MACY'S, INC.
Credit Ratios and Other Financial Information
($ in millions)

The company 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 earnings before interest, taxes, depreciation and amortization (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.

These credit ratios are 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. These 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 these 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 financial condition and performance. In particular, these financial measures have material limitations because they exclude cash and non-cash expenses that are necessary to operate the company's business or that may be otherwise incurred or experienced in connection with the operation of its business. 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.

The values of short-term debt and long-term debt are from the balance sheets for the identified dates, the value of the underfunded status of postemployment and postretirement benefits is based on the year-end funded status of the relevant retirement plans and benefit obligations, and the total lease liabilities from the balance sheet or the capitalized value of gross rent expense. The capitalized value of gross rent expense is based on gross rent expense for the applicable period multiplied by a factor. The calculation of the capitalized value of non-capitalized leases is consistent with industry and credit rating agency practice.

The company adopted Accounting Standards Update No. 2016-02 (ASU 2016-02), *Leases*, on February 3, 2019. This new standard resulted in the company recognizing lease liabilities and related right of use assets on the balance sheet for its operating leases. In the calculation of the company's credit ratios for the 52 weeks ended May 4, 2019, the company utilized the total lease liabilities in lieu of the rent factor calculation as a result of the adoption of ASU 2016-02. In the calculation of the company's credit ratios for the 52 weeks ended February 2, 2019 and the 53 weeks ended May 5, 2018, both the Moody's rating agency and the company utilized a present value calculation that incorporated a rent factor in determining the capitalized value of gross rent expense. This factor was adjusted annually based on an updated Moody's prepared present value calculation using an estimated intermediate term interest rate for Macy's. For the 52 weeks ended February 2, 2019, the rent factor used was 8.9x. For the 53 weeks ended May 5, 2018, the rent factor used was 8.0x.

The following financial information, including non-GAAP financial measures, should be read in conjunction with the audited financial statements, including the related notes, and other financial information contained in the company's Securities and Exchange Commission filings.

	Target	As of and for the 52 weeks ended May 4, 2019	As of and for the 52 weeks ended February 2, 2019	As of and for the 53 weeks ended May 5, 2018
Leverage ratio *	2.5 - 2.8	2.7	2.6	2.7
Coverage ratio	6.4 - 6.6	8.6	8.5	8.1

* As adjusted for the change in the factor used to capitalize operating leases for the 52 weeks ended February 2, 2019.

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Adjusted EBITDA

As computed below, Adjusted EBITDA represents earnings before interest, taxes and depreciation and amortization, adjusted to exclude the effects of restructuring, impairment, store closing and other costs, settlement charges, gross rent expense, and the excess of the net periodic benefit costs of the company's postemployment and postretirement benefit obligations over the related service cost components of such benefit costs. This methodology is similar to those used by credit rating agencies to assess a company's capital structure. Management believes that Adjusted EBITDA is a useful measure in evaluating the company's ability to generate cash flow from its operations.

	As of and for the 52 weeks ended May 4, 2019	As of and for the 52 weeks ended February 2, 2019	As of and for the 53 weeks ended May 5, 2018
Most Comparable GAAP Measure:			
Net income	$ 1,102	$ 1,098	$ 1,609
Non-GAAP Measure:			
Net income	$ 1,102	$ 1,098	$ 1,609
Add back interest expense	244	261	306
Add back (deduct) losses (gains) on early retirement of debt	33	33	(13)
Deduct interest income	(27)	(25)	(14)
Add back (deduct) federal, state and local income tax expense (benefit)	298	322	(54)
Add back restructuring, impairment, store closing and other costs	118	136	204
Add back settlement charges	88	88	105
Add back depreciation and amortization	963	962	983
Add back gross rent expense (Note 1)	375	337	338
Deduct net periodic benefit costs of the postemployment and postretirement benefit obligations in excess of the service cost components (Note 2)	(35)	(39)	(55)
Adjusted EBITDA	$ 3,159	$ 3,173	$ 3,409

Note 1
The add back of gross rent expense in calculating Adjusted EBITDA treats the company's periodic rent expense under the relevant lease agreements in a manner consistent with the company's owned properties.

Real estate		$ 328	
Personal property		9	
	$ 375	$ 337	$ 338

Note 2
The add back of the excess net periodic benefit cost of the company's postemployment and postretirement benefit obligations over the service cost component of such benefit costs in calculating Adjusted EBITDA recognizes the fact that the service cost components of the net periodic benefit costs are primarily operating type costs and should be included in Adjusted EBITDA, while all other components of the net periodic benefit costs are primarily financing type costs and should be excluded from Adjusted EBITDA. Net periodic benefit costs include, where applicable, service cost, interest cost, expected return on assets, amortization of net actuarial gains and losses and the amortization of prior service costs or credits.

Net periodic benefit costs:			
Pension plan	$ (61)	$ (64)	$ (79)
Supplementary retirement plan	31	31	31
Postretirement benefit obligations	(1)	(1)	—
Less service cost component of net periodic benefit costs:			
Pension plan	(4)	(5)	(7)
Supplementary retirement plan	—	—	—
Postretirement benefit obligations	—	—	—
	$ (35)	$ (39)	$ (55)

MACY'S, INC.
Credit Ratios and Other Financial Information
($ in millions)

Leverage ratio

The leverage ratio, as computed below, is defined as Adjusted debt divided by Adjusted EBITDA. As computed below, Adjusted debt represents the company's short-term and long-term debt, adjusted to include (exclude) certain items as identified below. As computed above, Adjusted EBITDA represents earnings before interest, taxes and depreciation and amortization, adjusted to exclude the effects of restructuring, impairment, store closing and other costs, settlement charges, gross rent expense, and the excess of the net periodic benefit costs of the company's postemployment and postretirement benefit obligations over the related service cost components of such benefit costs. These methodologies are similar to those used by credit rating agencies to assess a company's capital structure. Management believes that the leverage ratio is a useful measure in evaluating the company's ability to cover its debt-like obligations.

	As of and for the 52 weeks ended May 4, 2019	As of and for the 52 weeks ended February 2, 2019	As of and for the 53 weeks ended May 5, 2018
Most comparable GAAP Ratio:			
Short-term debt	$ 41	$ 43	$ 25
Long-term debt	4,680	4,708	5,857
Total debt	$ 4,721	$ 4,751	$ 5,882
Net income	$ 1,102	$ 1,098	$ 1,609
	4.3	4.3	3.7
Non-GAAP Ratio:			
Short-term debt	$ 41	$ 43	$ 25
Long-term debt	4,680	4,708	5,857
Underfunded status of postemployment and postretirement benefits (Note 1)	575	575	535
Total lease liabilities	3,186	—	—
Capitalized value of gross rent expense (Note 2)	—	2,999	2,704
Adjusted debt	$ 8,482	$ 8,325	$ 9,121
Adjusted EBITDA	$ 3,159	$ 3,173	$ 3,409
	2.7	2.6	2.7

Note 1
The inclusion of the underfunded status (the amount by which the projected benefit obligation or accumulated postretirement benefit obligation exceeds the fair value of plan assets) of the company's postemployment and postretirement obligations in Adjusted debt treats the company's net liability under the relevant benefit plans as debt equivalents. The assumed tax benefit of 26% represents the tax deductibility of contributions which impact the funded status of the plans.

Underfunded (overfunded) status:			
Pension plan	$ (7)	$ (7)	$ (138)
Supplementary retirement plan	644	644	703
Postretirement benefit obligations	137	137	156
Less income tax effect of net underfunded status of the pension and supplementary retirement plans and postretirement benefit obligations	(199)	(199)	(186)
	$ 575	$ 575	$ 535

Note 2
The inclusion of the capitalized value of gross rent expense, as calculated by multiplying the periodic annual reported gross rent expense by a factor of 8.9x for the period ending on February 2, 2019 and 8.0x for the period ending on May 5, 2018.

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Coverage ratio

The coverage ratio, as computed below, is defined as Adjusted EBITDA divided by Adjusted interest expense. As computed above, Adjusted EBITDA represents earnings before interest, taxes and depreciation and amortization, adjusted to exclude the effects of impairment, restructuring, store closings and other costs, settlement charges, gross rent expense, and the excess of the net periodic benefit costs of the company's postemployment and postretirement benefit obligations over the related service cost components of such benefit costs. As computed below, Adjusted interest expense represents interest expense, excluding the losses or gains on early retirement of debt, a portion of the company's gross rent expense deemed to be equivalent of interest (estimated at 1/3 of gross rent expense) and the excess of the interest cost components of the periodic benefit costs of the company's postemployment and postretirement benefit obligations over the expected return of asset components of such benefit costs, if any. These methodologies are similar to those used by credit rating agencies to assess a company's capital structure. Management believes that the coverage ratio is a useful measure in evaluating the company's ability to cover its interest-like costs on its debt-like obligations.

	As of and for the 52 weeks ended May 4, 2019	As of and for the 52 weeks ended February 2, 2019	As of and for the 53 weeks ended May 5, 2018
Most Comparable GAAP Ratio:			
Net income	$ 1,102	$ 1,098	$ 1,609
Interest expense	$ 244	$ 261	$ 306
	4.5	4.2	5.3
Non-GAAP Ratio:			
Adjusted EBITDA	$ 3,159	$ 3,173	$ 3,409
Interest expense	$ 244	$ 261	$ 306
Add portion of rents representative of the interest factor	125	112	113
Postemployment and postretirement benefit obligations adjustment, if any (Note 1)	—	—	—
Adjusted interest expense	$ 369	$ 373	$ 419
	8.6	8.5	8.1

Note 1
The adjustment (i.e., representing the inclusion of any incremental financing costs) for the excess of the interest cost component of net periodic benefit costs of the company's postemployment and postretirement benefit obligations over the expected return on asset component of such benefit costs in adjusted interest expense recognizes the additional financing cost associated with the use of cash to fund the postemployment and postretirement obligations and also that economic benefits of overfunded postemployment and postretirement benefit plans are limited.

Interest cost component of net periodic benefit costs:			
Pension plan	$ 109	$ 109	$ 103
Supplementary retirement plan	23	23	22
Postretirement benefit obligations	4	5	5
Expected return on asset component of net periodic benefit costs:			
Pension plan	(201)	(206)	(220)
Supplementary retirement plan	—	—	—
Postretirement benefit obligations	—	—	—
Excess, if any, of the interest cost component of net periodic benefit costs over the expected return on asset component	$ —	$ —	$ —