Macy's, Inc.
Return on Invested Capital (ROIC)
($ in millions)

	Trailing Four Quarters February 1, 2020		February 2, 2019
Most Comparable GAAP Ratio:			
Net Income	$ 564		$ 1,098
Property and equipment - net	$ 6,633		$ 6,637
	8.5%		16.5%
Non-GAAP Ratio:			
Net Income	$ 564		$ 1,098
Add back interest expense, net	185		236
Add back loss on early retirement of debt	30		33
Add back federal, state and local tax expense	164		322
Earnings before interest and taxes (EBIT)	$ 943		$ 1,689
Add back restructuring, impairments, store closing and other costs	354		136
Add back settlement charges	58		88
Add back depreciation and amortization	981		962
Add back benefit plan income, net	(31)	a	
Add back rent expense			
Real estate	335		327
Personal property	8		9
Deferred rent amortization	-		14
EBIT, excluding impact of restructuring, impairments, store closing and other costs, settlement charges, depreciation and amortization, benefit plan income, net and rent expense	**$ 2,648**		**$ 3,225**
Property and equipment - net	$ 6,628		$ 6,655
Add back accumulated depreciation and amortization	4,438		4,553
Add capitalized value of non-capitalized leases	-		2,800
Add capitalized value of variable rent	114		-
Add lease right of use assets	2,241		-
Add (deduct) selected balance sheet components:			
Receivables	265		273
Merchandise inventories	5,743		5,664
Prepaid expenses and other current assets	551	b	608
Other assets	675	c	803
Merchandise accounts payable	(2,183)		(2,219)
Accounts payable and accrued liabilities	(2,609)	d	(2,917)
Other long-term liabilities	(371)	e	-
Total Average Invested Capital	**$ 15,492**		**$ 16,220**
	17.1%		**19.9%**

Management believes that return on invested capital (ROIC), as defined as EBIT, excluding the impact of restructuring, impairments, store closing and other costs and settlement charges, depreciation and amortization and rent expense, as a percentage to its average invested capital is a useful measure in evaluating how efficiently the Company employs its capital. As computed above, the total average invested capital is comprised of an annual two-point (i.e., end of the previous year and the immediately preceding year) average of gross property and equipment, a capitalized value of non-capitalized leases equal to periodic annual reported net rent expense multiplied by a factor of eight or the right of use assets and a four-point (i.e., end of each quarter within the period presented) average of other selected assets and liabilities. The calculation of the capitalized value of non-capitalized leases is consistent with industry and credit rating agency practice and the specified assets are subject to a four-point average to compensate for seasonal fluctuations.

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 ROIC as of February 1, 2020, the company utilized the total lease right of use assets in lieu of the capitalized value of non-capitalized leases, excluding variable rent which is still multiplied by a factor of eight, as a result of the adoption of ASU 2016-02. In the company's ROIC calculation as of February 2, 2019, a capitalized value of non-capitalized leases equal to periodic annual reported net rent expense multiplied by a factor of eight was utilized. Rent expense in 2019 reflects lease expense related to the company's operating leases in accordance with ASU 2016-02 and excludes non-lease component expenses.

In 2019, the calculation of ROIC reflects certain refinements to better reflect the company's EBIT, as defined above, and invested capital which are summarized below (4-point average of balance, as applicable):
a. Exclude benefit plan income, net.
b. Exclude rabbi trust investments related to company's deferred compensation plan ($32 million).
c. Exclude deferred financing costs ($4 million) and net pension asset ($46 million).
d. Exclude dividend payable ($29 million), current liabilities for other postretirement health care and life insurance benefits and the supplementary retirement plan ($15 million and $61 million, respectively), and the current lease liability ($306 million).
e. Include long-term workers' compensation and general liability ($371 million).