

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 10, 2017 to discuss the Company's financial condition, results of operations and cash flows as of and for the 13 and 26 weeks ended July 29, 2017. 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 selling, general and administrative expenses and diluted earnings per share attributable to Macy's, Inc. shareholders excluding certain items 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 or 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 July 29, 2017	26 Weeks Ended July 29, 2017
Decrease in comparable sales on an owned basis (Note 1)	<u>(2.8)%</u>	<u>(4.0)%</u>
Impact of growth in comparable sales of departments licensed to third parties (Note 2)	<u>0.3%</u>	<u>0.4%</u>
Decrease in comparable sales on an owned plus licensed basis	<u>(2.5)%</u>	<u>(3.6)%</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 with respect to 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 the Company's 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.

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Diluted earnings per share attributable to Macy's, Inc. shareholders, excluding certain items

	13 Weeks Ended July 29, 2017	13 Weeks Ended July 30, 2016
Most comparable GAAP measure:		
Diluted earnings per share attributable to Macy's, Inc. shareholders	<u>\$ 0.38</u>	<u>\$ 0.03</u>
Non-GAAP measure:		
Diluted earnings per share attributable to Macy's, Inc. shareholders	\$ 0.38	\$ 0.03
Add back the pre-tax impact of impairments and other costs	-	0.80
Add back the pre-tax impact of settlement charges	0.17	0.02
Deduct the pre-tax impact of net premiums associated with the early retirement of debt (Note 1)	-	-
Deduct the income tax impact of certain items identified above	<u>(0.07)</u>	<u>(0.31)</u>
Diluted earnings per share attributable to Macy's, Inc. shareholders, excluding certain items	<u>\$ 0.48</u>	<u>\$ 0.54</u>

	26 Weeks Ended July 29, 2017	26 Weeks Ended July 30, 2016
Most comparable GAAP measure:		
Diluted earnings per share attributable to Macy's, Inc. shareholders	<u>\$ 0.61</u>	<u>\$ 0.41</u>
Non-GAAP measure:		
Diluted earnings per share attributable to Macy's, Inc. shareholders	\$ 0.61	\$ 0.41
Add back the pre-tax impact of impairments and other costs	-	0.80
Add back the pre-tax impact of settlement charges	0.17	0.06
Add back the pre-tax impact of net premiums associated with the early retirement of debt (Note 1)	-	-
Deduct the income tax impact of certain items identified above	<u>(0.07)</u>	<u>(0.33)</u>
Diluted earnings per share attributable to Macy's, Inc. shareholders, excluding certain items	<u>\$ 0.71</u>	<u>\$ 0.94</u>

Note:

(1) The impacts during the 13 and 26 weeks ending July 29, 2017 represent values less than \$.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 certain items, as disclosed above, 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 these items from the calculation of this measure is particularly useful where the items are not associated with the Company's core operations and 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 July 29, 2017	13 Weeks Ended July 30, 2016
Most comparable GAAP measure:		
Net sales	<u>\$ 5,552</u>	<u>\$ 5,866</u>
Operating income	<u>\$ 254</u>	<u>\$ 117</u>
	<u>4.6%</u>	<u>2.0%</u>
Non-GAAP measure:		
Net sales	<u>\$ 5,552</u>	<u>\$ 5,866</u>
Operating income	\$ 254	\$ 117
Add back the impact of impairments and other costs	-	249
Add back the impact of settlement charges	<u>51</u>	<u>6</u>
Operating income, excluding the impact of certain items identified above	<u>\$ 305</u>	<u>\$ 372</u>
	<u>5.5%</u>	<u>6.4%</u>
	26 Weeks Ended July 29, 2017	26 Weeks Ended July 30, 2016
Most comparable GAAP measure:		
Net sales	<u>\$ 10,890</u>	<u>\$ 11,637</u>
Operating income	<u>\$ 474</u>	<u>\$ 393</u>
	<u>4.4%</u>	<u>3.4%</u>
Non-GAAP measure:		
Net sales	<u>\$ 10,890</u>	<u>\$ 11,637</u>
Operating income	\$ 474	\$ 393
Add back the impact of impairments and other costs	-	249
Add back the impact of settlement charges	<u>51</u>	<u>19</u>
Operating income, excluding the impact of certain items identified above	<u>\$ 525</u>	<u>\$ 661</u>
	<u>4.8%</u>	<u>5.7%</u>

Management believes that operating income and operating income as a percent to net sales excluding the impact of certain items, as disclosed above, are useful measures in evaluating the Company's ability to generate earnings. Management believes that excluding these items from the calculation of these measures is particularly useful where the items are not associated with the Company's core operations and 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 July 29, 2017	13 Weeks Ended July 30, 2016	Change
Most comparable GAAP measure:			
Selling, general and administrative expenses	<u>\$ 1,934</u>	<u>\$ 2,026</u>	
Non-GAAP measure:			
Selling, general and administrative expenses	\$ 1,934	\$ 2,026	
Deduct real estate gains	<u>(43)</u>	<u>(21)</u>	
Selling, general and administrative expenses, excluding real estate gains	<u>\$ 1,977</u>	<u>\$ 2,047</u>	<u>-3.4%</u>
	26 Weeks Ended July 29, 2017	26 Weeks Ended July 30, 2016	Change
Most comparable GAAP measure:			
Selling, general and administrative expenses	<u>\$ 3,746</u>	<u>\$ 3,992</u>	
Non-GAAP measure:			
Selling, general and administrative expenses	\$ 3,746	\$ 3,992	
Deduct real estate gains	<u>(111)</u>	<u>(35)</u>	
Selling, general and administrative expenses, excluding real estate gains	<u>\$ 3,857</u>	<u>\$ 4,027</u>	<u>-4.2%</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 and as such items serve to reduce the amount of selling, general and administrative expenses 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 July 29, 2017	13 Weeks Ended July 30, 2016
Most comparable GAAP measure:		
Net income attributable to Macy's, Inc. shareholders	<u>\$ 116</u>	<u>\$ 11</u>
Non-GAAP measure:		
Net income attributable to Macy's, Inc. shareholders	<u>\$ 116</u>	<u>\$ 11</u>
Add back the impact of impairments and other costs	\$ -	\$ 249
Add back the impact of settlement charges	51	6
Deduct the impact of net premiums associated with the early retirement of debt	(2)	-
Deduct the income tax impact of certain items identified above	<u>(19)</u>	<u>(98)</u>
Net income attributable to Macy's, Inc. shareholders, excluding certain items	<u>\$ 146</u>	<u>\$ 168</u>

Management believes that net income attributable to Macy's, Inc. shareholders excluding the after-tax impact of certain items, as disclosed above, 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 these items from the calculation of this measure is particularly useful where the items are not associated with the Company's core operations and 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

	26 Weeks Ended July 29, 2017	26 Weeks Ended July 30, 2016	Increase (Decrease)
Most comparable GAAP measure:			
Net cash provided by operating activities	<u>\$ 536</u>	<u>\$ 560</u>	<u>\$ (24)</u>
Non-GAAP measure:			
Net cash provided by operating activities	\$ 536	\$ 560	
Net cash used by investing activities	<u>(213)</u>	<u>(338)</u>	
Net cash flow from operating activities, net of cash used in investing activities	<u>\$ 323</u>	<u>\$ 222</u>	<u>\$ 101</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.