

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 November 10, 2016 to discuss the Company's financial condition and results of operations as of and for the 13 and 39 weeks ended October 29, 2016. 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 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, where 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 diluted earnings per share attributable to Macy's, Inc. shareholders because the timing and amount of excluded items (e.g., asset impairment charges, retirement settlement charges and other store closing related costs) 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 account of 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 October 29 2016	39 Weeks Ended October 29 2016
Decrease in comparable sales on an owned basis (Note 1)	<u>(3.3)%</u>	<u>(4.0)%</u>
Impact of growth in comparable sales of departments licensed to third parties (Note 2)	<u>0.6%</u>	<u>0.5%</u>
Decrease in comparable sales on an owned plus licensed basis	<u>(2.7)%</u>	<u>(3.5)%</u>

Notes:

(1) Represents the period-to-period 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.

(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 Company believes that the amounts of commissions earned on sales of departments licensed to third parties are not material to its results of operations for the periods presented.

Macy's, Inc. believes that providing changes in comparable sales on an owned plus licensed basis, which includes the impact of growth in comparable sales of departments licensed to third parties, supplementally to its results of operations calculated in accordance with GAAP 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.

Macy's, Inc.**Reconciliation of GAAP to non-GAAP Financial Measures**

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

Diluted earnings per share, excluding certain items

	13 Weeks Ended October 29 <u>2016</u>	13 Weeks Ended October 31 <u>2015</u>
Most comparable GAAP measure:		
Diluted earnings per share attributable to Macy's, Inc. shareholders	<u>\$ 0.05</u>	<u>\$ 0.36</u>
Non-GAAP measure:		
Diluted earnings per share attributable to Macy's, Inc. shareholders	\$ 0.05	\$ 0.36
Add back the pre-tax impact of impairments and other costs	-	0.33
Add back the pre-tax impact of settlement charges	0.20	-
Deduct the income tax impact of impairments and other costs and settlement charges	<u>(0.08)</u>	<u>(0.13)</u>
Diluted earnings per share attributable to Macy's, Inc. shareholders, excluding the impact of impairments and other costs and settlement charges	<u>\$ 0.17</u>	<u>\$ 0.56</u>

Management believes that providing a measure of diluted earnings per share attributable to Macy's, Inc. shareholders excluding the impact of impairments and other costs and settlement charges is a useful measure to assist the reader 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 impairments and other costs and settlement charges from the calculation of this measure is particularly useful where the amounts of such items are not consistent in the periods presented.

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

Diluted earnings per share, excluding certain items

	39 Weeks Ended October 29 <u>2016</u>	39 Weeks Ended October 31 <u>2015</u>
Most comparable GAAP measure:		
Diluted earnings per share attributable to Macy's, Inc. shareholders	<u>\$ 0.46</u>	<u>\$ 1.56</u>
Non-GAAP measure:		
Diluted earnings per share attributable to Macy's, Inc. shareholders	\$ 0.46	\$ 1.56
Add back the pre-tax impact of impairments and other costs	0.80	0.33
Add back the pre-tax impact of settlement charges	0.26	-
Deduct the income tax impact of impairments and other costs and settlement charges	<u>(0.41)</u>	<u>(0.13)</u>
Diluted earnings per share attributable to Macy's, Inc. shareholders, excluding the impact of impairments and other costs and settlement charges	<u>\$ 1.11</u>	<u>\$ 1.76</u>

Management believes that providing a measure of diluted earnings per share attributable to Macy's, Inc. shareholders excluding the impact of impairments and other costs and settlement charges is a useful measure to assist the reader 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 impairments and other costs and settlement charges 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)

Operating income and operating income as a percent to net sales, excluding certain items

	13 Weeks Ended October 29 2016	13 Weeks Ended October 31 2015
Most comparable GAAP measure:		
Net sales	<u>\$ 5,626</u>	<u>\$ 5,874</u>
Operating income	<u>\$ 107</u>	<u>\$ 258</u>
	<u>1.9%</u>	<u>4.4%</u>
Non-GAAP measure:		
Net sales	<u>\$ 5,626</u>	<u>\$ 5,874</u>
Operating income	<u>\$ 107</u>	<u>\$ 258</u>
Add back the impact of impairments and other costs	<u>-</u>	<u>111</u>
Add back the impact of settlement charges	<u>62</u>	<u>-</u>
Operating income, excluding impact of impairments and other costs and settlement charges	<u>\$ 169</u>	<u>\$ 369</u>
	<u>3.0%</u>	<u>6.3%</u>

Management believes that operating income and operating income as a percent to net sales, excluding the impact of impairments and other costs and settlement charges are useful measures in evaluating the Company's ability to generate earnings. Management believes that excluding these costs from the calculation of these measures 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)

Selling, general and administrative expenses, excluding certain items

	13 Weeks Ended October 29 2016	13 Weeks Ended October 31 2015	<u>Change</u>
Most comparable GAAP measure:			
Selling, general and administrative expenses	<u>\$ 2,071</u>	<u>\$ 1,968</u>	
Non-GAAP measure:			
Selling, general and administrative expenses	\$ 2,071	\$ 1,968	
Deduct real estate gains	<u>(41)</u>	<u>(78)</u>	
Selling, general and administrative expenses, excluding real estate gains	<u>\$ 2,112</u>	<u>\$ 2,046</u>	<u>3.2%</u>

Management believes that the change in selling, general and administrative expenses, excluding real estate gains is a useful measure in evaluating the Company's ability to control expenses. Management believes that excluding these gains from the calculation of these measures 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)

Operating income and operating income as a percent to net sales, excluding certain items

	39 Weeks Ended October 29 2016	39 Weeks Ended October 31 2015
Most comparable GAAP measure:		
Net sales	<u>\$ 17,263</u>	<u>\$ 18,210</u>
Operating income	<u>\$ 500</u>	<u>\$ 1,103</u>
	<u>2.9%</u>	<u>6.1%</u>
Non-GAAP measure:		
Net sales	<u>\$ 17,263</u>	<u>\$ 18,210</u>
Operating income	\$ 500	\$ 1,103
Add back the impact of impairments and other costs	249	111
Add back the impact of settlement charges	<u>81</u>	<u>-</u>
Operating income, excluding impact of impairments and other costs and settlement charges	<u>\$ 830</u>	<u>\$ 1,214</u>
	<u>4.8%</u>	<u>6.7%</u>

Management believes that operating income and operating income as a percent to net sales, excluding the impact of impairments and other costs and settlement charges are useful measures in evaluating the Company's ability to generate earnings. Management believes that excluding these costs from the calculation of these measures is particularly useful where the amounts of such items are not consistent in the periods presented.

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

Net income, excluding certain items

	13 Weeks Ended October 29 2016	13 Weeks Ended October 31 2015
Most comparable GAAP measure:		
Net income attributable to Macy's, Inc. shareholders	<u>\$ 17</u>	<u>\$ 118</u>
Non-GAAP measure:		
Net income attributable to Macy's, Inc. shareholders	\$ 17	\$ 118
Add back the pre-tax impact of impairments and other costs	-	111
Add back the pre-tax impact of settlement charges	62	-
Deduct the income tax impact of impairments and other costs and settlement charges	<u>(25)</u>	<u>(43)</u>
Net income attributable to Macy's, Inc. shareholders, excluding the after-tax impact of impairments and other costs and settlement charges	<u>\$ 54</u>	<u>\$ 186</u>

Management believes that providing a measure of net income attributable to Macy's, Inc. shareholders excluding the after-tax impact of impairments and other costs and settlement charges is a useful measure to assist the reader 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 after-tax impact of impairments and other costs and settlement charges from the calculation of this measure is particularly useful where the amounts of such items are not consistent in the periods presented.

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Cash flow from operating activities, net of cash used in investing activities

	39 Weeks Ended October 29 2016	39 Weeks Ended October 31 2015	<u>Increase</u>
Most comparable GAAP measure:			
Net cash provided by operating activities	<u>\$ 308</u>	<u>\$ 278</u>	
Non-GAAP measure:			
Net cash provided by operating activities	\$ 308	\$ 278	
Net cash used by investing activities	<u>(491)</u>	<u>(861)</u>	
Net cash flow from operating activities, net of cash used in investing activities	<u>\$ (183)</u>	<u>\$ (583)</u>	<u>\$ 400</u>

Management believes cash flow from operating activities, net of cash used in investing activities is a useful measure in evaluating the Company's ability to generate cash from operations after giving effect to cash used by investing activities. Management believes that excluding cash flows from financing activities from the calculation of this measure is particularly useful where the amounts of such items are not consistent in the periods presented.