

macy's inc

TRANSFORMING OUR BUSINESS OPERATIONS TO DRIVE PROFITABLE GROWTH

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Goldman Sachs Annual Global Retailing Conference
September 5, 2019





SAFE HARBOR STATEMENT

All forward-looking statements are subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from the expectations and assumptions mentioned today. A detailed discussion of these factors and uncertainties is contained in the company's filings with the Securities and Exchange Commission.

For financial data, reconciliation of non-GAAP financial measures and cautionary language regarding forward-looking statements, please refer to Macy's, Inc. second quarter 2019 earnings release issued on August 14, 2019, and other financial information available on the investor relations page at www.macysinc.com.



AGENDA

- **Business overview**
- **Path to profitable growth: defining the productivity program**
- **Productivity program details and timeline**



MACY'S OPPORTUNITY AS RETAIL EVOLVES

Convenience

Value

Fashion



Experience

Connection

Discovery



TRUE OMNICHANNEL RETAILER



HEALTHY
STORES



ROBUST
.COM



GREAT
MOBILE
EXPERIENCE

1

GROWTH 150

2

BACKSTAGE

3

**VENDOR
DIRECT**

4

MOBILE

5

**DESTINATION
BUSINESSES**



4 STEPS TO PROFITABLE GROWTH

- ★ **STEP 1**
Comparable sales growth
- ★ **STEP 2**
Take market share
- ★ **STEP 3**
Healthy customer base
- ★ **STEP 4**
Profitability growth



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NEED EXISTS TO PIVOT TO EFFECTIVELY COMPETE AND PROFITABLY GROW IN EVOLVING ENVIRONMENT

HEADWINDS

- **Fulfillment pressures**
 - Channel shifts
 - Increasing delivery expense
 - Energy cost increases
- **Increasing labor costs**
 - Rising wages
 - Tight labor market
- **Competitive Pressures**
 - Highly promotional climate
 - Increased competition from D2C brands

ESSENTIAL TOOLS

- **Ongoing disciplined expense management**
 - Continue generating expense savings of **\$100 million to \$200 million** annually
- **Multi-year productivity program**
 - **Technology:** Step change improvements via automation, process efficiencies and new capabilities
 - **Data science:** Higher accuracy in decisions that drive profitability



MULTI-YEAR PRODUCTIVITY PROGRAM: CHANGING THE WAY WE WORK



Supply Chain

- Build a best-in-class Supply Chain with greater flexibility, lower cost and improved speed



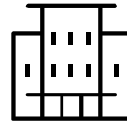
Merchandising Mix & Pricing

- Optimize pricing: targeted markdowns based on local demand



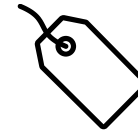
Marketing

- Optimize promotions through enhanced systems and calendars
- Monetize website
- Manage media and production spend



Stores

- Offset wage increases through productivity and self-service initiatives



Private Brand Sourcing

- Reduce costs through global sourcing strategies, materials management and enhanced negotiations



Indirect Spend Procurement

- Negotiating favorable rates and terms

Transformative program will add to ongoing disciplined expense management



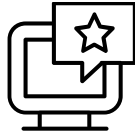
MULTI-YEAR PRODUCTIVITY PROGRAM: CHANGING THE WAY WE WORK



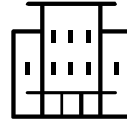
Supply Chain



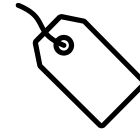
Merchandising Mix & Pricing



Marketing



Stores



Private Brand Sourcing



Indirect Spend Procurement

By ...

- Improving gross margin
- Improving SG&A productivity
- Improving working capital



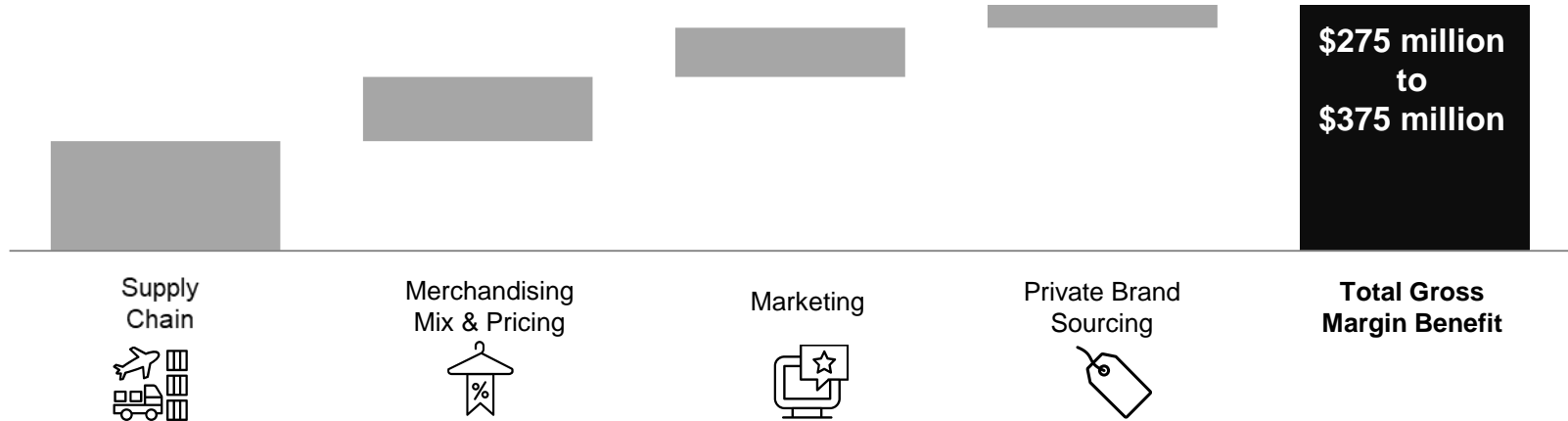
We will ...

- Counter macro headwinds
- Fund strategic initiatives
- Drive profitability

Targeting to reduce annual costs by \$400 million to \$550 million and improve working capital by approximately \$100 million over two to four years



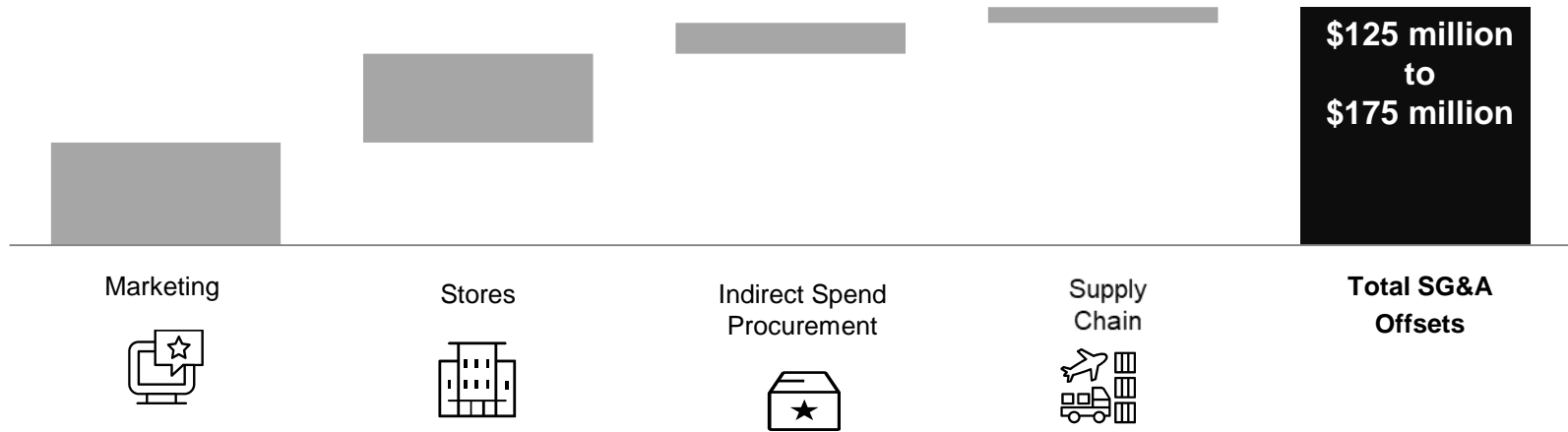
WE WILL DRIVE GROSS MARGIN IMPROVEMENT



Annual savings of \$275 million to \$375 million within two to four years to offset headwinds, invest in business and drive profitability



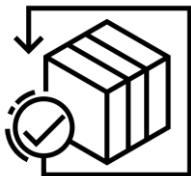
WE WILL DRIVE SG&A EXPENSE SAVINGS



Annual savings of \$125 million to \$175 million within two to four years to offset headwinds, invest in business and drive profitability



WE WILL DRIVE IMPROVEMENTS IN WORKING CAPITAL



Reduce inventory through improved allocation of fashion inventory as well as rapid restock of replenishment goods



Reduce **Private Brands** costs

Improvement of approximately \$100 million within the next two to four years



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CURRENT SUPPLY CHAIN DESIGNED WITH OPERATIONAL MINDSET ... TO MINIMIZE COST WITHIN SPECIFIC FUNCTIONS



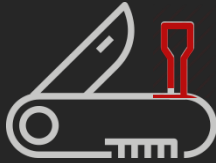
~630 Macy's stores
16 Distribution centers
6 Megacenters
3 Merge centers

Based on fiscal year 2018 sales:

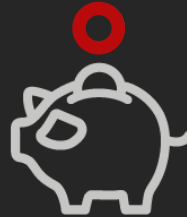
80% National brands
20% Private brands



FUTURE SUPPLY CHAIN WILL OPTIMIZE AND PRIORITIZE CONSUMER DEMAND INSTEAD OF OUR ARCHITECTURE



**CREATING
FLEXIBILITY**



**OPTIMIZING
COST**



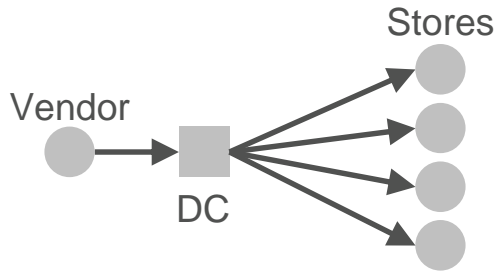
**INCREASING
SPEED**



HOLD & FLOW WILL DELIVER GROSS MARGIN BENEFITS

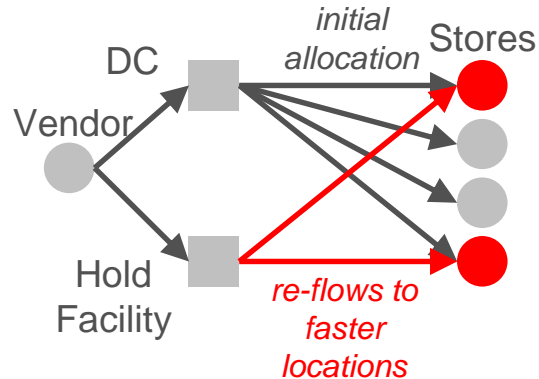
Current Approach

Full inventory allocation at start of season



Hold & Flow

Defer portion of allocation to flow to locations with greatest in-season demand



RESULTS

- In the pilot, Hold & Flow product delivered **3% to 4% higher sales and \$2.00 higher net margin per unit**, versus comparable non-Hold & Flow product

Strategy will better support demand, resulting in improved customer experience, turn and ~ \$80 million to \$100 million benefit over next two to four years



FULFILLMENT LOGIC WILL DELIVER GROSS MARGIN BENEFITS

Our Proprietary Fulfillment Logic

Determines preferred node, taking into account various factors, including:

1. Customer promise
2. Shipping cost
3. Labor expense
4. **Markdown risk**
5. **Potential missed sales from walk-in traffic**

NEW (TESTING)

RESULTS

- Observing a **\$0.70 per unit increase in margin** v. \$0.10 per unit increase in cost
- Implemented for 18% orders to date
- Scaling in phased manner to **up to 100% of addressable business** by Q419

Results in fulfillment decisions that optimize for total profit by trading off between expense and gross margin ... \$10 million benefit in 2019



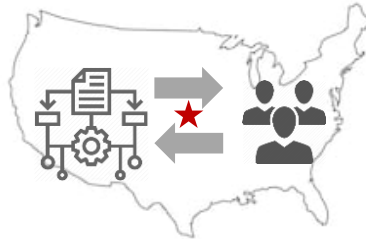
MARKDOWN OPTIMIZATION REPRESENTS BIG OPPORTUNITY

PAST



- **Six pricing zones**, limiting ability
- **Human decision making**, limiting speed

NEAR TERM



- **Selectively delay markdowns** by locations
- **Algorithm, system and process enhancements**

FUTURE SOLUTION



- **Proactive** management of markdowns in all stores
- **Human-guided automation**

RESULTS

- Proof of concept **pilot demonstrated 1.6% sales dollar expansion and 110 basis point gross margin rate improvement** on a subset of styles impacted

Expecting minimum of \$30 million gross margin impact by 2020 ... up to \$50 million annually by 2023



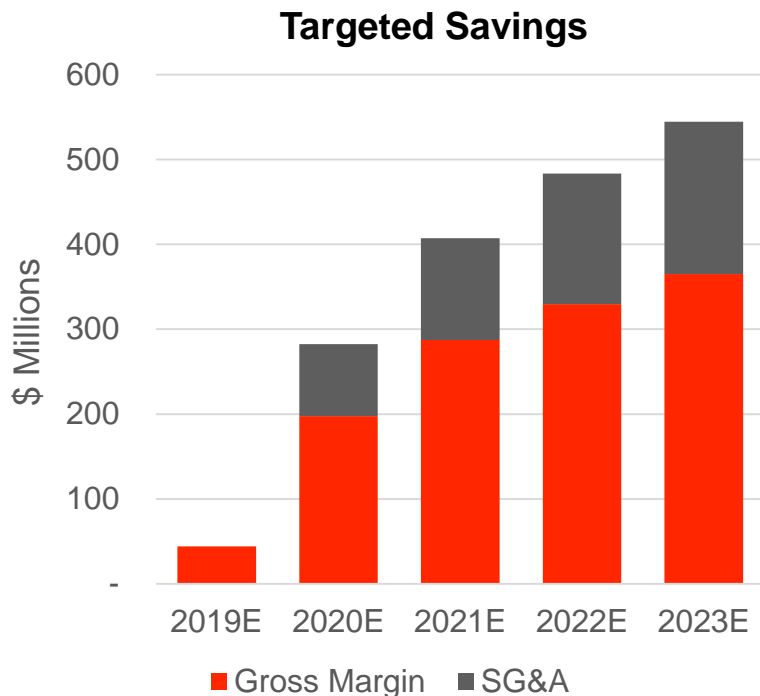
WHAT TO EXPECT NEAR- AND LONG-TERM

		2019	2020	2021-2023
Supply Chain		<ul style="list-style-type: none"> • Launch Hold & Flow on a small receipt base; enable mega centers • Enhance fulfillment logic 	<ul style="list-style-type: none"> • Scale new capabilities to a larger receipt base; continue to enhance algorithms and systems/processes 	<ul style="list-style-type: none"> • Transform and create a best-in-class Supply Chain and optimize network
Merchandising Mix & Pricing		<ul style="list-style-type: none"> • Pilot location-level pricing • Enhance algorithms for markdown optimization 	<ul style="list-style-type: none"> • Scale location-level pricing to all departments and gain ability to take proactive markdowns 	<ul style="list-style-type: none"> • Further enhance systemic capabilities for optimizing markdowns
Marketing		<ul style="list-style-type: none"> • Test and implement ideas for optimizing promotional markdowns • Enhance site monetization capabilities 	<ul style="list-style-type: none"> • Enhance systemic capabilities to manage promotional markdowns • Scale site monetization 	<ul style="list-style-type: none"> • Move towards more targeted promotional strategies • Continue growing site monetization
Stores		<ul style="list-style-type: none"> • Implement e-signage in open sell locations • Test Neighborhood store strategy 	<ul style="list-style-type: none"> • Roll out 20,000 new handhelds with modernized applications to increase colleague productivity • Pilot and expand self checkout 	<ul style="list-style-type: none"> • Scale RFID applications to optimize pick paths and automate store processes/colleague tasks
Private Brands Sourcing		<ul style="list-style-type: none"> • Conduct pilots (Cut & Sew Knits, Sweaters, Bedding & Bath) 	<ul style="list-style-type: none"> • Scale pilot best practices across Private Brands 	<ul style="list-style-type: none"> • Complete modernization of systems
Indirect Spend Procurement		<ul style="list-style-type: none"> • Ongoing negotiation of favorable terms and rates 		

Rapid changes to existing processes will help offset headwinds near-term ... longer-term ideas will allow for sustainable profit growth model



SIGNIFICANT SAVINGS EXPECTED THROUGH 2023 AND BEYOND



Footnote: Savings are net of program costs

- Targeting annual **\$400 million to \$550 million** of gross margin and SG&A benefits over the next two to four years
 - In addition to **\$100 million to \$200 million** from ongoing disciplined expense management
- Expect to drive **approximately \$100 million** in additional working capital improvements
- Line of sight to drive **profitable growth**
- No incremental capital expense; will be funded within existing capital budget



TODAY'S KEY TAKEAWAYS

TRANSFORMING OUR BUSINESS OPERATIONS TO DRIVE PROFITABLE GROWTH

- Meaningful opportunity for Macy's as retail evolves
- Clear line of sight into profit stabilization and growth ... committed to top- and bottom-line growth
- Productivity programs expected to drive profitability in both the near- and longer-term ... goal of **\$400 million to \$550 million** in annual savings