

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 August 15, 2018 to discuss the company's financial condition, results of operations and cash flows as of and for the 13 and 26 weeks ended August 4, 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 adopted Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers*, on February 4, 2018. This standard was retrospectively adopted and the financial information below has been recast to reflect the requirements of the new standard. Further information on the impact of the new standard can be found on the company's investor relations page at www.macysinc.com.

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, except that 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 net income and diluted earnings per share attributable to Macy's, Inc. shareholders 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 and 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.

Changes in Comparable Sales

	13 Weeks Ended August 4, 2018	26 Weeks Ended August 4, 2018
Increase in comparable sales on an owned basis (Note 1)	0.0%	1.9%
Impact of growth in comparable sales of departments licensed to third parties (Note 2)	0.5%	0.4%
Increase in comparable sales on an owned plus licensed basis	0.5%	2.3%
Impact of quarterly timing shift associated with the Spring 2018 Friends and Family promotional event	2.4%	0.0%
Adjusted increase in comparable sales on an owned plus licensed basis	<u>2.9%</u>	<u>2.3%</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, 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 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 supplemental changes in comparable sales on an owned plus licensed basis, which includes adjusting for growth in comparable sales of departments licensed to third parties and certain promotional events, 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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(All amounts in millions except for percentages and per share figures)

Earnings before interest and taxes, excluding certain items and gains on sale of real estate

	13 Weeks Ended August 4, 2018	13 Weeks Ended July 29, 2017	Increase (decrease)
Most comparable GAAP measure:			
Net income	<u>\$ 164</u>	<u>\$ 108</u>	
Non-GAAP measure:			
Net income	\$ 164	\$ 108	
Interest expense, net	62	79	
Losses (gains) on the early retirement of debt	5	(2)	
Federal, state and local income tax expense	<u>33</u>	<u>60</u>	
Earnings before interest and taxes	<u>\$ 264</u>	<u>\$ 245</u>	
Settlement charges	50	51	
Impairment and other costs	<u>17</u>	<u>-</u>	
As adjusted to exclude certain items above	<u>\$ 331</u>	<u>\$ 296</u>	
Gains on sale of real estate	<u>(46)</u>	<u>(43)</u>	
As adjusted to exclude gains on sale of real estate and other certain items identified above	<u>\$ 285</u>	<u>\$ 253</u>	<u>\$ 32</u>
	26 Weeks Ended August 4, 2018	26 Weeks Ended July 29, 2017	Increase (decrease)
Most comparable GAAP measure:			
Net income	<u>\$ 296</u>	<u>\$ 185</u>	
Non-GAAP measure:			
Net income	\$ 296	\$ 185	
Interest expense, net	128	163	
Losses on the early retirement of debt	5	1	
Federal, state and local income tax expense	<u>84</u>	<u>128</u>	
Earnings before interest and taxes	<u>\$ 513</u>	<u>\$ 477</u>	
Settlement charges	50	51	
Impairment and other costs	<u>36</u>	<u>-</u>	
As adjusted to exclude certain items above	<u>\$ 599</u>	<u>\$ 528</u>	
Gains on sale of real estate	<u>(70)</u>	<u>(111)</u>	
As adjusted to exclude gains on sale of real estate and other certain items identified above	<u>\$ 529</u>	<u>\$ 417</u>	<u>\$ 112</u>

Management believes that earnings before interest and taxes, excluding the impact of impairment and other costs, settlement charges, losses/gains on early retirement of debt and gains on sale of real estate are useful measures 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 these items from the calculation of this measure is particularly useful where the amounts of such items are not consistent in the periods presented.

Macy's, Inc.
Reconciliation of GAAP to non-GAAP Financial Measures
(All amounts in millions except for percentages and per share figures)

Net income attributable to Macy's, Inc. shareholders and net income attributable to Macy's, Inc. shareholders as a percent to net sales, excluding certain items and gains on sale of real estate

	13 Weeks Ended August 4, 2018	13 Weeks Ended July 29, 2017	Increase (decrease)
Most comparable GAAP measure:			
Net sales	\$ 5,572	\$ 5,636	
Net income attributable to Macy's, Inc. shareholders	\$ 166	\$ 111	
	3.0%	2.0%	
Non-GAAP measure:			
Net sales	\$ 5,572	\$ 5,636	
Net income attributable to Macy's, Inc. shareholders	\$ 166	\$ 111	
Impairment and other costs (Note 1)	15	-	
Settlement charges	50	51	
Losses (gains) on the early retirement of debt	5	(2)	
Income tax impact of certain items identified above	(17)	(19)	
As adjusted to exclude certain items above	\$ 219	\$ 141	
Gains on sale of real estate	(46)	(43)	
Income tax impact of gains on sale of real estate	12	16	
As adjusted to exclude gains on sale of real estate and other certain items identified above	\$ 185	\$ 114	\$ 71
	3.3%	2.0%	
26 Weeks Ended August 4, 2018			
26 Weeks Ended July 29, 2017			
Increase (decrease)			
Most comparable GAAP measure:			
Net sales	\$ 11,112	\$ 10,986	
Net income attributable to Macy's, Inc. shareholders	\$ 306	\$ 189	
	2.8%	1.7%	
Non-GAAP measure:			
Net sales	\$ 11,112	\$ 10,986	
Net income attributable to Macy's, Inc. shareholders	\$ 306	\$ 189	
Impairment and other costs (Note 1)	28	-	
Settlement charges	50	51	
Losses on the early retirement of debt	5	1	
Income tax impact of certain items identified above	(20)	(20)	
As adjusted to exclude certain items above	\$ 369	\$ 221	
Gains on sale of real estate	(70)	(111)	
Income tax impact of gains on sale of real estate	17	42	
As adjusted to exclude gains on sale of real estate and other certain items identified above	\$ 316	\$ 152	\$ 164
	2.8%	1.4%	

Note:

(1) The 13 and 26 weeks ended August 4, 2018 excludes impairment and other costs attributable to the noncontrolling interest shareholder of \$2 million and \$8 million, respectively.

Management believes that providing a measure of net income attributable to Macy's, Inc. shareholders excluding the impact of impairment and other costs, settlement charges, losses/gains on the early retirement of debt and gains on the sale of real estate is a useful measure to assist the investor 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 amounts of such items are not consistent in the periods presented.

Macy's, Inc.
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Diluted earnings per share attributable to Macy's, Inc. shareholders, excluding certain items and gains on sale of real estate

	13 Weeks Ended August 4, 2018	13 Weeks Ended July 29, 2017
Most comparable GAAP measure:		
Diluted earnings per share attributable to Macy's, Inc. shareholders	<u>\$ 0.53</u>	<u>\$ 0.36</u>
Non-GAAP measure:		
Diluted earnings per share attributable to Macy's, Inc. shareholders	\$ 0.53	\$ 0.36
Impairment and other costs	0.05	-
Settlement charges	0.16	0.17
Losses (gains) on the early retirement of debt (Note 1)	0.02	-
Income tax impact of certain items identified above	<u>(0.06)</u>	<u>(0.07)</u>
As adjusted to exclude certain items above	<u>\$ 0.70</u>	<u>\$ 0.46</u>
Gains on sale of real estate	(0.15)	(0.14)
Income tax impact of gains on sale of real estate	<u>0.04</u>	<u>0.05</u>
As adjusted to exclude gains on sale of real estate and other certain items identified above	<u>\$ 0.59</u>	<u>\$ 0.37</u>
	26 Weeks Ended August 4, 2018	26 Weeks Ended July 29, 2017
Most comparable GAAP measure:		
Diluted earnings per share attributable to Macy's, Inc. shareholders	<u>\$ 0.98</u>	<u>\$ 0.62</u>
Non-GAAP measure:		
Diluted earnings per share attributable to Macy's, Inc. shareholders	\$ 0.98	\$ 0.62
Impairment and other costs	0.09	-
Settlement charges	0.16	0.17
Losses on the early retirement of debt (Note 1)	0.02	-
Income tax impact of certain items identified above	<u>(0.06)</u>	<u>(0.07)</u>
As adjusted to exclude certain items above	<u>\$ 1.19</u>	<u>\$ 0.72</u>
Gains on sale of real estate	(0.23)	(0.36)
Income tax impact of gains on sale of real estate	<u>0.06</u>	<u>0.14</u>
As adjusted to exclude gains on sale of real estate and other certain items identified above	<u>\$ 1.02</u>	<u>\$ 0.50</u>

Note:

(1) The impacts during the 13 and 26 weeks ended July 29, 2017 represent values less than \$0.01 per diluted share attributable to Macy's, Inc. shareholders.

Management believes that providing a measure of diluted earnings per share attributable to Macy's, Inc. shareholders excluding the impact of impairment and other costs, settlement charges, losses/gains on the early retirement of debt and gains on sale of real estate is a useful measure to assist the investor 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 amounts of such items are not consistent in the periods presented.