

Macy's, Inc.
Form 10-Q
December 04, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended October 28, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from to

Commission file number: 1-13536

Incorporated in Delaware I.R.S. Employer Identification No.
13-3324058

7 West Seventh Street
Cincinnati, Ohio 45202
(513) 579-7000

and
151 West 34th Street
New York, New York 10001
(212) 494-1602

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company
(Do not check if a smaller reporting company)

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class | Outstanding at November 25, 2017 |
|--|----------------------------------|
| Common Stock, \$0.01 par value per share | 304,566,377 shares |

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

MACY'S, INC.

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(millions, except per share figures)

| | 13 Weeks Ended | | 39 Weeks Ended | |
|--|----------------|-------------|----------------|-------------|
| | October 28, | October 29, | October 28, | October 29, |
| | 2017 | 2016 | 2017 | 2016 |
| Net sales | \$5,281 | \$ 5,626 | \$16,171 | \$ 17,263 |
| Cost of sales | (3,175) | (3,386) | (9,794) | (10,370) |
| Gross margin | 2,106 | 2,240 | 6,377 | 6,893 |
| Selling, general and administrative expenses | (1,995) | (2,112) | (5,853) | (6,139) |
| Gains on sale of real estate | 65 | 41 | 176 | 76 |
| Impairments, restructuring and other costs | (33) | — | (33) | (249) |
| Settlement charges | (22) | (62) | (73) | (81) |
| Operating income | 121 | 107 | 594 | 500 |
| Interest expense | (76) | (82) | (244) | (279) |
| Net premiums on early retirement of debt | — | — | (1) | — |
| Interest income | 2 | 1 | 7 | 3 |
| Income before income taxes | 47 | 26 | 356 | 224 |
| Federal, state and local income tax expense | (13) | (11) | (140) | (85) |
| Net income | 34 | 15 | 216 | 139 |
| Net loss attributable to noncontrolling interest | 2 | 2 | 6 | 5 |
| Net income attributable to Macy's, Inc. shareholders | \$36 | \$ 17 | \$222 | \$ 144 |
| Basic earnings per share attributable to Macy's, Inc. shareholders | \$.12 | \$.05 | \$.73 | \$.46 |
| Diluted earnings per share attributable to Macy's, Inc. shareholders | \$.12 | \$.05 | \$.73 | \$.46 |

The accompanying notes are an integral part of these Consolidated Financial Statements.

MACY'S, INC.
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Unaudited)

(millions)

| | 13 Weeks Ended | | 39 Weeks Ended | |
|---|----------------|-------------|----------------|-------------|
| | October 28, | October 29, | October 28, | October 29, |
| | 2017 | 2016 | 2017 | 2016 |
| Net income | \$34 | \$ 15 | \$216 | \$ 139 |
| Other comprehensive income (loss): | | | | |
| Actuarial gain (loss) on post employment and postretirement benefit plans, before tax | 10 | 3 | 57 | (74) |
| Settlement charges included in net income, before tax | 22 | 62 | 73 | 81 |
| Amortization of net actuarial loss on post employment and postretirement benefit plans included in net income, before tax | 8 | 9 | 26 | 26 |
| Tax effect related to items of other comprehensive income (loss) | (15) | (29) | (60) | (13) |
| Total other comprehensive income, net of tax effect | 25 | 45 | 96 | 20 |
| Comprehensive income | 59 | 60 | 312 | 159 |
| Comprehensive loss attributable to noncontrolling interest | 2 | 2 | 6 | 5 |
| Comprehensive income attributable to Macy's, Inc. shareholders | \$61 | \$ 62 | \$318 | \$ 164 |

The accompanying notes are an integral part of these Consolidated Financial Statements.

MACY'S, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(millions)

| | October 28, 2017 | January 28, 2017 | October 29, 2016 |
|---|---------------------|---------------------|---------------------|
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 534 | \$ 1,297 | \$ 457 |
| Receivables | 219 | 522 | 262 |
| Merchandise inventories | 7,065 | 5,399 | 7,587 |
| Income tax receivable | — | — | 60 |
| Prepaid expenses and other current assets | 432 | 408 | 454 |
| Total Current Assets | 8,250 | 7,626 | 8,820 |
| Property and Equipment - net of accumulated depreciation and amortization of \$5,330, \$4,856 and \$5,625 | 6,742 | 7,017 | 7,149 |
| Goodwill | 3,897 | 3,897 | 3,897 |
| Other Intangible Assets – net | 491 | 498 | 499 |
| Other Assets | 835 | 813 | 909 |
| Total Assets | \$ 20,215 | \$ 19,851 | \$ 21,274 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current Liabilities: | | | |
| Short-term debt | \$ 22 | \$ 309 | \$ 938 |
| Merchandise accounts payable | 3,173 | 1,423 | 3,375 |
| Accounts payable and accrued liabilities | 3,162 | 3,563 | 2,930 |
| Income taxes | 34 | 352 | — |
| Total Current Liabilities | 6,391 | 5,647 | 7,243 |
| Long-Term Debt | 6,297 | 6,562 | 6,563 |
| Deferred Income Taxes | 1,553 | 1,443 | 1,548 |
| Other Liabilities | 1,750 | 1,877 | 2,129 |
| Shareholders' Equity: | | | |
| Macy's, Inc. | 4,231 | 4,323 | 3,789 |
| Noncontrolling interest | (7) | (1) | 2 |
| Total Shareholders' Equity | 4,224 | 4,322 | 3,791 |
| Total Liabilities and Shareholders' Equity | \$ 20,215 | \$ 19,851 | \$ 21,274 |

The accompanying notes are an integral part of these Consolidated Financial Statements.

MACY'S, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(millions)

| | 39 Weeks Ended | |
|---|----------------|-------------|
| | October 28, | October 29, |
| | 2017 | 2016 |
| Cash flows from operating activities: | | |
| Net income | \$216 | \$ 139 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Impairments, restructuring and other costs | 33 | 249 |
| Settlement charges | 73 | 81 |
| Depreciation and amortization | 741 | 787 |
| Stock-based compensation expense | 46 | 56 |
| Gains on sale of real estate | (176) | (76) |
| Amortization of financing costs and premium on acquired debt | (10) | (14) |
| Changes in assets and liabilities: | | |
| Decrease in receivables | 274 | 237 |
| Increase in merchandise inventories | (1,665) | (2,081) |
| Increase in prepaid expenses and other current assets | (20) | (37) |
| Increase in merchandise accounts payable | 1,630 | 1,665 |
| Decrease in accounts payable, accrued liabilities and other items not separately identified | (375) | (380) |
| Decrease in current income taxes | (318) | (287) |
| Increase in deferred income taxes | 49 | 45 |
| Change in other assets and liabilities not separately identified | (109) | (76) |
| Net cash provided by operating activities | 389 | 308 |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (359) | (451) |
| Capitalized software | (191) | (230) |
| Disposition of property and equipment | 212 | 138 |
| Other, net | (8) | 52 |
| Net cash used by investing activities | (346) | (491) |
| Cash flows from financing activities: | | |
| Debt issued | — | 51 |
| Financing costs | (1) | (3) |
| Debt repaid | (554) | (174) |
| Dividends paid | (346) | (344) |
| Increase in outstanding checks | 80 | 193 |
| Acquisition of treasury stock | (1) | (230) |
| Issuance of common stock | 3 | 31 |
| Proceeds from noncontrolling interest | 13 | 7 |
| Net cash used by financing activities | (806) | (469) |
| Net decrease in cash and cash equivalents | (763) | (652) |
| Cash and cash equivalents beginning of period | 1,297 | 1,109 |
| Cash and cash equivalents end of period | \$534 | \$ 457 |
| Supplemental cash flow information: | | |
| Interest paid | \$251 | \$ 279 |

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| | | |
|---|-----|-----|
| Interest received | 7 | 3 |
| Income taxes paid (net of refunds received) | 412 | 308 |

The accompanying notes are an integral part of these Consolidated Financial Statements.

MACY'S, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Summary of Significant Accounting Policies

Nature of Operations

Macy's, Inc. and subsidiaries (the "Company") is an omnichannel retail organization operating stores, websites and mobile applications under three brands (Macy's, Bloomingdale's and bluemercury) that sell a wide range of merchandise, including apparel and accessories (men's, women's and children's), cosmetics, home furnishings and other consumer goods. The Company's operations are conducted through approximately 860 Macy's, Macy's Backstage, Bloomingdale's, Bloomingdale's The Outlet and bluemercury stores in 45 states, the District of Columbia, Guam and Puerto Rico, as well as macys.com, bloomingdales.com and bluemercury.com. In addition, Bloomingdale's in Dubai, United Arab Emirates and Al Zahra, Kuwait are operated under a license agreement with Al Tayer Insignia, a company of Al Tayer Group, LLC.

A description of the Company's significant accounting policies is included in the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2017 (the "2016 10-K"). The accompanying Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto in the 2016 10-K.

Use of Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions are subject to inherent uncertainties, which may result in actual amounts differing from reported amounts.

The Consolidated Financial Statements for the 13 and 39 weeks ended October 28, 2017 and October 29, 2016, in the opinion of management, include all adjustments (consisting only of normal recurring adjustments) considered necessary to present fairly, in all material respects, the consolidated financial position and results of operations of the Company.

Seasonality

Because of the seasonal nature of the retail business, the results of operations for the 13 and 39 weeks ended October 28, 2017 and October 29, 2016 (which do not include the Christmas season) are not necessarily indicative of such results for the full fiscal year.

Reclassifications

Certain reclassifications were made to prior years' amounts to conform to the classifications of such amounts in the most recent years.

Comprehensive Income

Total comprehensive income represents the change in equity during a period from sources other than transactions with shareholders and, as such, includes net income. For the Company, the only other components of total comprehensive income for the 13 and 39 weeks ended October 28, 2017 and October 29, 2016 relate to post employment and postretirement plan items. Settlement charges incurred are included as a separate component of operating expenses in the Consolidated Statements of Income. Amortization reclassifications out of accumulated other comprehensive loss are included in the computation of net periodic benefit cost (income) and are included in selling, general and administrative expenses on the Consolidated Statements of Income. See Note 4, "Benefit Plans," for further information.

Newly Adopted Accounting Pronouncements

The Company adopted Accounting Standards Update ("ASU") No. 2016-09, Improvements to Employee Share-Based Payment Accounting, effective January 29, 2017. This standard was issued to simplify several aspects of the accounting for share-based payment awards, including the income tax consequences, financial statement classification and forfeiture considerations of such awards. Upon adoption, the Company began to recognize, on a prospective basis,

all excess tax benefits and tax deficiencies as income tax benefit or expense, respectively, in its Consolidated Statements of Income. For awards that were exercised, vested or expired during the 39 weeks ended October 28, 2017, approximately \$12 million of additional income tax expense associated with net tax deficiencies was recognized. Additionally, these net tax deficiencies have been classified as an operating activity

MACY'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

along with other income tax cash flows in the Consolidated Statements of Cash Flows. The Company has elected to adopt such presentation on a prospective basis.

2. Earnings Per Share Attributable to Macy's, Inc. Shareholders

The following tables set forth the computation of basic and diluted earnings per share attributable to Macy's, Inc. shareholders:

| | 13 Weeks Ended | | | |
|---|-----------------------------------|--------|------------------|--------|
| | October 28, 2017 | | October 29, 2016 | |
| | Net Income | Shares | Net Income | Shares |
| | (millions, except per share data) | | | |
| Net income attributable to Macy's, Inc. shareholders and average number of shares outstanding | \$36 | 304.6 | \$17 | 307.5 |
| Shares to be issued under deferred compensation and other plans | | 0.9 | | 0.9 |
| | \$36 | 305.5 | \$17 | 308.4 |
| Basic earnings per share attributable to Macy's, Inc. shareholders | \$.12 | | \$.05 | |
| Effect of dilutive securities: | | | | |
| Stock options, restricted stock and restricted stock units | | 1.0 | | 2.2 |
| | \$36 | 306.5 | \$17 | 310.6 |
| Diluted earnings per share attributable to Macy's, Inc. shareholders | \$.12 | | \$.05 | |
| | 39 Weeks Ended | | | |
| | October 28, 2017 | | October 29, 2016 | |
| | Net Income | Shares | Net Income | Shares |
| | (millions, except per share data) | | | |
| Net income attributable to Macy's, Inc. shareholders and average number of shares outstanding | \$222 | 304.5 | \$144 | 308.6 |
| Shares to be issued under deferred compensation and other plans | | 0.8 | | 0.9 |
| | \$222 | 305.3 | \$144 | 309.5 |
| Basic earnings per share attributable to Macy's, Inc. shareholders | \$.73 | | \$.46 | |
| Effect of dilutive securities: | | | | |
| Stock options, restricted stock and restricted stock units | | 1.3 | | 2.3 |
| | \$222 | 306.6 | \$144 | 311.8 |
| Diluted earnings per share attributable to Macy's, Inc. shareholders | \$.73 | | \$.46 | |

For the 13 and 39 weeks ended October 28, 2017, in addition to the stock options and restricted stock units reflected in the foregoing tables, stock options to purchase 18.9 million shares of common stock and restricted stock units relating

to 1.2 million shares of common stock were outstanding at October 28, 2017, but were not included in the computation of diluted earnings per share because their inclusion would have been antidilutive or they were subject to performance conditions that had not been met.

MACY'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

For the 13 and 39 weeks ended October 29, 2016, in addition to the stock options and restricted stock units reflected in the foregoing tables, stock options to purchase 15.7 million shares of common stock and restricted stock units relating to 0.7 million shares of common stock were outstanding at October 29, 2016, but were not included in the computation of diluted earnings per share because their inclusion would have been antidilutive or they were subject to performance conditions that had not been met.

3. Financing Activities

The following table shows the detail of debt repayments:

| | 39 Weeks Ended | |
|--------------------------------------|----------------|-------------|
| | October 28, | October 29, |
| | 2017 | 2016 |
| | (millions) | |
| 7.45% Senior debentures due 2017 | \$300 | \$ — |
| 7.875% Senior debentures due 2036 | — | 108 |
| 6.375% Senior notes due 2037 | 135 | — |
| 7.45% Senior debentures due 2016 | — | 59 |
| 6.9% Senior debentures due 2032 | 72 | — |
| 6.7% Senior debentures due 2034 | 28 | — |
| 6.65% Senior debentures due 2024 | 4 | — |
| 6.9% Senior debentures due 2029 | 3 | — |
| 6.7% Senior debentures due 2028 | 3 | — |
| 7.0% Senior debentures due 2028 | 2 | — |
| 9.5% amortizing debentures due 2021 | 4 | 4 |
| 9.75% amortizing debentures due 2021 | 2 | 2 |
| Capital leases and other obligations | 1 | 1 |
| | \$554 | \$ 174 |

During the 39 weeks ended October 28, 2017, the Company repaid, at maturity, \$300 million of 7.45% senior debentures due July 2017.

During the 39 weeks ended October 28, 2017, the Company repurchased \$247 million face value of senior notes and debentures. The debt repurchases were made in the open market for a total cash cost of \$257 million, including expenses related to the transactions. Such repurchases resulted in the recognition of expense of \$1 million during the 39 weeks ended October 28, 2017 presented as net premiums on early retirement of debt on the Consolidated Statements of Income.

On November 27, 2017, the Company commenced a cash tender offer ("tender offer") to purchase up to \$400 million in aggregate principal amount of certain senior unsecured notes and debentures, with stated interest rates ranging from 6.375% to 10.25% and maturities ranging from fiscal years 2021 to 2037. The tender offer expires on December 22, 2017, with an early tender date on December 8, 2017. The Company expects to record the redemption premium and other costs related to these repurchases as net premiums on early retirement of debt on the Consolidated Statements of Income during the fourth quarter of 2017.

4. Benefit Plans

The Company has defined contribution plans which cover substantially all employees who work 1,000 hours or more in a year. In addition, the Company has a funded defined benefit plan ("Pension Plan") and an unfunded defined benefit supplementary retirement plan ("SERP"), which provides benefits, for certain employees, in excess of

qualified plan limitations. Effective January 1, 2012, the Pension Plan was closed to new participants, with limited exceptions, and effective January 2, 2012, the SERP was closed to new participants.

8

MACY'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

In February 2013, the Company announced changes to the Pension Plan and SERP whereby eligible employees no longer earn future pension service credits after December 31, 2013, with limited exceptions. All retirement benefits attributable to service in subsequent periods are provided through defined contribution plans.

In addition, certain retired employees currently are provided with specified health care and life insurance benefits ("Postretirement Obligations"). Eligibility requirements for such benefits vary, but generally state that benefits are available to eligible employees who were hired prior to a certain date and retire after a certain age with specified years of service. Certain employees are subject to having such benefits modified or terminated.

The defined contribution plan expense and actuarially determined components of the net periodic benefit cost (income) associated with the defined benefit plans are as follows:

| | 13 Weeks Ended | | 39 Weeks Ended | |
|--|------------------|-------------|------------------|--------------|
| | October 28, 2017 | | October 29, 2016 | |
| | 2017 | 2016 | 2017 | 2016 |
| | (millions) | | (millions) | |
| 401(k) Qualified Defined Contribution Plan | \$20 | \$ 22 | \$65 | \$ 71 |
| Non-Qualified Defined Contribution Plan | \$— | \$ — | \$— | \$ 1 |
| Pension Plan | | | | |
| Service cost | \$1 | \$ 1 | \$4 | \$ 3 |
| Interest cost | 25 | 27 | 79 | 83 |
| Expected return on assets | (55) | (56) | (168) | (170) |
| Recognition of net actuarial loss | 8 | 7 | 24 | 22 |
| Amortization of prior service credit | — | — | — | — |
| | \$(21) | \$ (21) | \$(61) | \$ (62) |
| Supplementary Retirement Plan | | | | |
| Service cost | \$— | \$ — | \$— | \$ — |
| Interest cost | 5 | 5 | 16 | 17 |
| Recognition of net actuarial loss | 2 | 3 | 6 | 7 |
| Amortization of prior service cost | — | — | — | — |
| | \$7 | \$ 8 | \$22 | \$ 24 |
| Total Retirement Expense | \$6 | \$ 9 | \$26 | \$ 34 |
| Postretirement Obligations | | | | |
| Service cost | \$— | \$ — | \$— | \$ — |
| Interest cost | 1 | 1 | 4 | 4 |
| Recognition of net actuarial gain | (2) | (1) | (4) | (3) |
| Amortization of prior service cost | — | — | — | — |
| | \$(1) | \$ — | \$— | \$ 1 |

During the 13 and 39 weeks ended October 28, 2017, the Company incurred \$22 million and \$73 million, respectively, of non-cash settlement charges relating to the Company's defined benefit plans. During the 13 and 39 weeks ended October 29, 2016, the Company also incurred \$62 million and \$81 million, respectively, of non-cash settlement charges relating to the Company's defined benefit plans. These charges relate to the pro-rata recognition of net actuarial losses associated with the Company's defined benefit plans and are a result of an increase in lump sum

distributions associated with a voluntary separation program, organizational restructuring, and store closings, in addition to periodic distribution activity.

MACY'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

5. Fair Value Measurements

The following table shows the Company's financial assets that are required to be measured at fair value on a recurring basis, by level within the hierarchy as defined by applicable accounting standards:

| | October 28, 2017 | | | October 29, 2016 | | | | |
|---------------------------------------|-------------------------|-------------|--------------|-------------------------|-------------|--------------|--------|------|
| | Fair Value Measurements | | | Fair Value Measurements | | | | |
| Total | Quoted Prices | | | Quoted Prices | | | | |
| | in | | | in | | | | |
| Total | Active | Significant | Significant | Active | Significant | Significant | | |
| | Markets | Observable | Unobservable | Markets | Observable | Unobservable | | |
| | for | Inputs | Inputs | for | Inputs | Inputs | | |
| | Identical | (Level 2) | (Level 3) | Identical | (Level 2) | (Level 3) | | |
| | (Level | | | (Level | | | | |
| | 1) | | | 1) | | | | |
| | (millions) | | | (millions) | | | | |
| Marketable equity and debt securities | \$ 100 | \$ 23 | \$ 77 | \$ — | \$ 127 | \$ 19 | \$ 108 | \$ — |

Other financial instruments not measured at fair value on a recurring basis include cash and cash equivalents, receivables, certain short-term investments and other assets, short-term debt, merchandise accounts payable, accounts payable and accrued liabilities and long-term debt. With the exception of long-term debt, the carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments. The fair values of long-term debt, excluding capitalized leases, are generally estimated based on quoted market prices for identical or similar instruments, and are classified as Level 2 measurements within the hierarchy as defined by applicable accounting standards.

The following table shows the estimated fair value of the Company's long-term debt:

| | October 28, 2017 | | October 29, 2016 | |
|----------------|------------------|------------|------------------|------------|
| | Notional | Carrying | Notional | Carrying |
| | Amount | Fair Value | Amount | Fair Value |
| | (millions) | | | |
| Long-term debt | \$ 6,206 | \$ 6,297 | \$ 6,459 | \$ 6,749 |

6. Condensed Consolidating Financial Information

Certain debt obligations of the Company, which constitute debt obligations of Macy's Retail Holdings, Inc. ("Subsidiary Issuer"), a 100%-owned subsidiary of Macy's, Inc. ("Parent"), are fully and unconditionally guaranteed by Parent. In the following condensed consolidating financial statements, "Other Subsidiaries" includes all other direct subsidiaries of Parent, including Bluemercury, Inc., FDS Bank, West 34th Street Insurance Company New York, Macy's Merchandising Corporation, Macy's Merchandising Group, Inc. and its subsidiaries Macy's Merchandising Group (Hong Kong) Limited, Macy's Merchandising Group Procurement, LLC, Macy's Merchandising Group International, LLC, Macy's Merchandising Group International (Hong Kong) Limited, and its majority-owned subsidiary Macy's China Limited. "Subsidiary Issuer" includes operating divisions and non-guarantor subsidiaries of the Subsidiary Issuer on an equity basis. The assets and liabilities and results of operations of the non-guarantor subsidiaries of the Subsidiary Issuer are also reflected in "Other Subsidiaries."

Condensed Consolidating Statements of Comprehensive Income for the 13 and 39 weeks ended October 28, 2017 and October 29, 2016, Condensed Consolidating Balance Sheets as of October 28, 2017, October 29, 2016 and January 28,

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2017, and the related Condensed Consolidating Statements of Cash Flows for the 39 weeks ended October 28, 2017 and October 29, 2016 are presented on the following pages.

10

MACY'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

Condensed Consolidating Statement of Comprehensive Income

For the 13 Weeks Ended October 28, 2017

(millions)

| | Parent | Subsidiary Issuer | Other Subsidiaries | Consolidating Adjustments | Consolidated |
|--|--------|----------------------|-----------------------|------------------------------|--------------|
| Net sales | \$ — | \$ 2,077 | \$ 5,861 | \$ (2,657) | \$ 5,281 |
| Cost of sales | — | (1,391) | (4,441) | 2,657 | (3,175) |
| Gross margin | — | 686 | 1,420 | — | 2,106 |
| Selling, general and administrative expenses | — | (813) | (1,182) | — | (1,995) |
| Gains on sale of real estate | — | 24 | 41 | — | 65 |
| Restructuring and other costs | — | (1) | (32) | — | (33) |
| Settlement charges | — | (8) | (14) | — | (22) |
| Operating income (loss) | — | (112) | 233 | — | 121 |
| Interest (expense) income, net: | | | | | |
| External | 1 | (76) | 1 | — | (74) |
| Intercompany | — | (34) | 34 | — | — |
| Equity in earnings (loss) of subsidiaries | 35 | (61) | — | 26 | — |
| Income (loss) before income taxes | 36 | (283) | 268 | 26 | 47 |
| Federal, state and local income tax benefit (expense) | — | 59 | (72) | — | (13) |
| Net income (loss) | 36 | (224) | 196 | 26 | 34 |
| Net loss attributable to noncontrolling interest | — | — | 2 | — | 2 |
| Net income (loss) attributable to Macy's, Inc. shareholders | \$ 36 | \$ (224) | \$ 198 | \$ 26 | \$ 36 |
| Comprehensive income (loss) | \$ 61 | \$ (201) | \$ 212 | \$ (13) | \$ 59 |
| Comprehensive loss attributable to noncontrolling interest | — | — | 2 | — | 2 |
| Comprehensive income (loss) attributable to Macy's, Inc. shareholders | \$ 61 | \$ (201) | \$ 214 | \$ (13) | \$ 61 |

MACY'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

Condensed Consolidating Statement of Comprehensive Income

For the 13 Weeks Ended October 29, 2016

(millions)

| | Parent | Subsidiary Issuer | Other Subsidiaries | Consolidating Adjustments | Consolidated |
|--|--------|----------------------|-----------------------|------------------------------|--------------|
| Net sales | \$ — | \$ 2,376 | \$ 6,183 | \$ (2,933) | \$ 5,626 |
| Cost of sales | — | (1,577) | (4,742) | 2,933 | (3,386) |
| Gross margin | — | 799 | 1,441 | — | 2,240 |
| Selling, general and administrative expenses | (1) | (950) | (1,161) | — | (2,112) |
| Gains on sale of real estate | — | 41 | — | — | 41 |
| Settlement charges | — | (24) | (38) | — | (62) |
| Operating income (loss) | (1) | (134) | 242 | — | 107 |
| Interest (expense) income, net: | | | | | |
| External | 1 | (82) | — | — | (81) |
| Intercompany | — | (51) | 51 | — | — |
| Equity in earnings (loss) of subsidiaries | 17 | (101) | — | 84 | — |
| Income (loss) before income taxes | 17 | (368) | 293 | 84 | 26 |
| Federal, state and local income tax benefit (expense) | — | 68 | (79) | — | (11) |
| Net income (loss) | 17 | (300) | 214 | 84 | 15 |
| Net loss attributable to noncontrolling interest | — | — | 2 | — | 2 |
| Net income (loss) attributable to Macy's, Inc. shareholders | \$ 17 | \$ (300) | \$ 216 | \$ 84 | \$ 17 |
| Comprehensive income (loss) | \$ 62 | \$ (255) | \$ 241 | \$ 12 | \$ 60 |
| Comprehensive loss attributable to noncontrolling interest | — | — | 2 | — | 2 |
| Comprehensive income (loss) attributable to Macy's, Inc. shareholders | \$ 62 | \$ (255) | \$ 243 | \$ 12 | \$ 62 |

MACY'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

Condensed Consolidating Statement of Comprehensive Income

For the 39 weeks ended October 28, 2017

(millions)

| | Parent | Subsidiary Issuer | Other Subsidiaries | Consolidating Adjustments | Consolidated |
|--|--------|----------------------|-----------------------|------------------------------|--------------|
| Net sales | \$— | \$ 6,319 | \$ 15,727 | \$ (5,875) | \$ 16,171 |
| Cost of sales | — | (4,126) | (11,543) | 5,875 | (9,794) |
| Gross margin | — | 2,193 | 4,184 | — | 6,377 |
| Selling, general and administrative expenses | (1) | (2,430) | (3,422) | — | (5,853) |
| Gains on sale of real estate | — | 116 | 60 | — | 176 |
| Restructuring and other costs | — | (1) | (32) | — | (33) |
| Settlement charges | — | (24) | (49) | — | (73) |
| Operating income (loss) | (1) | (146) | 741 | — | 594 |
| Interest (expense) income, net: | | | | | |
| External | 4 | (243) | 2 | — | (237) |
| Intercompany | — | (102) | 102 | — | — |
| Net premiums on early retirement of debt | — | (1) | — | — | (1) |
| Equity in earnings (loss) of subsidiaries | 220 | (30) | — | (190) | — |
| Income (loss) before income taxes | 223 | (522) | 845 | (190) | 356 |
| Federal, state and local income tax benefit (expense) | (1) | 142 | (281) | — | (140) |
| Net income (loss) | 222 | (380) | 564 | (190) | 216 |
| Net loss attributable to noncontrolling interest | — | — | 6 | — | 6 |
| Net income (loss) attributable to Macy's, Inc. shareholders | \$222 | \$ (380) | \$ 570 | \$ (190) | \$ 222 |
| Comprehensive income (loss) | \$318 | \$ (290) | \$ 627 | \$ (343) | \$ 312 |
| Comprehensive loss attributable to noncontrolling interest | — | — | 6 | — | 6 |
| Comprehensive income (loss) attributable to Macy's, Inc. shareholders | \$318 | \$ (290) | \$ 633 | \$ (343) | \$ 318 |

MACY'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

Condensed Consolidating Statement of Comprehensive Income

For the 39 weeks ended October 29, 2016

(millions)

| | Parent | Subsidiary Issuer | Other Subsidiaries | Consolidating Adjustments | Consolidated |
|--|--------|----------------------|-----------------------|------------------------------|--------------|
| Net sales | \$— | \$ 7,324 | \$ 16,546 | \$ (6,607) | \$ 17,263 |
| Cost of sales | — | (4,704) | (12,273) | 6,607 | (10,370) |
| Gross margin | — | 2,620 | 4,273 | — | 6,893 |
| Selling, general and administrative expenses | (2) | (2,803) | (3,334) | — | (6,139) |
| Gains on sale of real estate | — | 71 | 5 | — | 76 |
| Impairments and other costs | — | (184) | (65) | — | (249) |
| Settlement charges | — | (29) | (52) | — | (81) |
| Operating income (loss) | (2) | (325) | 827 | — | 500 |
| Interest (expense) income, net: | | | | | |
| External | 2 | (278) | — | — | (276) |
| Intercompany | — | (166) | 166 | — | — |
| Equity in earnings (loss) of subsidiaries | 144 | (69) | — | (75) | — |
| Income (loss) before income taxes | 144 | (838) | 993 | (75) | 224 |
| Federal, state and local income tax benefit (expense) | — | 243 | (328) | — | (85) |
| Net income (loss) | 144 | (595) | 665 | (75) | 139 |
| Net loss attributable to noncontrolling interest | — | — | 5 | — | 5 |
| Net income (loss) attributable to Macy's, Inc. shareholders | \$ 144 | \$ (595) | \$ 670 | \$ (75) | \$ 144 |
| Comprehensive income (loss) | \$ 164 | \$ (575) | \$ 677 | \$ (107) | \$ 159 |
| Comprehensive loss attributable to noncontrolling interest | — | — | 5 | — | 5 |
| Comprehensive income (loss) attributable to Macy's, Inc. shareholders | \$ 164 | \$ (575) | \$ 682 | \$ (107) | \$ 164 |

MACY'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

Condensed Consolidating Balance Sheet

As of October 28, 2017

(millions)

| | Parent | Subsidiary Issuer | Other Subsidiaries | Consolidating Adjustments | Consolidated | |
|--|---------|----------------------|-----------------------|------------------------------|--------------|---|
| ASSETS: | | | | | | |
| Current Assets: | | | | | | |
| Cash and cash equivalents | \$ 116 | \$ 89 | \$ 329 | \$ — | \$ 534 | |
| Receivables | — | 67 | 152 | — | 219 | |
| Merchandise inventories | — | 3,218 | 3,847 | — | 7,065 | |
| Income tax receivable | — | 2 | — | (2 |) — | |
| Prepaid expenses and other current assets | — | 86 | 346 | — | 432 | |
| Total Current Assets | 116 | 3,462 | 4,674 | (2 |) 8,250 | |
| Property and Equipment – net | — | 3,184 | 3,558 | — | 6,742 | |
| Goodwill | — | 3,315 | 582 | — | 3,897 | |
| Other Intangible Assets – net | — | 46 | 445 | — | 491 | |
| Other Assets | 1 | 62 | 772 | — | 835 | |
| Deferred Income Taxes | 26 | — | — | (26 |) — | |
| Intercompany Receivable | 1,436 | — | 1,971 | (3,407 |) — | |
| Investment in Subsidiaries | 2,882 | 3,644 | — | (6,526 |) — | |
| Total Assets | \$4,461 | \$ 13,713 | \$ 12,002 | \$ (9,961 |) \$ 20,215 | |
| LIABILITIES AND SHAREHOLDERS' EQUITY: | | | | | | |
| Current Liabilities: | | | | | | |
| Short-term debt | \$— | \$ 6 | \$ 16 | \$ — | \$ 22 | |
| Merchandise accounts payable | — | 1,339 | 1,834 | — | 3,173 | |
| Accounts payable and accrued liabilities | 139 | 975 | 2,048 | — | 3,162 | |
| Income taxes | 20 | — | 16 | (2 |) 34 | |
| Total Current Liabilities | 159 | 2,320 | 3,914 | (2 |) 6,391 | |
| Long-Term Debt | — | 6,280 | 17 | — | 6,297 | |
| Intercompany Payable | — | 3,407 | — | (3,407 |) — | |
| Deferred Income Taxes | — | 707 | 872 | (26 |) 1,553 | |
| Other Liabilities | 71 | 476 | 1,203 | — | 1,750 | |
| Shareholders' Equity: | | | | | | |
| Macy's, Inc. | 4,231 | 523 | 6,003 | (6,526 |) 4,231 | |
| Noncontrolling Interest | — | — | (7 |) — | (7 |) |
| Total Shareholders' Equity | 4,231 | 523 | 5,996 | (6,526 |) 4,224 | |
| Total Liabilities and Shareholders' Equity | \$4,461 | \$ 13,713 | \$ 12,002 | \$ (9,961 |) \$ 20,215 | |

MACY'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

Condensed Consolidating Balance Sheet

As of October 29, 2016

(millions)

| | Parent | Subsidiary Issuer | Other Subsidiaries | Consolidating Adjustments | Consolidated |
|--|---------|----------------------|-----------------------|------------------------------|--------------|
| ASSETS: | | | | | |
| Current Assets: | | | | | |
| Cash and cash equivalents | \$60 | \$99 | \$298 | \$— | \$457 |
| Receivables | — | 74 | 188 | — | 262 |
| Merchandise inventories | — | 3,621 | 3,966 | — | 7,587 |
| Income tax receivable | 99 | — | — | (39) |) 60 |
| Prepaid expenses and other current assets | — | 89 | 365 | — | 454 |
| Total Current Assets | 159 | 3,883 | 4,817 | (39) |) 8,820 |
| Property and Equipment – net | — | 3,534 | 3,615 | — | 7,149 |
| Goodwill | — | 3,315 | 582 | — | 3,897 |
| Other Intangible Assets – net | — | 47 | 452 | — | 499 |
| Other Assets | 1 | 153 | 755 | — | 909 |
| Deferred Income Taxes | 24 | — | — | (24) |) — |
| Intercompany Receivable | 878 | — | 1,876 | (2,754) |) — |
| Investment in Subsidiaries | 2,954 | 3,173 | — | (6,127) |) — |
| Total Assets | \$4,016 | \$14,105 | \$12,097 | \$ (8,944) |) \$21,274 |
| LIABILITIES AND SHAREHOLDERS' EQUITY: | | | | | |
| Current Liabilities: | | | | | |
| Short-term debt | \$— | \$935 | \$3 | \$— | \$938 |
| Merchandise accounts payable | — | 1,481 | 1,894 | — | 3,375 |
| Accounts payable and accrued liabilities | 164 | 910 | 1,856 | — | 2,930 |
| Income taxes | — | 3 | 36 | (39) |) — |
| Total Current Liabilities | 164 | 3,329 | 3,789 | (39) |) 7,243 |
| Long-Term Debt | — | 6,545 | 18 | — | 6,563 |
| Intercompany Payable | — | 2,754 | — | (2,754) |) — |
| Deferred Income Taxes | — | 694 | 878 | (24) |) 1,548 |
| Other Liabilities | 63 | 565 | 1,501 | — | 2,129 |
| Shareholders' Equity: | | | | | |
| Macy's, Inc. | 3,789 | 218 | 5,909 | (6,127) |) 3,789 |
| Noncontrolling Interest | — | — | 2 | — | 2 |
| Total Shareholders' Equity | 3,789 | 218 | 5,911 | (6,127) |) 3,791 |
| Total Liabilities and Shareholders' Equity | \$4,016 | \$14,105 | \$12,097 | \$ (8,944) |) \$21,274 |

MACY'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

Condensed Consolidating Balance Sheet

As of January 28, 2017

(millions)

| | Parent | Subsidiary Issuer | Other Subsidiaries | Consolidating Adjustments | Consolidated |
|--|---------|----------------------|-----------------------|------------------------------|--------------|
| ASSETS: | | | | | |
| Current Assets: | | | | | |
| Cash and cash equivalents | \$938 | \$ 81 | \$ 278 | \$ — | \$ 1,297 |
| Receivables | — | 169 | 353 | — | 522 |
| Merchandise inventories | — | 2,565 | 2,834 | — | 5,399 |
| Prepaid expenses and other current assets | — | 84 | 324 | — | 408 |
| Total Current Assets | 938 | 2,899 | 3,789 | — | 7,626 |
| Property and Equipment – net | — | 3,397 | 3,620 | — | 7,017 |
| Goodwill | — | 3,315 | 582 | — | 3,897 |
| Other Intangible Assets – net | — | 51 | 447 | — | 498 |
| Other Assets | — | 47 | 766 | — | 813 |
| Deferred Income Taxes | 26 | — | — | (26) | — |
| Intercompany Receivable | 375 | — | 2,428 | (2,803) | — |
| Investment in Subsidiaries | 3,137 | 3,540 | — | (6,677) | — |
| Total Assets | \$4,476 | \$ 13,249 | \$ 11,632 | \$ (9,506) | \$ 19,851 |
| LIABILITIES AND SHAREHOLDERS' EQUITY: | | | | | |
| Current Liabilities: | | | | | |
| Short-term debt | \$— | \$ 306 | \$ 3 | \$ — | \$ 309 |
| Merchandise accounts payable | — | 590 | 833 | — | 1,423 |
| Accounts payable and accrued liabilities | 16 | 1,064 | 2,483 | — | 3,563 |
| Income taxes | 71 | 16 | 265 | — | 352 |
| Total Current Liabilities | 87 | 1,976 | 3,584 | — | 5,647 |
| Long-Term Debt | — | 6,544 | 18 | — | 6,562 |
| Intercompany Payable | — | 2,803 | — | (2,803) | — |
| Deferred Income Taxes | — | 688 | 781 | (26) | 1,443 |
| Other Liabilities | 66 | 500 | 1,311 | — | 1,877 |
| Shareholders' Equity: | | | | | |
| Macy's, Inc. | 4,323 | 738 | 5,939 | (6,677) | 4,323 |
| Noncontrolling Interest | — | — | (1) | — | (1) |
| Total Shareholders' Equity | 4,323 | 738 | 5,938 | (6,677) | 4,322 |
| Total Liabilities and Shareholders' Equity | \$4,476 | \$ 13,249 | \$ 11,632 | \$ (9,506) | \$ 19,851 |

MACY'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

Condensed Consolidating Statement of Cash Flows

For the 39 Weeks Ended October 28, 2017

(millions)

| | Parent | Subsidiary Issuer | Other Subsidiaries | Consolidating Adjustments | Consolidated |
|--|----------|----------------------|-----------------------|------------------------------|--------------|
| Cash flows from operating activities: | | | | | |
| Net income (loss) | \$ 222 | \$ (380) | \$ 564 | \$ (190) | \$ 216 |
| Restructuring and other costs | — | 1 | 32 | — | 33 |
| Settlement charges | — | 24 | 49 | — | 73 |
| Equity in loss (earnings) of subsidiaries | (220) | 30 | — | 190 | — |
| Dividends received from subsidiaries | 571 | — | — | (571) | — |
| Depreciation and amortization | — | 265 | 476 | — | 741 |
| (Increase) decrease in working capital | (52) | 35 | (633) | — | (650) |
| Other, net | 8 | 2 | (34) | — | (24) |
| Net cash provided (used) by operating activities | 529 | (23) | 454 | (571) | 389 |
| Cash flows from investing activities: | | | | | |
| Disposition (purchase) of property and equipment and capitalized software, net | — | 30 | (368) | — | (338) |
| Other, net | — | 2 | (10) | — | (8) |
| Net cash provided (used) by investing activities | — | 32 | (378) | — | (346) |
| Cash flows from financing activities: | | | | | |
| Debt repaid | — | (553) | (1) | — | (554) |
| Dividends paid | (346) | — | (571) | 571 | (346) |
| Issuance of common stock, net of common stock acquired | 2 | — | — | — | 2 |
| Proceeds from noncontrolling interest | — | — | 13 | — | 13 |
| Intercompany activity, net | (1,016) | 584 | 432 | — | — |
| Other, net | 9 | (32) | 102 | — | 79 |
| Net cash used by financing activities | (1,351) | (1) | (25) | 571 | (806) |
| Net increase (decrease) in cash and cash equivalents | (822) | 8 | 51 | — | (763) |
| Cash and cash equivalents at beginning of period | 938 | 81 | 278 | — | 1,297 |
| Cash and cash equivalents at end of period | \$ 116 | \$ 89 | \$ 329 | \$ — | \$ 534 |

MACY'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

Condensed Consolidating Statement of Cash Flows

For the 39 Weeks Ended October 29, 2016

(millions)

| | Parent | Subsidiary Issuer | Other Subsidiaries | Consolidating Adjustments | Consolidated |
|--|----------|----------------------|-----------------------|------------------------------|--------------|
| Cash flows from operating activities: | | | | | |
| Net income (loss) | \$ 144 | \$ (595) | \$ 665 | \$ (75) | \$ 139 |
| Impairments and other costs | — | 184 | 65 | — | 249 |
| Settlement charges | — | 29 | 52 | — | 81 |
| Equity in loss (earnings) of subsidiaries | (144) | 69 | — | 75 | — |
| Dividends received from subsidiaries | 535 | 575 | — | (1,110) | — |
| Depreciation and amortization | — | 298 | 489 | — | 787 |
| Increase in working capital | (59) | (572) | (328) | — | (959) |
| Other, net | 19 | (36) | 28 | — | 11 |
| Net cash provided (used) by operating activities | 495 | (48) | 971 | (1,110) | 308 |
| Cash flows from investing activities: | | | | | |
| Purchase of property and equipment and capitalized software, net | — | (23) | (520) | — | (543) |
| Other, net | — | 47 | 5 | — | 52 |
| Net cash provided (used) by investing activities | — | 24 | (515) | — | (491) |
| Cash flows from financing activities: | | | | | |
| Debt repaid, net of debt issued | — | (122) | (1) | — | (123) |
| Dividends paid | (344) | — | (1,110) | 1,110 | (344) |
| Common stock acquired, net of issuance of common stock | (199) | — | — | — | (199) |
| Proceeds from noncontrolling interest | — | — | 7 | — | 7 |
| Intercompany activity, net | (642) | 158 | 484 | — | — |
| Other, net | 9 | (4) | 185 | — | 190 |
| Net cash provided (used) by financing activities | (1,176) | 32 | (435) | 1,110 | (469) |
| Net increase (decrease) in cash and cash equivalents | (681) | 8 | 21 | — | (652) |
| Cash and cash equivalents at beginning of period | 741 | 91 | 277 | — | 1,109 |
| Cash and cash equivalents at end of period | \$ 60 | \$ 99 | \$ 298 | \$ — | \$ 457 |

MACY'S, INC.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

For purposes of the following discussion, all references to "third quarter of 2017" and "third quarter of 2016" are to the Company's 13-week fiscal periods ended October 28, 2017 and October 29, 2016, respectively, and all references to "2017" and "2016" are to the Company's 39-week fiscal periods ended October 28, 2017 and October 29, 2016, respectively.

The following discussion should be read in conjunction with the Consolidated Financial Statements and the related notes included elsewhere in this report, as well as the financial and other information included in the 2016 10-K. The following discussion contains forward-looking statements that reflect the Company's plans, estimates and beliefs. The Company's actual results could materially differ from those discussed in these forward-looking statements. Factors that could cause or contribute to those differences include, but are not limited to, those discussed below and elsewhere in this report (particularly in "Forward-Looking Statements") and in the 2016 10-K (particularly in "Risk Factors" and in "Forward-Looking Statements"). This discussion includes non-GAAP financial measures. For information about these measures, see the disclosure under the caption "Important Information Regarding Non-GAAP Financial Measures" on pages 29 to 31.

Overview

The Company is an omnichannel retail organization operating stores, websites and mobile applications under three brands (Macy's, Bloomingdale's and bluemercury) that sell a wide range of merchandise, including apparel and accessories (men's, women's and children's), cosmetics, home furnishings and other consumer goods. The Company operates approximately 860 stores in 45 states, the District of Columbia, Guam and Puerto Rico. As of October 28, 2017, the Company's operations were conducted through Macy's, Bloomingdale's, Bloomingdale's The Outlet, Macy's Backstage, bluemercury and Macy's China Limited. In addition, Bloomingdale's in Dubai, United Arab Emirates and Al Zahra, Kuwait are operated under a license agreement with Al Tayer Insignia, a company of Al Tayer Group, LLC. The Company has begun the implementation of its North Star strategy to transform its omnichannel business and focus on key growth areas, embrace customer centricity, and optimize value in its real estate portfolio. Inspired by the North Star, there are five points to this strategy.

1. From Familiar to Favorite includes everything the Company does to further its brand awareness and identity to its core customers. Actions include understanding and anticipating customers' needs, strengthening the Company's fashion authority and executing initiatives around its loyalty and pricing strategies. It Must Be Macy's encompasses delivering the products and experiences customers love and are exclusive to the Company. This includes styles and home fashion for every day and special occasions, from the Company's leading private brands, as well as exclusive national brands or assortments. It celebrates the Company's iconic events and includes strategies to appeal to more value-oriented customers.
2. Every Experience Matters, in-store and online. The Company's competitive advantage is the ability to combine the human touch in its physical stores with cutting-edge technology in its mobile applications and websites. Key to this point is the enhancement of a customer's experience as they explore our stores, mobile applications and websites, find their favorite styles, sizes and colors, and receive their purchases through the shopping channels they prefer.
3. Funding our Future represents the decisions and actions the Company takes to identify and realize resources to fuel growth. This involves a focus on cost reduction and reinvestment as well as creating value from the Company's real estate portfolio.
4. What's New, What's Next explores and develops those innovations to turn consumer and technology trends to the Company's advantage and to drive growth. This includes exploring previously unmet customer needs and making smart investment decisions based on customer insights and analytics.

The Company has taken a number of key steps over the past couple of years to position itself to successfully implement the North Star strategy. Specifically, the Company launched a new Star Rewards loyalty program in October 2017 focused on strengthening relationships with the Company's best customers, migrating existing customers to higher spending levels and attracting new or infrequent customers. The initial launch of the new program focused initially on proprietary cardholders with additional enhancements and expansion beyond proprietary

cardholders planned for the future.

In August 2016, the Company announced its intention to close approximately 100 Macy's stores, 74 of which were closed or announced to be closed by the end of the third quarter of 2017. Further, in January 2017, the Company announced a series of actions to streamline its store portfolio, intensify cost efficiency efforts and execute its real estate strategy. In addition, the Company has reorganized the field structure that supports the remaining stores and conducted a significant restructuring of the Company's central operations to focus resources on strategic priorities and reduce expense.

MACY'S, INC.

In August 2017, the Company announced a restructuring which included the consolidation of three functions (merchandising, planning and private brands) into a single merchandising function. During the third quarter of 2017, the Company recognized \$33 million of costs primarily associated with this restructuring effort as well as a restructuring within the marketing function. Additional financial and operational impacts of such restructuring actions include future annual savings of approximately \$38 million, some of which may be used for reinvestment in the business, and savings of approximately \$.01 per diluted share in the fourth quarter of 2017.

The Company's real estate strategy is designed to create value through both monetization and redevelopment of certain assets:

In January 2016, the Company completed a \$270 million real estate transaction to recreate Macy's Brooklyn store. The Company continues to own and operate the first four floors and lower level of its existing nine-story retail store, which is currently being reconfigured and remodeled. The remaining portion of the store and its nearby parking facility were sold to Tishman Speyer in a single sales transaction. As the sales agreement required the Company to conduct certain redevelopment activities within the store, the Company is recognizing the gain on the transaction, approximately \$250 million, under the percentage of completion method of accounting over the redevelopment period. Accordingly, \$166 million has been recognized to-date, of which \$117 million was recognized through fiscal 2016 and \$49 million has been recognized during 2017.

In fiscal 2016, the Company had property and equipment sales, primarily related to real estate, totaling \$673 million in cash proceeds and recognized real estate gains of \$209 million. These proceeds include the cash received from the sale of the Company's 248,000 square-foot Union Square Men's building in San Francisco for approximately \$250 million in January 2017. The Company will use part of the proceeds to consolidate the Men's store into its main Union Square store. The Company is leasing back the Men's store property as it completes the reconfiguration of the main store. The Company is expected to recognize a gain of approximately \$235 million in January 2018.

In January 2017, the Company finalized the formation of a strategic alliance with Brookfield Asset Management, a leading global alternative asset manager, to create increased value in its real estate portfolio. Under the alliance, Brookfield has an exclusive right for up to 24 months to create a "pre-development plan" for each of approximately 50 Macy's real estate assets, with an option for Macy's to continue to identify and add assets into the alliance. The breadth of opportunity within the portfolio ranges from the additional development on a portion of an asset (such as a Company-controlled land parcel adjacent to a store) to the complete redevelopment of an existing store. Once a "pre-development plan" is created, the Company has the option to accept the "pre-development plan" and then either contribute the asset into a joint venture for the development plan to commence or sell the asset to Brookfield. If the Company chooses to contribute the asset into a joint venture, the Company may elect to participate as a funding or non-funding partner. After development, the joint venture may sell the asset and distribute proceeds accordingly. Based on the analysis conducted to date, preliminary indications point to a likelihood that Brookfield will recommend proceeding with redevelopment on roughly two thirds of the assets subject to the alliance.

In February 2017, the Company sold its downtown Minneapolis store and parking facility for \$59 million of proceeds and recognized a gain of approximately \$47 million in the first quarter of 2017.

In April 2017, the Company launched a marketing effort for the upper floors of its flagship State Street Macy's store in downtown Chicago. Development and increased utilization of the upper floors are expected to drive more foot traffic to the store.

In May 2017, the Company signed a contract to sell an additional two floors of the downtown Seattle Macy's store; four floors were sold in a similar transaction in fiscal 2015. This transaction closed in September 2017 for approximately \$50 million of proceeds and the Company recognized a gain of approximately \$40 million in the third quarter of 2017.

In 2017, the Company opened new Macy's stores in Murray, UT and Los Angeles, CA as well as a Bloomingdale's store in Kuwait under a license agreement with Al Tayer Group, LLC. The Company expects to open new Macy's and Bloomingdale's stores in Al Maryah Central in Abu Dhabi, UAE, in fiscal 2018 under a license agreement with Al Tayer Group, LLC and two additional Bloomingdale's stores in San Jose, CA and Norwalk, CT in fiscal 2019.

Both Macy's off-price business, Macy's Backstage, and its clearance strategy, Last Act, have been successful in providing unique value opportunities to both existing and new Macy's customers. The Company has rolled out Last Act to all families of business and is currently focused on opening new Macy's Backstage stores within existing Macy's store locations. In the third quarter of 2017, the Company opened 7 new Macy's Backstage stores within existing Macy's stores, bringing the total locations in operation to 52 (7 freestanding and 45 inside Macy's stores) as of October 28, 2017.

MACY'S, INC.

The Company is focused on accelerating the growth of its luxury beauty products and spa retailer, bluemercury, by opening additional freestanding bluemercury stores in urban and suburban markets, enhancing its online capabilities and adding bluemercury products and boutiques to Macy's stores. 8 new freestanding bluemercury locations were opened in the third quarter of 2017 and 3 additional locations are expected to open later in the fiscal year. As of October 28, 2017, the Company is operating 155 bluemercury locations (135 freestanding and 20 inside Macy's stores).

Results of Operations

Comparison of the Third Quarter of 2017 and the Third Quarter of 2016

| | Third Quarter of 2017 | | Third Quarter of 2016 | |
|--|---|---------------|--------------------------|---------------|
| | Amount | % to Sales | Amount | % to Sales |
| | (dollars in millions, except per share figures) | | | |
| Net sales | \$5,281 | | \$5,626 | |
| Decrease in sales | (6.1) | % | (4.2) | % |
| Decrease in comparable sales | (4.0) | % | (3.3) | % |
| Cost of sales | (3,175) | (60.1)% | (3,386) | (60.2)% |
| Gross margin | 2,106 | 39.9 % | 2,240 | 39.8 % |
| Selling, general and administrative expenses | (1,995) | (37.8)% | (2,112) | (37.5)% |
| Gains on sale of real estate | 65 | 1.2 % | 41 | 0.7 % |
| Restructuring and other costs | (33) | (0.6)% | — | — % |
| Settlement charges | (22) | (0.4)% | (62) | (1.1)% |
| Operating income | 121 | 2.3 % | 107 | 1.9 % |
| Interest expense - net | (74) | | (81) | |
| Income before income taxes | 47 | | 26 | |
| Federal, state and local income tax expense | (13) | | (11) | |
| Net income | 34 | | 15 | |
| Net loss attributable to noncontrolling interest | 2 | | 2 | |
| Net income attributable to Macy's, Inc. shareholders | \$36 | 0.7 % | \$17 | 0.3 % |
| Diluted earnings per share attributable to Macy's, Inc. shareholders | \$.12 | | \$.05 | |
| Diluted earnings per share attributable to Macy's, Inc. shareholders, excluding the impact of restructuring and other costs and settlement charges | \$.23 | | \$.17 | |

Net Sales

Net sales for the third quarter of 2017 decreased \$345 million or 6.1% compared to the third quarter of 2016 due to fiscal year-end 2016 store closures and the decline in comparable sales, which were negatively impacted by hurricane activity during the quarter and warmer than expected fall weather. The decrease in comparable sales on an owned basis for the third quarter of 2017 was 4.0% compared to the third quarter of 2016. The decrease in comparable sales on an owned plus licensed basis for the third quarter of 2017 was 3.6% compared to the third quarter of 2016. Sales during the quarter were strongest in fine jewelry, fragrances, dresses, active apparel, men's tailored clothing, and shoes, excluding boots. Sales were weakest in cold weather businesses including coats, boots and winter accessories. Sales were also soft in home related businesses. The Company's digital business continued its strong growth with double digit gains in the third quarter of 2017. Geographically, regional trends were relatively consistent except for hurricane impacted areas. In addition, lower international tourism sales contributed to the decline of sales in the third

quarter of 2017 compared to the third quarter of 2016.

Cost of Sales

The cost of sales rate as a percent to net sales for the third quarter of 2017 decreased to 60.1% compared to 60.2% for the third quarter of 2016. This decrease in the cost of sales rate as a percent to net sales was due in part to lower inventory levels at the end of the quarter, including less clearance merchandise subject to liquidation. The application of the last-in,

MACY'S, INC.

first-out ("LIFO") retail inventory method did not result in the recognition of any LIFO charges or credits affecting cost of sales in either period.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses for the third quarter of 2017 decreased \$117 million or 5.5% from the third quarter of 2016. The SG&A rate as a percent to net sales of 37.8% was 30 basis points higher in the third quarter of 2017, as compared to the third quarter of 2016. SG&A expenses in the third quarter of 2017 included reduced expenses due to the year-end 2016 stores closures and the impact of restructuring activities. These reductions were partially offset by continued investments in digital growth, strategic initiatives in shoes and jewelry, and the expansion of Macy's Backstage and bluemercury. Income from credit operations was \$161 million in the third quarter of 2017, a decrease of \$4 million compared to \$165 million recognized in the third quarter of 2016 in part due to lower proprietary credit card penetration. Income from credit operations excludes costs related to new account originations and fraudulent transactions incurred on the Company's private label credit cards.

Gains on Sale of Real Estate

The third quarter of 2017 included asset sale gains of \$65 million, including approximately \$40 million related to the downtown Seattle Macy's location and \$22 million related to the Macy's Brooklyn transaction. This compares to \$41 million of asset sale gains recognized in the third quarter of 2016, inclusive of approximately \$9 million related to the Macy's Brooklyn transaction and \$32 million related to various asset sales to General Growth Properties.

Restructuring and Other Costs

Restructuring and other costs were \$33 million for the third quarter of 2017 and include charges associated with severance activities as well as other human resource related costs associated with organizational restructuring. No such charges were recognized in the third quarter of 2016.

Settlement Charges

The third quarters of 2017 and 2016 included \$22 million and \$62 million, respectively, of non-cash settlement charges relating to the Company's defined benefit plans. These charges relate to the pro-rata recognition of net actuarial losses and are the result of an increase in lump sum distributions associated with store closings, a voluntary separation program and organizational restructuring, and periodic distribution activity.

Net Interest Expense

Net interest expense for the third quarter of 2017 decreased \$7 million from the third quarter of 2016 due to a reduction in the Company's debt from \$7.5 billion as of the end of the third quarter of 2016 to \$6.3 billion as of the end of the third quarter of 2017. This reduction of approximately \$1.2 billion is due to the maturity and repurchase of certain of the Company's borrowings.

Effective Tax Rate

The Company's effective tax rate of 27.7% for the third quarter of 2017 and 42.3% for the third quarter of 2016 differ from the federal income tax statutory rate of 35%, and on a comparative basis, principally because of the effect of state and local income taxes, including the settlement of various tax issues and tax examinations.

Net Income Attributable to Macy's, Inc. Shareholders

Net income attributable to Macy's, Inc. shareholders for the third quarter of 2017 increased \$19 million compared to the third quarter of 2016. The third quarter of 2017 included \$21 million of after tax restructuring and other costs and \$14 million of after tax retirement plan settlement charges, while the third quarter of 2016 included \$37 million of after tax retirement plan settlement charges. The third quarter of 2017 also included higher gains associated with the sale of real estate as well as lower SG&A, interest expense and a lower effective tax rate. These favorable results were partially offset by lower net sales in the third quarter of 2017.

Diluted Earnings Per Share Attributable to Macy's, Inc. Shareholders

Diluted earnings per share for the third quarter of 2017 increased \$.07 compared to the third quarter of 2016, reflecting higher net income. Excluding the impact of restructuring and other costs and settlement charges, diluted earnings per share for the third quarter of 2017 increased \$.06 or 35.3% compared to the third quarter of 2016.

MACY'S, INC.

Comparison of the 39 Weeks Ended October 28, 2017 and October 29, 2016

| | 2017 | | 2016 | |
|---|---|------------|-----------|------------|
| | Amount | % to Sales | Amount | % to Sales |
| | (dollars in millions, except per share figures) | | | |
| Net sales | \$16,171 | | \$17,263 | |
| Decrease in sales | (6.3) |)% | (5.2) |)% |
| Decrease in comparable sales | (4.0) |)% | (4.0) |)% |
| Cost of sales | (9,794) | (60.6)% | (10,370) | (60.1)% |
| Gross margin | 6,377 | 39.4 % | 6,893 | 39.9 % |
| Selling, general and administrative expenses | (5,853) | (36.1)% | (6,139) | (35.5)% |
| Gains on sale of real estate | 176 | 1.1 % | 76 | 0.4 % |
| Impairments, restructuring and other costs | (33) | (0.2)% | (249) | (1.4)% |
| Settlement charges | (73) | (0.5)% | (81) | (0.5)% |
| Operating income | 594 | 3.7 % | 500 | 2.9 % |
| Interest expense - net | (237) | | (276) | |
| Net premiums on early retirement of debt | (1) | | — | |
| Income before income taxes | 356 | | 224 | |
| Federal, state and local income tax expense | (140) | | (85) | |
| Net income | 216 | | 139 | |
| Net loss attributable to noncontrolling interest | 6 | | 5 | |
| Net income attributable to Macy's, Inc. shareholders | \$222 | 1.4 % | \$144 | 0.8 % |
| Diluted earnings per share attributable to Macy's, Inc. shareholders | \$.73 | | \$.46 | |
| Diluted earnings per share attributable to Macy's, Inc. shareholders, excluding the impact of impairments, restructuring and other costs, settlement charges and net premiums on early retirement of debt | \$.95 | | \$1.11 | |

Net Sales

Net sales for 2017 decreased \$1,092 million or 6.3% compared to 2016 due to fiscal year-end 2016 store closures and the decline in comparable sales. The decrease in comparable sales on an owned basis for 2017 was 4.0% compared to 2016. The decrease in comparable sales on an owned plus licensed basis for 2017 was 3.6% compared to 2016. Sales during 2017 were strongest in active apparel, fine jewelry, fragrances, furniture/mattresses and women's shoes. Sales were weaker in housewares and tabletop. The Company's digital business continued its strong growth at both macys.com and bloomingdales.com. Geographically, the Company's strongest business was in the Southwest region.

Cost of Sales

The cost of sales rate as a percent to net sales for 2017 increased to 60.6% compared to 60.1% for 2016. The increase in the cost of sales rate as a percent to net sales was due in part to high year-end inventory levels as well as margin pressures in the beauty business and home related businesses. The application of the LIFO retail inventory method did not result in the recognition of any LIFO charges or credits affecting cost of sales in either period.

Selling, General and Administrative Expenses

SG&A expenses for 2017 decreased \$286 million or 4.7% from 2016. The SG&A rate as a percent to net sales of 36.1% was 60 basis points higher in 2017 as compared to 2016. SG&A expenses in 2017 included reduced expenses from the year-end 2016 stores closures and the impact of restructuring activities, partially offset by investments in digital growth, strategic initiatives in shoes and jewelry, and initiatives at bluemercury and Macy's Backstage. Income from credit operations was \$524 million in 2017, compared to \$528 million in 2016. Income from credit operations

excludes costs related to new account originations and fraudulent transactions incurred on the Company's private label credit cards.

MACY'S, INC.

Gains on Sale of Real Estate

2017 included asset sale gains of \$176 million, including \$47 million related to the downtown Minneapolis property, \$49 million related to the Macy's Brooklyn transaction, and \$40 million related to the downtown Seattle Macy's location. This compares to \$76 million of asset sale gains recognized in 2016, inclusive of approximately \$24 million related to the Macy's Brooklyn transaction and \$32 million related to various asset sales to General Growth Properties.

Impairments, Restructuring and Other Costs

Impairments, restructuring and other costs of \$33 million for 2017 and \$249 million for 2016 include charges associated with store closings and severance activities as well as other human resource related costs associated with organizational restructuring.

Settlement Charges

2017 and 2016 included \$73 million and \$81 million, respectively, of non-cash settlement charges relating to the Company's defined benefit plans. These charges relate to the pro-rata recognition of net actuarial losses and are the result of an increase in lump sum distributions associated with store closings, a voluntary separation program and organizational restructuring, and periodic distribution activity.

Net Interest Expense

Net interest expense for 2017 decreased \$39 million from 2016 due to a reduction in the Company's debt as discussed previously within the quarterly review.

Net Premiums on Early Retirement of Debt

The Company repurchased approximately \$247 million face value of senior notes and debentures in 2017. The debt repurchases were made in the open market for a total cash cost of approximately \$257 million, including expenses related to the transactions. As a result of the debt repurchases, the Company recognized \$1 million in expenses and fees net of premiums on acquired debt in 2017.

Effective Tax Rate

The Company's effective tax rate of 39.3% for 2017 and 37.9% for 2016 differ from the federal income tax statutory rate of 35%, and on a comparative basis, principally because of the effect of state and local income taxes, including the settlement of various tax issues and tax examinations as well as the recognition of approximately \$12 million of net tax deficiencies in 2017 associated with share-based payment awards due to the adoption of ASU 2016-09, Improvements to Employee Share-Based Payment Accounting. Historically, the Company had recognized such amounts as an offset to accumulated excess tax benefits previously recognized in additional paid-in capital.

Net Income Attributable to Macy's, Inc. Shareholders

Net income attributable to Macy's, Inc. shareholders for 2017 increased \$78 million or 54.2% compared to 2016. The increase from 2017 to 2016 is primarily attributable to higher asset sale gains in 2017 as well as the fact that 2016 included \$152 million of after tax impairments, restructuring and other costs compared to \$21 million of after tax restructuring and other costs in 2017. These favorable changes as well as lower SG&A, retirement plan settlement charges and interest expense were partially offset by lower net sales and gross margin in 2017.

Diluted Earnings Per Share Attributable to Macy's, Inc. Shareholders

Diluted earnings per share for 2017 increased \$.27 or 58.7% compared to 2016, reflecting higher net income.

Excluding the impact of impairments, restructuring and other costs, settlement charges, and the net premiums on the early retirement of debt, diluted earnings per share for 2017 decreased \$.16 or 14.4% compared to 2016.

MACY'S, INC.

Liquidity and Capital Resources

The Company's principal sources of liquidity are cash from operations, cash on hand and the credit facility described below.

Operating Activities

Net cash provided by operating activities in 2017 was \$389 million, compared to \$308 million provided in 2016, primarily due to lower cash outflows for merchandise inventories, net of merchandise payables, resulting from lower inventory levels as of October 28, 2017 compared to October 29, 2016. These lower cash outflows offset other negative cash flow items including lower sales and higher income taxes paid in 2017.

Investing Activities

Net cash used by investing activities was \$346 million in 2017, compared to net cash used by investing activities of \$491 million in 2016. Investing activities for 2017 include purchases of property and equipment totaling \$359 million and capitalized software of \$191 million, compared to purchases of property and equipment totaling \$451 million and capitalized software of \$230 million in 2016. Additionally, the Company received cash of \$212 million from the disposition of property and equipment in 2017, primarily related to real estate transactions, as compared to \$138 million received in 2016.

Financing Activities

Net cash used by the Company for financing activities was \$806 million for 2017, including debt payments of \$554 million and payment of \$346 million of cash dividends. These cash outflows were partially offset by an increase in outstanding checks of \$80 million. For 2017, the Company repurchased approximately \$247 million face value of senior notes and debentures. During the second quarter of 2017, the Company repaid at maturity \$300 million of 7.45% senior debentures due July 2017.

Net cash used by the Company for financing activities was \$469 million for 2016, including payment of \$344 million of cash dividends, \$230 million for the acquisition of the Company's common stock, primarily under its share repurchase program, and repayment of \$174 million of debt. These outflows were partially offset by \$31 million from the issuance of common stock, primarily related to the exercise of stock options.

On November 27, 2017, the Company commenced a cash tender offer ("tender offer") to purchase up to \$400 million in aggregate principal amount of certain senior unsecured notes and debentures, with stated interest rates ranging from 6.375% to 10.25% and maturities ranging from fiscal years 2021 to 2037. The tender offer expires on December 22, 2017, with an early tender date on December 8, 2017. The Company expects to record the redemption premium and other costs related to these repurchases as net premiums on early retirement of debt on the Consolidated Statements of Income during the fourth quarter of 2017.

The Company is party to a credit agreement with certain financial institutions providing for revolving credit borrowings and letters of credit in an aggregate amount not to exceed \$1,500 million (which may be increased to \$1,750 million at the option of the Company, subject to the willingness of existing or new lenders to provide commitments for such additional financing) outstanding at any particular time. The agreement is set to expire May 6, 2021. As of October 28, 2017, the Company did not have any borrowings or letters of credit outstanding under its credit facility.

The Company is party to a \$1,500 million unsecured commercial paper program. The Company may issue and sell commercial paper in an aggregate amount outstanding at any particular time not to exceed its then-current combined borrowing availability under its bank credit agreement. As of October 28, 2017, the Company did not have any borrowings outstanding under its commercial paper program.

As of October 28, 2017 the Company was required to maintain a specified interest coverage ratio for the latest four quarters of no less than 3.25 and a specified leverage ratio as of and for the latest four quarters of no more than 3.75 under the credit agreement. The Company's interest coverage ratio for the third quarter of 2017 was 7.92 and its leverage ratio at October 28, 2017 was 2.36, in each case as calculated in accordance with the credit agreement.

On October 27, 2017, the Company announced that the Board of Directors declared a quarterly dividend of 37.75 cents per share on its common stock, payable January 2, 2018, to Macy's shareholders of record at the close of business on December 15, 2017.

MACY'S, INC.

Capital Resources

Management believes that, with respect to the Company's current operations, cash on hand and funds from operations, together with its credit facility and other capital resources, will be sufficient to cover the Company's reasonably foreseeable working capital, capital expenditure and debt service requirements and other cash requirements in both the near term and over the longer term. The Company's ability to generate funds from operations may be affected by numerous factors, including general economic conditions and levels of consumer confidence and demand; however, the Company expects to be able to manage its working capital levels and capital expenditure amounts so as to maintain sufficient levels of liquidity. To the extent that the Company's cash balances from time to time exceed amounts that are needed to fund its immediate liquidity requirements, the Company will consider alternative uses of some or all of such excess cash. Such alternative uses may include, among others, the redemption or repurchase of debt, equity or other securities through open market purchases, privately negotiated transactions or otherwise, and the funding of pension related obligations. Depending upon its actual and anticipated sources and uses of liquidity, conditions in the capital markets and other factors, the Company will from time to time consider the issuance of debt or other securities, or other possible capital markets transactions, for the purpose of raising capital which could be used to refinance current indebtedness or for other corporate purposes, including the redemption or repurchase of debt, equity or other securities through open market purchases, privately negotiated transactions or otherwise, and the funding of pension related obligations.

The Company intends from time to time to consider additional acquisitions of, and investments in, retail businesses and other complementary assets and companies. Acquisition transactions, if any, are expected to be financed from one or more of the following sources: cash on hand, cash from operations, borrowings under existing or new credit facilities and the issuance of long-term debt or other securities, including common stock.

MACY'S, INC.

Outlook and Recent Developments

The Company's operations are impacted by competitive pressures from department stores, off-price stores, specialty stores, mass merchandisers, online retailers and all other retail channels. The Company's operations are also impacted by general consumer spending levels, including the impact of general economic conditions, consumer disposable income levels, consumer confidence levels, the availability, cost and level of consumer debt, the costs of basic necessities and other goods and the effects of weather or natural disasters and other factors over which the Company has little or no control.

In recent years, consumer spending levels have been affected to varying degrees by a number of factors, including modest economic growth, uncertainty regarding governmental spending and tax policies, unemployment levels, tightened consumer credit, an improving housing market and a fluctuating stock market. In addition, consumer spending levels of international customers are impacted by the strength of the U.S. dollar relative to foreign currencies. These factors have affected, to varying degrees, the amount of funds that consumers are willing and able to spend for discretionary purchases, including purchases of some of the merchandise offered by the Company.

All economic conditions ultimately affect the Company's overall operations. However, the effects of economic conditions can be experienced differently and at different times, in the various geographic regions in which the Company operates, in relation to the different types of merchandise that the Company offers for sale, or in relation to each of the Company's branded operations.

On November 9, 2017, the Company issued a press release to report its preliminary earnings for the third quarter of 2017 and reaffirmed its previously provided guidance for fiscal 2017. In summary, the Company expects comparable sales on an owned basis to decline between 2.2 percent and 3.3 percent, with comparable sales on an owned plus licensed basis to decline between 2.0 percent and 3.0 percent. Total sales are expected to be down between 3.2 percent and 4.3 percent in fiscal 2017. Total sales for fiscal 2017 reflect a 53rd week, whereas comparable sales are on a 52-week basis. As previously announced in August 2017, the Company expects a 1 cent increase in adjusted earnings per diluted share due to the restructuring of the merchandising operations. The Company now expects adjusted earnings per diluted share of between \$3.38 and \$3.63 in fiscal 2017, excluding the impact of the anticipated settlement charges, restructuring and other costs and net premiums and fees associated with debt repurchases. Excluding the impact of the anticipated fourth quarter gain on the sale of the Union Square Men's building in San Francisco and the anticipated settlement charges, restructuring and other costs and net premiums and fees associated with debt repurchases, adjusted earnings per diluted share of \$2.91 to \$3.16 are expected in fiscal 2017.

MACY'S, INC.

Important Information Regarding Non-GAAP Financial Measures

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. Management believes that providing supplemental 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, 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. In addition, management believes that excluding certain items from diluted earnings per share attributable to Macy's, Inc. shareholders that are no longer associated with the Company's core operations and that may vary substantially in frequency and magnitude period-to-period provides useful supplemental measures that assist in evaluating the Company's ability to generate earnings and leverage sales and to more readily compare these metrics between past and future periods.

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 excluding certain items because the timing and amount of excluded items (e.g., impairments, restructuring and other costs, retirement plan settlement charges and net premiums on the early retirement of debt) 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 non-GAAP financial measures 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 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.

MACY'S, INC.

Change in Comparable Sales

The following is a tabular reconciliation of the 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), which the Company believes to be the most directly comparable GAAP financial measure.

| | Third Quarter of 2017 | Third Quarter of 2016 |
|--|-----------------------------|-----------------------------|
| Decrease in comparable sales on an owned basis (note 1) | (4.0)% | (3.3)% |
| Impact of growth in comparable sales of departments licensed to third parties (note 2) | 0.4 % | 0.6 % |
| Decrease in comparable sales on an owned plus licensed basis | (3.6)% | (2.7)% |
| | 2017 | 2016 |
| Decrease in comparable sales on an owned basis (note 1) | (4.0)% | (4.0)% |
| Impact of growth in comparable sales of departments licensed to third parties (note 2) | 0.4 % | 0.5 % |
| Decrease in comparable sales on an owned plus licensed basis | (3.6)% | (3.5)% |

Notes:

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 (1) licensed to third parties. Stores undergoing remodeling, expansion or relocation 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.

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 the sales of the (2) 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 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.

Diluted Earnings Per Share Attributable to Macy's, Inc. Shareholders, Excluding Certain Items

The following is a tabular reconciliation of the non-GAAP financial measure of diluted earnings per share attributable to Macy's, Inc. shareholders, excluding certain items, to GAAP diluted earnings per share attributable to Macy's, Inc., shareholders, which the Company believes to be the most directly comparable GAAP measure.

| | Third Quarter of 2017 | Third Quarter of 2016 | | |
|--|-----------------------------|-----------------------------|--------|---------|
| Diluted earnings per share attributable to Macy's, Inc. shareholders | \$.12 | \$.05 | | |
| Add back the pre-tax impact of restructuring and other costs | .11 | — | | |
| Add back the pre-tax impact of settlement charges | .07 | .20 | | |
| Deduct the income tax impact of certain items identified above | (.07) | (.08) | | |
| Diluted earnings per share attributable to Macy's, Inc. shareholders, excluding certain items | \$.23 | \$.17 | | |
| | | | 2017 | 2016 |
| Diluted earnings per share attributable to Macy's, Inc. shareholders | | | \$.73 | \$.46 |
| Add back the pre-tax impact of impairments, restructuring and other costs | | | .11 | .80 |
| Add back the pre-tax impact of settlement charges | | | .24 | .26 |
| Add back the pre-tax impact of net premiums on the early retirement of debt (note 1) | | | — | — |
| Deduct the income tax impact of certain items identified above | | | (.13) | (.41) |
| Diluted earnings per share attributable to Macy's, Inc. shareholders, excluding certain items | | | \$.95 | \$ 1.11 |

Note:

- (1) The impact during the 39 weeks ended October 28, 2017 represents a value less than \$.01 per diluted share attributable to Macy's, Inc. shareholders.

MACY'S, INC.

New Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers, which establishes principles to report useful information to financial statements users about the nature, timing and uncertainty of revenue from contracts with customers. ASU No. 2014-09 along with various related amendments comprise ASC Topic 606, Revenue from Contracts with Customers, and provide guidance that is applicable to all contracts with customers regardless of industry-specific or transaction-specific fact patterns. The new standard and its related updates are effective for the Company beginning on February 4, 2018. On the effective date, the Company will apply the new guidance retrospectively to each prior reporting period presented, or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application. The Company is currently evaluating the methods of adoption and has not yet decided on the method to be applied when the new revenue guidance is effective.

The Company currently estimates the material impacts to its consolidated financial statements to include gross presentation of its estimates for future sales returns and related recoverable assets, presenting income from credit operations as a separate component of revenue and recognizing revenue for online transactions upon shipment rather than delivery. In addition, the gains for certain real estate transactions will generally be recognized earlier than under current guidance due to consideration of the guidance in ASU No. 2017-05, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20) and the new lease standard discussed below.

The Company does not expect the new guidance to materially impact the revenue recognition associated with gift card breakage as well as the accounting for its warranty arrangements, loyalty programs and other customer incentive arrangements. The Company is continuing to evaluate the impact of the new standards and the final determinations of the impact of the new guidance may differ from these initial estimates.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires lessees to recognize substantially all leases on-balance sheet and disclose key information about leasing arrangements. The new standard establishes a right of use ("ROU") model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement.

The new standard is effective for the Company on February 3, 2019, with early adoption permitted. The new standard is to be adopted utilizing a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the consolidated financial statements, with certain practical expedients available. The Company has not yet decided whether it will early adopt the new standard but the Company currently plans to elect the majority of the standard's available practical expedients on adoption.

The Company expects that the new lease standard will have a material impact on the Company's consolidated financial statements. While the Company is continuing to assess the effects of adoption, the Company currently believes the most significant changes relate to the recognition of new ROU assets and lease liabilities on the consolidated balance sheets for real property and personal property operating leases as well as changes to the timing of recognition of certain real estate asset sale gains in the consolidated statements of income due to application of the new sale-leaseback guidance and ASU No. 2017-05 as discussed above. The Company expects that substantially all of its operating lease commitments will be subject to the new guidance and will be recognized as operating lease liabilities and ROU assets upon adoption. A significant change in leasing activity between the date of this report and adoption is not expected.

In March 2017, the FASB issued ASU No. 2017-07, Compensation-Retirement Benefits (Topic 715), which requires employers to disaggregate the service cost component from other components of net periodic benefit costs and to disclose the amounts of net periodic benefit costs that are included in each income statement line item. The standard requires employers to report the service cost component in the same line item as other compensation costs and to report the other components of net periodic benefit costs (which include interest costs, expected return on plan assets, amortization of prior service cost or credits and actuarial gains and losses) separately and outside a subtotal of operating income. The income statement guidance requires application on a retrospective basis. The new standard is

effective for the Company beginning in the first quarter of 2018, with early adoption permitted. The Company is currently evaluating the impact this standard will have on its consolidated financial position, results of operations, and related disclosures. The Company plans to adopt this standard on February 4, 2018.

The Company does not anticipate that the adoption of any other recent accounting pronouncements will have a material impact on the Company's consolidated financial position, results of operations or cash flows.

MACY'S, INC.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no material changes to the Company's market risk as described in the Company's 2016 10-K. For a discussion of the Company's exposure to market risk, refer to the Company's market risk disclosures set forth in Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" of the 2016 10-K.

Item 4. Controls and Procedures.

The Company's Chief Executive Officer and Chief Financial Officer have carried out, as of October 28, 2017, with the participation of the Company's management, an evaluation of the effectiveness of the Company's disclosure controls and procedures, as defined in Rule 13a-15(e) under the Exchange Act. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that as of October 28, 2017 the Company's disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in reports the Company files under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission (the "SEC") rules and forms, and that information required to be disclosed by the Company in the reports the Company files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in the Company's internal control over financial reporting that occurred during the Company's most recently completed fiscal quarter that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

MACY'S, INC.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

The Company and its subsidiaries are involved in various proceedings that are incidental to the normal course of their businesses. As of the date of this report, the Company does not expect that any of such proceedings will have a material adverse effect on the Company's financial position or results of operations.

Item 1A. Risk Factors.

There have been no material changes to the Risk Factors described in Part I, "Item 1A. Risk Factors" in the Company's 2016 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following table provides information regarding the Company's purchases of Common Stock during the third quarter of 2017.

| | Total Number of Shares Purchased | Average Price Paid per Share (\$) | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1) | Maximum Dollar Value of Shares that may yet be Purchased Under the Plans or Programs (1)(\$) (millions) |
|--------------------------------------|---|--|---|---|
| | (thousands) | | (thousands) | |
| July 30, 2017 – August 26, 2017 | — | — | — | 1,716 |
| August 27, 2017 – September 30, 2017 | — | — | — | 1,716 |
| October 1, 2017 – October 28, 2017 | — | — | — | 1,716 |
| | — | — | — | |

Commencing in January 2000, the Company's Board of Directors has from time to time approved authorizations to purchase, in the aggregate, up to \$18 billion of Common Stock as of October 28, 2017. All authorizations are cumulative and do not have an expiration date. As of October 28, 2017, \$1,716 million of authorization remained unused. The Company may continue, discontinue or resume purchases of Common Stock under these or possible future authorizations in the open market, in privately negotiated transactions or otherwise at any time and from time to time without prior notice.

MACY'S, INC.

Item 5. Other Information.

Forward-Looking Statements

This report and other reports, statements and information previously or subsequently filed by the Company with the SEC contain or may contain forward-looking statements. Such statements are based upon the beliefs and assumptions of, and on information available to, the management of the Company at the time such statements are made. The following are or may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995: (i) statements preceded by, followed by or that include the words "may," "will," "could," "should," "believe," "expect," "future," "potential," "anticipate," "intend," "plan," "think," "estimate" or "continue" or the negative or other variations thereof, and (ii) statements regarding matters that are not historical facts. Such forward-looking statements are subject to various risks and uncertainties, including risks and uncertainties relating to:

- the possible invalidity of the underlying beliefs and assumptions;
- competitive pressures from department and specialty stores, general merchandise stores, manufacturers' outlets, off-price and discount stores, and all other retail channels, including the Internet, catalogs and television;
- the Company's ability to remain competitive and relevant as consumers' shopping behaviors migrate to other shopping channels;
- general consumer-spending levels, including the impact of general economic conditions, consumer disposable income levels, consumer confidence levels, the availability, cost and level of consumer debt, the costs of basic necessities and other goods and the effects of the weather or natural disasters;
- conditions to, or changes in the timing of, proposed transactions, including planned store closings, and changes in expected synergies, cost savings and non-recurring charges;
- the success of the Company's operational decisions (e.g., product curation, marketing programs) and strategic initiatives;
- the cost of employee benefits as well as attracting and retaining quality employees;
- transactions involving our real estate portfolio;
- the seasonal nature of the Company's business;
- possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions;
- possible actions taken or omitted to be taken by third parties, including customers, suppliers, business partners, competitors and legislative, regulatory, judicial and other governmental authorities and officials;
- changes in relationships with vendors and other product and service providers;
- currency, interest and exchange rates and other capital market, economic and geo-political conditions;
- unstable political conditions, civil unrest, terrorist activities and armed conflicts;
- the possible inability of the Company's manufacturers or transporters to deliver products in a timely manner or meet the Company's quality standards;
- the Company's reliance on foreign sources of production, including risks related to the disruption of imports by labor disputes, regional health pandemics, and regional political and economic conditions;
- duties, taxes, other charges and quotas on imports; and
 - possible systems failures and/or security breaches, including, any security breach that results in the theft, transfer or unauthorized disclosure of customer, employee or company information, or the failure to comply with various laws applicable to the Company in the event of such a breach.

In addition to any risks and uncertainties specifically identified in the text surrounding such forward-looking statements, the statements in the immediately preceding sentence and the statements under captions such as "Risk Factors" in reports, statements and information filed by the Company with the SEC from time to time constitute cautionary statements identifying important factors that could cause actual amounts, results, events and circumstances to differ materially from those expressed in or implied by such forward-looking statements.

MACY'S, INC.

Item 6. Exhibits.

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a)

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a)

32.1 Certification by Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act

32.2 Certification by Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act

101 The following financial statements from Macy's, Inc.'s Quarterly Report on Form 10-Q for the quarter ended October 28, 2017, filed on December 4, 2017, formatted in XBRL: (i) Consolidated Statements of Income, (ii) Consolidated Statements of Comprehensive Income, (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Cash Flows, and (v) the Notes to Consolidated Financial Statements.

36

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MACY'S, INC.

By: /s/ ELISA D. GARCIA

Elisa D. Garcia

Chief Legal Officer and Secretary

By: /s/ FELICIA WILLIAMS

Felicia Williams

Executive Vice President, Controller and Enterprise Risk
(Principal Accounting Officer)

Date: December 4, 2017