

MACY'S, INC.

Consolidated Statements of Income (Unaudited) (Note 1)

(All amounts in millions except percentages and per share figures)

	<u>13 Weeks Ended</u> <u>August 4, 2018</u>		<u>13 Weeks Ended</u> <u>July 29, 2017</u>	
	<u>\$</u>	<u>% to</u> <u>Net sales</u>	<u>\$</u>	<u>% to</u> <u>Net sales</u>
Net sales	\$ 5,572		\$ 5,636	
Credit card revenues, net	186	3.3%	167	3.0%
Cost of sales	(3,320)	(59.6%)	(3,403)	(60.4%)
Selling, general and administrative expenses	(2,164)	(38.8%)	(2,161)	(38.4%)
Gains on sale of real estate	46	0.8%	43	0.8%
Impairment and other costs (Note 2)	<u>(17)</u>	(0.3%)	<u>—</u>	—%
Operating income	303	5.4%	282	5.0%
Benefit plan income, net	11		14	
Settlement charges (Note 3)	(50)		(51)	
Interest expense, net	(62)		(79)	
Gains (losses) on early retirement of debt (Note 4)	<u>(5)</u>		<u>2</u>	
Income before income taxes	197		168	
Federal, state and local income tax expense (Note 5)	<u>(33)</u>		<u>(60)</u>	
Net income	164		108	
Net loss attributable to noncontrolling interest	<u>2</u>		<u>3</u>	
Net income attributable to Macy's, Inc. shareholders	<u>\$ 166</u>		<u>\$ 111</u>	
Basic earnings per share attributable to Macy's, Inc. shareholders	<u>\$.54</u>		<u>\$.36</u>	
Diluted earnings per share attributable to Macy's, Inc. shareholders	<u>\$.53</u>		<u>\$.36</u>	
Average common shares:				
Basic	307.7		305.5	
Diluted	312.0		306.5	
End of period common shares outstanding	307.0		304.6	
Depreciation and amortization expense	\$ 235		\$ 244	

MACY'S, INC.Consolidated Statements of Income (Unaudited)

Notes:

- (1) The 13 weeks ended July 29, 2017 have been recast to reflect the company's retrospective adoption of Accounting Standards Update No. 2014-09 (ASU 2014-09), *Revenue from Contracts with Customers*, on February 4, 2018. Further, because of the seasonal nature of the retail business, the results of operations for the 13 weeks ended August 4, 2018 and July 29, 2017 (which do not include the Christmas season) are not necessarily indicative of such results for the fiscal year.
- (2) For the 13 weeks ended August 4, 2018, impairment and other costs amounted to \$17 million and included costs associated with the wind-down of Macy's China Limited. The after tax effect of these charges was \$11 million or \$0.04 per diluted share attributable to Macy's, Inc.
- (3) Non-cash settlement charges of \$50 million and \$51 million, respectively, were recognized during the 13 weeks ended August 4, 2018 and July 29, 2017. The after tax effect of these charges during the 13 weeks ended August 4, 2018 was \$38 million, or \$0.12 per diluted share attributable to Macy's, Inc. The after tax effect of these charges during the 13 weeks ended July 29, 2017 was \$32 million, or \$0.10 per diluted share attributable to Macy's, Inc. These charges are the result of an increase in lump sum distributions associated with store closings, organizational restructuring, a voluntary separation program, and periodic distribution activity.
- (4) The 13 weeks ended August 4, 2018 included losses of \$5 million associated with early retirement of debt. These losses included repurchase expenses and fees net of the write-off of unamortized debt premiums. The after tax effect of the losses during the 13 weeks ended August 4, 2018 was \$4 million, or \$0.01 per diluted share attributable to Macy's, Inc. Debt repurchases during the 13 weeks ended July 29, 2017 resulted in gains of \$2 million associated with early retirement of debt.
- (5) For the 13 weeks ended August 4, 2018, federal, state and local income taxes differed from the company's federal income tax statutory rate of 21% because of the effects of state and local taxes, including the settlement of various tax issues and tax examinations. Further, the 13 weeks ended August 4, 2018 and July 29, 2017 included the recognition of approximately \$2 million of net excess tax benefits and \$1 million of net tax deficiencies, respectively, associated with share-based payment awards. These items as well as the enactment of U.S. federal tax reform in December 2017 resulted in an effective tax rate for the 13 weeks ended August 4, 2018 of 16.8% as compared to 35.7% for the 13 weeks ended July 29, 2017.