and equipment		(338)	(902)
Capitalized software		(128)	(255)
Disposition of property and equipment		113	185
Free Cash Flow		\$296	\$636