

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 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 and 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 all income statement items included in the tables below are for the identified 52-week periods, with most of these items being calculated by adding the data reported for the most recently completed four quarters (i.e. quarters ended October 29, 2016, July 30, 2016, April 30, 2016, and January 30, 2016) or taken from the Company's annual Form 10-K filings. Although the Company has not historically disclosed rent expense on a quarterly basis, the gross rent expense for the 52 weeks ended October 29, 2016 and October 31, 2015 is calculated in the same way as the rental expense in the Company's annual Form 10-K filings. The total net periodic benefit costs, and the related service cost, interest cost and expected return on assets components of the net periodic benefit costs, of postemployment and postretirement benefit obligations are based on the quarterly and annual costs included in the Company's Form 10-Q and 10-K filings.

The values for 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 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 short-term debt as of and for the 52 weeks ended October 29, 2016 and January 30, 2016 has been adjusted to exclude \$500 million of debt maturities in December 2016 which will be repaid from the proceeds of the issuance of \$500 million of debt in December 2015.

During 2015, the Moody's rating agency and the Company made certain changes to its credit ratios. Moody's now utilizes a present value calculation which resulted in a 9.3x rent factor for the annual period ended January 31, 2015. This factor will be adjusted annually based on an updated Moody's prepared present value calculation using an estimated intermediate term interest rate for Macy's. Beginning with the period ended January 30, 2016, the rent factor utilized is now 9.2x.

Historically, the Company used a factor of eight for the calculation of capitalized value of leases. Beginning in October 2015, the Company has adjusted its formula to use the factor equivalent to the Moody's operating lease adjustment for this calculation. Accordingly, the Company has adjusted its target range for the leverage ratio from 2.4 - 2.7 to 2.5 - 2.8 to reflect this change.

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 October 29, 2016	As of and for the 52 weeks ended January 30, 2016	As of and for the 52 weeks ended October 31, 2015
Leverage ratio *	2.5 - 2.8	3.3	3.0	2.9
Coverage ratio	6.4 - 6.6	6.8	7.9	8.6

* As adjusted for the change in the factor used to capitalize operating leases.

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Adjusted EBITDA

Management believes that Adjusted EBITDA is a useful measure in evaluating the Company's ability to generate cash flow from its operations.

As computed below, Adjusted EBITDA represents earnings before interest, taxes and depreciation and amortization, adjusted to exclude the effects of impairments, store closing and other costs, settlement charges, gross rent expense, and the excess of the net periodic benefit costs of the Company's postretirement and postretirement benefit obligations over the related service cost components of such benefit costs.

	As of and for the 52 weeks ended October 29, 2016	As of and for the 52 weeks ended January 30, 2016	As of and for the 52 weeks ended October 31, 2015
Most Comparable GAAP Measure:			
Net income	\$ 682	\$ 1,070	\$ 1,320
Non-GAAP Measure:			
Net income	\$ 682	\$ 1,070	\$ 1,320
Add back interest expense	373	363	366
Add back premium on early retirement of debt	-	-	17
Deduct interest income	(4)	(2)	(1)
Add back federal, state and local income tax expense	385	608	765
Add back impairments, store closing and other costs	426	288	198
Add back settlement charges	81	-	-
Add back depreciation and amortization	1,057	1,061	1,057
Add back gross rent expense (Note 1)	340	319	304
Add back net periodic benefit costs of the postemployment and postretirement benefit obligations in excess of the service cost components (Note 2)	(43)	(11)	(13)
Adjusted EBITDA	<u>\$ 3,297</u>	<u>\$ 3,696</u>	<u>\$ 4,013</u>

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	\$ 307		
Personal property	12		
	<u>\$ 340</u>	<u>\$ 319</u>	<u>\$ 304</u>

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	\$ (76)	\$ (54)	\$ (56)
Supplementary retirement plan	34	41	41
Postretirement benefit obligations	3	8	8
Less service cost component of net periodic benefit costs:			
Pension plan	(4)	(6)	(6)
Supplementary retirement plan	-	-	-
Postretirement benefit obligations	-	-	-
	<u>\$ (43)</u>	<u>\$ (11)</u>	<u>\$ (13)</u>

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Leverage ratio

Management believes that the leverage ratio, as computed below and defined as Adjusted debt divided by Adjusted EBITDA, is a useful measure in evaluating the Company's ability to cover its debt-like obligations.

As computed below, Adjusted debt represents the Company's short-term and long-term debt, adjusted to include the underfunded status of the Company's postemployment and postretirement benefit obligations, net of an assumed 37% tax benefit, and a rent factor equal to periodic annual reported gross rent expense multiplied by a factor. The short-term debt as of and for the 52 weeks ended October 29, 2016 and January 30, 2016 has been adjusted to exclude \$500 million of debt maturities in December 2016 which will be repaid from the proceeds of the issuance of \$500 million of debt in December 2015.

As computed above, Adjusted EBITDA represents earnings before interest, taxes and depreciation and amortization, adjusted to exclude the effects of impairments, store closing and other costs, settlement charges, gross rent expense, and the excess of the net periodic benefit costs of the Company's postretirement and postretirement benefit obligations over the related service cost components of such benefit costs.

	As of and for the 52 weeks ended October 29, 2016	As of and for the 52 weeks ended January 30, 2016	As of and for the 52 weeks ended October 31, 2015
Most Comparable GAAP Ratio:			
Short-term debt	\$ 938	\$ 642	\$ 857
Long-term debt	6,563	6,995	7,106
Total debt	<u>\$ 7,501</u>	<u>\$ 7,637</u>	<u>\$ 7,963</u>
Net income	<u>\$ 682</u>	<u>\$ 1,070</u>	<u>\$ 1,320</u>
	<u>11.0</u>	<u>7.1</u>	<u>6.0</u>
Non-GAAP Ratio:			
Short-term debt	\$ 938	\$ 642	\$ 857
Long-term debt	6,563	6,995	7,106
Less 2016 debt maturities to be repaid with proceeds from the December 2015 debt issuance	(500)	(500)	-
Underfunded status of postemployment and postretirement benefits (Note 1)	859	859	941
Capitalized value of gross rent expense (Note 2)	<u>3,128</u>	<u>2,935</u>	<u>2,827</u>
Adjusted debt	<u>\$ 10,988</u>	<u>\$ 10,931</u>	<u>\$ 11,731</u>
Adjusted EBITDA	<u>\$ 3,297</u>	<u>\$ 3,696</u>	<u>\$ 4,013</u>
	<u>3.3</u>	<u>3.0</u>	<u>2.9</u>

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 represents the tax deductibility of contributions which impact the funded status of the plans.

(Overfunded) underfunded status:

Pension plan	\$ 329	\$ 329	\$ 330
Supplementary retirement plan	823	823	920
Postretirement benefit obligations	212	212	243
Less income tax effect of underfunded status of the pension and supplementary retirement plans and postretirement benefit obligations	<u>(505)</u>	<u>(505)</u>	<u>(552)</u>
	<u>\$ 859</u>	<u>\$ 859</u>	<u>\$ 941</u>

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 9.2x for the periods ending on January 30, 2016 and later, and 9.3x for prior periods.

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Coverage ratio

Management believes that the coverage ratio, as computed below and defined as Adjusted EBITDA divided by Adjusted interest expense is a useful measure in evaluating the Company's ability to cover its interest-like costs on its debt-like obligations.

As computed above, Adjusted EBITDA represents earnings before interest, taxes and depreciation and amortization, adjusted to exclude the effects of impairments, store closing and other costs, settlement charges, gross rent expense, and the excess of the net periodic benefit costs of the Company's postretirement 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 premium on early retirement of debt, a portion of the Company's gross rent expense deemed to be equivalent of interest (estimated as 1/3 of gross rent expense) and the excess of the interest cost components of the net periodic benefit costs of the Company's postemployment and postretirement benefit obligations over the expected return on asset components of such benefit costs, if any.

	As of and for the 52 weeks ended October 29, 2016	As of and for the 52 weeks ended January 30, 2016	As of and for the 52 weeks ended October 31, 2015
Most Comparable GAAP Ratio:			
Net income	\$ 682	\$ 1,070	\$ 1,320
Interest expense	\$ 373	\$ 363	\$ 366
	<u>1.8</u>	<u>2.9</u>	<u>3.6</u>
Non-GAAP Ratio:			
Adjusted EBITDA	\$ 3,297	\$ 3,696	\$ 4,013
Interest expense	\$ 373	\$ 363	\$ 366
Add portion of rents representative of the interest factor Postemployment and postretirement benefit obligations adjustment, if any (Note 1)	113	106	101
	-	-	-
Adjusted interest expense	\$ 486	\$ 469	\$ 467
	<u>6.8</u>	<u>7.9</u>	<u>8.6</u>

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 the economic benefits of overfunded postemployment and postretirement benefit plans are limited.

Interest cost component of net periodic benefit costs:			
Pension plan	\$ 117	\$ 137	\$ 141
Supplementary retirement plan	25	31	31
Postretirement benefit obligations	6	8	9
Expected return on asset component of net periodic benefit costs:			
Pension plan	(229)	(235)	(237)
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	\$ -	\$ -	\$ -