# 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 August 3, 2019**

**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**

**Macy's, Inc.**
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **13-3324058** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**7 West Seventh Street, Cincinnati, Ohio 45202 and 151 West 34th Street, New York, New York 10001**
(Address of Principal Executive Offices, including Zip Code)
**(513) 579-7000 and (212) 494-1602**
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common Stock, $.01 par value per share | M | New York Stock Exchange |

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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 ☐

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 August 3, 2019 |
|---|---|
| Common Stock, $.01 par value per share | 308,914,893 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 | | 26 Weeks Ended | |
|---|---|---|---|---|
| | August 3, 2019 | August 4, 2018 | August 3, 2019 | August 4, 2018 |
| Net sales | $ 5,546 | $ 5,572 | $ 11,050 | $ 11,112 |
| Credit card revenues, net | 176 | 186 | 348 | 343 |
| | | | | |
| Cost of sales | (3,395) | (3,320) | (6,798) | (6,701) |
| Selling, general and administrative expenses | (2,177) | (2,164) | (4,287) | (4,247) |
| Gains on sale of real estate | 7 | 46 | 49 | 70 |
| Impairment and other costs | (2) | (17) | (3) | (36) |
| Operating income | 155 | 303 | 359 | 541 |
| Benefit plan income, net | 8 | 11 | 15 | 22 |
| Settlement charges | — | (50) | — | (50) |
| Interest expense | (52) | (69) | (106) | (140) |
| Losses on early retirement of debt | — | (5) | — | (5) |
| Interest income | 5 | 7 | 12 | 12 |
| Income before income taxes | 116 | 197 | 280 | 380 |
| Federal, state and local income tax expense | (30) | (33) | (57) | (84) |
| Net income | 86 | 164 | 223 | 296 |
| Net loss attributable to noncontrolling interest | — | 2 | — | 10 |
| Net income attributable to Macy's, Inc. shareholders | $ 86 | $ 166 | $ 223 | $ 306 |
| Basic earnings per share attributable to Macy's, Inc. shareholders | $ 0.28 | $ 0.54 | $ 0.72 | $ 0.99 |
| Diluted earnings per share attributable to Macy's, Inc. shareholders | $ 0.28 | $ 0.53 | $ 0.71 | $ 0.98 |

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 | | 26 Weeks Ended | |
|---|---|---|---|---|
| | August 3, 2019 | August 4, 2018 | August 3, 2019 | August 4, 2018 |
| Net income | $ 86 | $ 164 | $ 223 | $ 296 |
| Other comprehensive income (loss): | | | | |
| Actuarial gain (loss) on post employment and postretirement benefit plans, before tax | — | (29) | — | (29) |
| Reclassifications to net income: | | | | |
| Amortization of net actuarial loss and prior service credit on post employment and postretirement benefit plans included in net income, before tax | 7 | 9 | 15 | 18 |
| Settlement charges, before tax | — | 50 | — | 50 |
| Tax effect related to items of other comprehensive income (loss) | (2) | (10) | (4) | (12) |
| Total other comprehensive income, net of tax effect | 5 | 20 | 11 | 27 |
| Comprehensive income | 91 | 184 | 234 | 323 |
| Comprehensive loss attributable to noncontrolling interest | — | 2 | — | 10 |
| Comprehensive income attributable to Macy's, Inc. shareholders | $ 91 | $ 186 | $ 234 | $ 333 |

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

**MACY’S, INC.**

**CONSOLIDATED BALANCE SHEETS**
**(Unaudited)**

**(millions)**

| | August 3, 2019 | February 2, 2019 | August 4, 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| Current Assets: | | | |
| Cash and cash equivalents | $ 674 | $ 1,162 | $ 1,068 |
| Receivables | 240 | 400 | 261 |
| Merchandise inventories | 5,029 | 5,263 | 4,956 |
| Prepaid expenses and other current assets | 603 | 620 | 580 |
| Total Current Assets | 6,546 | 7,445 | 6,865 |
| Property and Equipment - net of accumulated depreciation and amortization of $4,748, $4,495 and $4,914 | 6,483 | 6,637 | 6,547 |
| Right of Use Assets | 2,636 | — | — |
| Goodwill | 3,908 | 3,908 | 3,908 |
| Other Intangible Assets – net | 440 | 478 | 483 |
| Other Assets | 728 | 726 | 865 |
| Total Assets | $ 20,741 | $ 19,194 | $ 18,668 |
| **LIABILITIES AND SHAREHOLDERS’ EQUITY** | | | |
| Current Liabilities: | | | |
| Short-term debt | $ 6 | $ 43 | $ 63 |
| Merchandise accounts payable | 1,674 | 1,655 | 1,795 |
| Accounts payable and accrued liabilities | 2,739 | 3,366 | 2,608 |
| Income taxes | 20 | 168 | 15 |
| Total Current Liabilities | 4,439 | 5,232 | 4,481 |
| Long-Term Debt | 4,680 | 4,708 | 5,473 |
| Long-Term Lease Liabilities | 2,836 | — | — |
| Deferred Income Taxes | 1,206 | 1,238 | 1,194 |
| Other Liabilities | 1,265 | 1,580 | 1,626 |
| Shareholders' Equity: | | | |
| Macy's, Inc. | 6,315 | 6,436 | 5,916 |
| Noncontrolling interest | — | — | (22) |
| Total Shareholders’ Equity | 6,315 | 6,436 | 5,894 |
| Total Liabilities and Shareholders’ Equity | $ 20,741 | $ 19,194 | $ 18,668 |

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

**MACY’S, INC.**

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**
**(Unaudited)**

**(millions)**

| | Common Stock | Additional Paid-In Capital | Accumulated Equity | Treasury Stock | Accumulated Other Comprehensive Income (Loss) | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| Balance at February 2, 2019 | $ 3 | $ 652 | $ 8,050 | $ (1,318) | $ (951) | $ 6,436 |
| Cumulative-effect adjustment (a) | | | (158) | | | (158) |
| Net income | | | 136 | | | 136 |
| Other comprehensive income | | | | | 6 | 6 |
| Common stock dividends ($0.3775 per share) | | | (117) | | | (117) |
| Stock-based compensation expense | | 14 | | | | 14 |
| Stock issued under stock plans | | (60) | | 66 | | 6 |
| Balance at May 4, 2019 | 3 | 606 | 7,911 | (1,252) | (945) | 6,323 |
| Net income | | | 86 | | | 86 |
| Other comprehensive income | | | | | 5 | 5 |
| Common stock dividends ($0.3775 per share) | | | (117) | | | (117) |
| Stock-based compensation expense | | 14 | | | | 14 |
| Stock issued under stock plans | | (3) | | 4 | | 1 |
| Other | | | 3 | | | 3 |
| Balance at August 3, 2019 | $ 3 | $ 617 | $ 7,883 | $ (1,248) | $ (940) | $ 6,315 |

(a) Represents the cumulative-effect adjustment to retained earnings for the adoption of Accounting Standards Update 2016-02 (ASU-2016-02), *Leases* (Topic 842), on February 3, 2019.

| | Common Stock | Additional Paid-In Capital | Accumulated Equity | Treasury Stock | Accumulated Other Comprehensive Income (Loss) | Total Macy's, Inc. Shareholders' Equity | Non-controlling Interest | Total Shareholders' Equity |
|---|---|---|---|---|---|---|---|---|
| Balance at February 3, 2018 | $ 3 | $ 676 | $ 7,246 | $ (1,456) | $ (724) | $ 5,745 | $ (12) | $ 5,733 |
| Net income (loss) | | | 139 | | | 139 | (8) | 131 |
| Other comprehensive income | | | | | 7 | 7 | | 7 |
| Common stock dividends ($0.3775 per share) | | | (116) | | | (116) | | (116) |
| Stock-based compensation expense | | 17 | | | | 17 | | 17 |
| Stock issued under stock plans | | (51) | | 80 | | 29 | | 29 |
| Stranded tax costs (b) | | | 164 | | (164) | — | | — |
| Balance at May 5, 2018 | 3 | 642 | 7,433 | (1,376) | (881) | 5,821 | (20) | 5,801 |
| Net income (loss) | | | 166 | | | 166 | (2) | 164 |
| Other comprehensive income | | | | | 20 | 20 | | 20 |
| Common stock dividends ($0.3775 per share) | | | (116) | | | (116) | | (116) |
| Stock-based compensation expense | | 15 | | | | 15 | | 15 |
| Stock issued under stock plans | | (21) | | 31 | | 10 | | 10 |
| Balance at August 4, 2018 | $ 3 | $ 636 | $ 7,483 | $ (1,345) | $ (861) | $ 5,916 | $ (22) | $ 5,894 |

(b) Represents the reclassification of stranded tax effects to retained earnings as a result of U.S. federal tax reform.

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

**MACY'S, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(Unaudited)**

**(millions)**

| | 26 Weeks Ended | |
|---|---|---|
| | **August 3, 2019** | **August 4, 2018** |
| Cash flows from operating activities: | | |
| Net income | $ 223 | $ 296 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Impairment and other costs | 3 | 36 |
| Settlement charges | — | 50 |
| Depreciation and amortization | 472 | 470 |
| Stock-based compensation expense | 28 | 31 |
| Gains on sale of real estate | (49) | (70) |
| Deferred income taxes | 17 | 36 |
| Benefit plans | 15 | 18 |
| Amortization of financing costs and premium on acquired debt | 1 | (5) |
| Changes in assets and liabilities: | | |
| Decrease in receivables | 160 | 88 |
| Decrease in merchandise inventories | 234 | 221 |
| Decrease in prepaid expenses and other current assets | 19 | 29 |
| Increase in merchandise accounts payable | 55 | 219 |
| Decrease in accounts payable and accrued liabilities | (619) | (510) |
| Decrease in current income taxes | (149) | (271) |
| Change in other assets and liabilities | (60) | (94) |
| Net cash provided by operating activities | 350 | 544 |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (378) | (275) |
| Capitalized software | (123) | (133) |
| Disposition of property and equipment | 59 | 88 |
| Other, net | (12) | 8 |
| Net cash used by investing activities | (454) | (312) |
| Cash flows from financing activities: | | |
| Debt issuance costs | (3) | — |
| Debt repaid | (39) | (357) |
| Dividends paid | (233) | (232) |
| Decrease in outstanding checks | (128) | (90) |
| Issuance of common stock | 6 | 38 |
| Proceeds from noncontrolling interest | — | 5 |
| Net cash used by financing activities | (397) | (636) |
| Net decrease in cash, cash equivalents and restricted cash | (501) | (404) |
| Cash, cash equivalents and restricted cash beginning of period | 1,248 | 1,513 |
| Cash, cash equivalents and restricted cash end of period | $ 747 | $ 1,109 |
| Supplemental cash flow information: | | |
| Interest paid | $ 107 | $ 156 |
| Interest received | 12 | 11 |
| Income taxes paid (net of refunds received) | 189 | 319 |

Note: Restricted cash of $73 million and $41 million have been included with cash and cash equivalents for the 26 weeks ended August 3, 2019 and August 4, 2018, respectively.

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

## 1. Organization and 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 kids'), cosmetics, home furnishings and other consumer goods. The Company has stores in 43 states, the District of Columbia, Guam and Puerto Rico. As of August 3, 2019, the Company's operations were conducted through Macy's, Bloomingdale's, Bloomingdale's The Outlet, Macy's Backstage and bluemercury.

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 February 2, 2019 (the "2018 10-K"). The accompanying Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto in the 2018 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 26 weeks ended August 3, 2019 and August 4, 2018, 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 26 weeks ended August 3, 2019 and August 4, 2018 (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 26 weeks ended August 3, 2019 and August 4, 2018 relate to post employment and postretirement plan items. Settlement charges incurred are included as a separate component of income before income taxes 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 benefit plan income, net on the Consolidated Statements of Income. See Note 6, "Benefit Plans," for further information.

***Newly Adopted Accounting Pronouncements***

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), as amended, 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 are classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement.

The new standard was adopted by the Company on February 3, 2019 utilizing a modified retrospective approach that allowed for transition in the period of adoption. The Company adopted the package of practical expedients available at transition that retained the lease classification and initial direct costs for any leases that existed prior to adoption of the standard. Contracts entered into prior to adoption were not reassessed for leases or embedded leases. Upon adoption, the Company used hindsight in determining lease term and impairment. For lease and non-lease components, the Company has elected to account for both as a single lease component.

Adoption of the new standard resulted in the recording of additional net lease assets and lease liabilities of$2,519 million and $2,728 million, respectively, as of February 3, 2019. The difference of $209 million between the additional net lease assets and lease liabilities, net of the deferred tax impact of$54 million, was recorded as an adjustment to retained earnings. Prepaid rent, intangible lease assets, finance lease assets, and accrued and deferred rent as of February 3, 2019 were recorded as part of the ROU asset. Finance lease obligations as of February 3, 2019 were recorded as part of the lease liabilities. The standard did not materially impact the Company's consolidated net income and had no impact on cash flows.

**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 | | | | | |
|---|---|---|---|---|---|---|
| | August 3, 2019 | | | August 4, 2018 | | |
| | 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 | $ 86 | | 308.9 | $ 166 | | 306.8 |
| Shares to be issued under deferred compensation and other plans | | | 0.9 | | | 0.9 |
| | $ 86 | | 309.8 | $ 166 | | 307.7 |
| Basic earnings per share attributable to Macy's, Inc. shareholders | | $ 0.28 | | | $ 0.54 | |
| Effect of dilutive securities: | | | | | | |
| Stock options, restricted stock and restricted stock units | | | 1.8 | | | 4.3 |
| | $ 86 | | 311.6 | $ 166 | | 312.0 |
| Diluted earnings per share attributable to Macy's, Inc. shareholders | | $ 0.28 | | | $ 0.53 | |

| | 26 Weeks Ended | | | | | |
|---|---|---|---|---|---|---|
| | August 3, 2019 | | | August 4, 2018 | | |
| | 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 | $ 223 | | 308.6 | $ 306 | | 306.2 |
| Shares to be issued under deferred compensation and other plans | | | 0.9 | | | 0.9 |
| | $ 223 | | 309.5 | $ 306 | | 307.1 |
| Basic earnings per share attributable to Macy's, Inc. shareholders | | $ 0.72 | | | $ 0.99 | |
| Effect of dilutive securities: | | | | | | |
| Stock options, restricted stock and restricted stock units | | | 2.0 | | | 3.6 |
| | $ 223 | | 311.5 | $ 306 | | 310.7 |
| Diluted earnings per share attributable to Macy's, Inc. shareholders | | $ 0.71 | | | $ 0.98 | |

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 1.3 million shares of common stock were outstanding at August 3, 2019, 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.

In addition to the stock options and restricted stock units reflected in the foregoing tables, stock options to purchase 12.8 million shares of common stock and restricted stock units relating to 1.4 million shares of common stock were outstanding at August 4, 2018, 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. Revenue**

***Net sales***

Revenue is recognized when customers obtain control of goods and services promised by the Company. The amount of revenue recognized is based on the amount that reflects the consideration that is expected to be received in exchange for those respective goods and services. The Company's revenue generating activities include the following:

*Retail Sales*

Retail sales include merchandise sales, inclusive of delivery income, licensed department income, sales of private brand goods directly to third party retailers and sales of excess inventory to third parties. Sales of merchandise are recorded at the time of shipment to the customer and are reported net of estimated merchandise returns and certain customer incentives. Commissions earned on sales generated by licensed departments are included as a component of total net sales and are recognized as revenue at the time merchandise is sold to customers. Service revenues (e.g., alteration and cosmetic services) are recorded at the time the customer receives the benefit of the service. The Company has elected to present sales taxes on a net basis and, as such, sales taxes are included in accounts payable and accrued liabilities until remitted to the taxing authorities.

For the 13 and 26 weeks ended August 3, 2019, Macy's accounted for 88% of the Company's net sales. For the 13 and 26 weeks ended August 4, 2018, Macy's accounted for 89% and 88%, respectively, of the Company's net sales. Disaggregation of the Company's net sales by family of business for the 13 and 26 weeks ended August 3, 2019 and August 4, 2018 were as follows:

| | 13 Weeks Ended | | 26 Weeks Ended | |
|---|---|---|---|---|
| ***Net sales by family of business*** | **August 3, 2019** | **August 4, 2018** | **August 3, 2019** | **August 4, 2018** |
| | **(millions)** | | | |
| Women's Accessories, Intimate Apparel, Shoes, Cosmetics and Fragrances | $ 2,039 | $ 2,022 | $ 4,191 | $ 4,181 |
| Women's Apparel | 1,269 | 1,322 | 2,582 | 2,672 |
| Men's and Kids' | 1,266 | 1,273 | 2,468 | 2,447 |
| Home/Other (a) | 972 | 955 | 1,809 | 1,812 |
| Total | $ 5,546 | $ 5,572 | $ 11,050 | $ 11,112 |

(a) Other primarily includes restaurant sales, allowance for merchandise returns adjustments and breakage income from unredeemed gift cards.

*Merchandise Returns*

The Company estimates merchandise returns using historical data and recognizes an allowance that reduces net sales and cost of sales. The liability for merchandise returns is included in accounts payable and accrued liabilities on the Company's Consolidated Balance Sheets and was $227 million, $269 million and $243 million as of August 3, 2019, February 2, 2019 and August 4, 2018, respectively. Included in prepaid expenses and other current assets is an asset totaling $154 million, $188 million and $165 million as of August 3, 2019, February 2, 2019 and August 4, 2018, respectively, for the recoverable cost of merchandise estimated to be returned by customers.

*Gift Cards and Customer Loyalty Programs*

The Company only offers no-fee, non-expiring gift cards to its customers. At the time gift cards are sold or issued, no revenue is recognized; rather, the Company records an accrued liability to customers. The liability is relieved and revenue is recognized equal to the amount redeemed at the time gift cards are redeemed for merchandise. The Company records revenue from unredeemed gift cards (breakage) in net sales on a pro-rata basis over the time period gift cards are actually redeemed. At least three years of historical data, updated annually, is used to determine actual redemption patterns.

The Company maintains customer loyalty programs in which customers earn points based on their purchases. Under the Macy’s brand, points are earned based on customers’ spending on Macy’s private label and co-branded credit cards as well as non-proprietary cards during certain tender-neutral promotional events. Under the Bloomingdale’s brand, the Company offers a tender neutral points-based program. The Company recognizes the estimated net amount of the rewards that will be earned and redeemed as a reduction to net sales at the time of the initial transaction and as tender when the points are subsequently redeemed by a customer.

The liability for unredeemed gift cards and customer loyalty programs is included in accounts payable and accrued liabilities on the Company's Consolidated Balance Sheets and was $654 million, $856 million and $673 million as of August 3, 2019, February 2, 2019 and August 4, 2018, respectively.

*Credit Card Revenues, net*

In 2005, the Company entered into an arrangement with Citibank to sell the Company's private label and co-branded credit cards ("Credit Card Program"). Subsequent to this initial arrangement and associated amendments, in 2014, the Company entered into an amended and restated Credit Card Program Agreement (the "Program Agreement") with Citibank. As part of the Program Agreement, the Company receives payments for providing a combination of interrelated services and intellectual property to Citibank in support of the underlying Credit Card Program. Revenue based on the spending activity of the underlying accounts is recognized as the respective card purchases occur and the Company's profit share is recognized based on the performance of the underlying portfolio. Revenue associated with the establishment of new credit accounts and assisting in the receipt of payments for existing accounts is recognized as such activities occur. Credit card revenues include finance charges, late fees and other revenue generated by the Company's Credit Card Program, net of fraud losses and expenses associated with establishing new accounts.

## 4. Leases

The Company leases a portion of the real estate and personal property used in its operations. Most leases require the Company to pay real estate taxes, maintenance, insurance and other similar costs; some also require additional payments based on percentages of sales and some contain purchase options. Certain of the Company's real estate leases have terms that extend for a significant number of years and provide for rental rates that increase or decrease over time. Lease terms include the noncancellable portion of the underlying leases along with any reasonably certain lease periods associated with available renewal periods, termination options and purchase options.

Operating lease liabilities are recognized at the lease commencement date based on the present value of the fixed lease payments using the Company's incremental borrowing rates for its population of leases. Related operating ROU assets are recognized based on the initial present value of the fixed lease payments, reduced by contributions from landlords, plus any prepaid rent and direct costs from executing the leases. ROU assets are tested for impairment in the same manner as long-lived assets.

Leases with an initial term of 12 months or less are not recorded on the balance sheet; the Company recognizes lease expense for these leases on a straight-line basis over the lease term. Variable lease payments are recognized as lease expense as they are incurred.

Certain of the Company's leases contain covenants that restrict the ability of the tenant (typically a subsidiary of the Company) to take specified actions (including the payment of dividends or other amounts on account of its capital stock) unless the tenant satisfies certain financial tests.

ROU assets and lease liabilities consist of:

| | Classification | August 3, 2019 (millions) |
|---|---|---|
| **Assets** | | |
| Finance lease assets (a) | Right of Use Assets | $ 11 |
| Operating lease assets (b) | Right of Use Assets | 2,625 |
| Total leased assets | | $ 2,636 |
| | | |
| **Liabilities** | | |
| Current | | |
| Finance | Accounts payable and accrued liabilities | $ 1 |
| Operating (b) | Accounts payable and accrued liabilities | 350 |
| Noncurrent | | |
| Finance | Long-Term Lease Liabilities | 24 |
| Operating (b) | Long-Term Lease Liabilities | 2,812 |
| Total lease liabilities | | $ 3,187 |

(a) Finance lease assets are recorded net of accumulated amortization of $12 million as of August 3, 2019.
(b) As of August 3, 2019, operating lease assets included $398 million of non-lease components and current and noncurrent lease liabilities included $34 million and $369 million, respectively, of non-lease components.

The components of net lease expense are disclosed below. For the 13 and 26 weeks ended August 3, 2019, expense related to non-lease components was $21 million and $42 million, respectively, and variable lease expense was $3 million and $7 million, respectively.

| | Classification | 13 Weeks Ended August 3, 2019 | 26 Weeks Ended August 3, 2019 |
|---|---|---|---|
| | | (millions) | |
| Operating lease expense (c) | Selling, general and administrative expenses | $ 106 | $ 214 |
| Sublease income | Selling, general and administrative expenses | (1) | (1) |
| Net lease expense | | $ 105 | $ 213 |

(c) Certain supply chain operating lease expense amounts are included in cost of sales.

As of August 3, 2019, the maturity of lease liabilities is as follows:

| | Finance Leases (d) | Operating Leases (e and f) | Total |
|---|---|---|---|
| | | (millions) | |
| Fiscal year | | | |
| 2019 | $ 1 | $ 180 | $ 181 |
| 2020 | 3 | 332 | 335 |
| 2021 | 3 | 333 | 336 |
| 2022 | 3 | 311 | 314 |
| 2023 | 3 | 307 | 310 |
| After 2023 | 31 | 5,385 | 5,416 |
| Total undiscounted lease payments | 44 | 6,848 | 6,892 |
| Less amount representing interest | 19 | 3,686 | 3,705 |
| Total lease liabilities | $ 25 | $ 3,162 | $ 3,187 |

(d) Finance lease payments include $12 million related to options to extend lease terms that are reasonably certain of being exercised.
(e) Operating lease payments include $3,292 million related to options to extend lease terms that are reasonably certain of being exercised and exclude $936 million of legally binding minimum lease payments for leases signed but not yet commenced.
(f) Operating lease payments include $1,172 million related to non-lease component payments, with $ 844 million related to options to extend lease terms that are reasonably certain of being exercised.

Additional supplemental information regarding assumptions and cash flows for operating and finance leases is as follows:

| | August 3, 2019 |
|---|---|
| ***Lease Term and Discount Rate*** | (millions) |
| Weighted-average remaining lease term (years) | |
| Finance leases | 18.0 |
| Operating leases | 23.7 |
| Weighted-average discount rate | |
| Finance leases | 6.64 % |
| Operating leases | 6.70 % |

| | 26 Weeks Ended August 3, 2019 |
|---|---|
| ***Other Information*** | |
| Cash paid for amounts included in the measurement of lease liabilities | |
| Operating cash flows used from operating leases | $ 182 |
| Financing cash flows used from financing leases | 1 |
| Leased assets obtained in exchange for new operating lease liabilities | 39 |

As of February 2, 2019, as disclosed in the 2018 10-K, minimum rental commitments for noncancellable leases, including executed leases not yet commenced, were as follows:

| | Capitalized Leases (g) | Operating Leases | Total |
|---|---|---|---|
| | | (millions) | |
| Fiscal year | | | |
| 2019 | $ 3 | $ 325 | $ 328 |
| 2020 | 3 | 315 | 318 |
| 2021 | 3 | 309 | 312 |
| 2022 | 3 | 283 | 286 |
| 2023 | 3 | 264 | 267 |
| After 2023 | 31 | 2,758 | 2,789 |
| Total minimum lease payments | 46 | $ 4,254 | $ 4,300 |
| Less amount representing interest | 20 | | |
| Present value of net minimum capitalized lease payments | $ 26 | | |

(g) For purposes of the disclosure, capitalized lease is used interchangeably with finance lease.

## 5. Financing Activities

The following table shows the detail of debt repayments:

| | 26 Weeks Ended | |
|---|---|---|
| | August 3, 2019 | August 4, 2018 |
| | (millions) | |
| 6.9% Senior debentures due 2029 | $ — | $ 90 |
| 4.5% Senior notes due 2034 | — | 80 |
| 6.7% Senior notes due 2028 | — | 60 |
| 6.375% Senior notes due 2037 | — | 43 |
| 6.7% Senior debentures due 2034 | — | 28 |
| 7.0% Senior debentures due 2028 | — | 27 |
| 6.65% Senior debentures due 2024 | — | 11 |
| 6.9% Senior debentures due 2032 | — | 5 |
| 8.5% Senior debentures due 2019 | 36 | — |
| 9.5% Amortizing debentures due 2021 | 2 | 2 |
| 9.75% Amortizing debentures due 2021 | 1 | 1 |
| | $ 39 | $ 347 |

During the 26 weeks ended August 4, 2018, the Company repurchased $344 million face value of senior notes and debentures. The debt repurchases were made in the open market for a total cost of $354 million, including expenses related to the transactions. Such repurchases resulted in the recognition of expense of $5 million during the 13 and 26 weeks ended August 4, 2018 presented as losses on early retirement of debt on the Consolidated Statements of Income.

On May 9, 2019, the Company entered into a new credit agreement with certain financial institutions that replaced the previous credit agreement which was set to expire on May 6, 2021. Similar to the previous agreement, the new credit agreement provides 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). The new credit agreement is scheduled to expire on May 9, 2024, subject to up to two one-year extensions that may be requested by the Company and agreed to by the lenders.

## 6. 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.

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 | | 26 Weeks Ended | |
|---|---|---|---|---|
| | August 3, 2019 | August 4, 2018 | August 3, 2019 | August 4, 2018 |
| | (millions) | | (millions) | |
| 401(k) Qualified Defined Contribution Plan | $ 24 | $ 24 | $ 49 | $ 47 |
| Non-Qualified Defined Contribution Plan | $ 1 | $ 1 | $ 2 | $ 1 |
| Pension Plan | | | | |
| Service cost | $ 1 | $ 1 | $ 2 | $ 3 |
| Interest cost | 26 | 27 | 52 | 53 |
| Expected return on assets | (48) | (53) | (96) | (106) |
| Recognition of net actuarial loss | 7 | 8 | 14 | 16 |
| Amortization of prior service credit | — | — | — | — |
| | $ (14) | $ (17) | $ (28) | $ (34) |
| Supplementary Retirement Plan | | | | |
| Service cost | $ — | $ — | $ — | $ — |
| Interest cost | 6 | 5 | 12 | 11 |
| Recognition of net actuarial loss | 2 | 2 | 4 | 4 |
| Amortization of prior service cost | — | — | — | — |
| | $ 8 | $ 7 | $ 16 | $ 15 |
| Total Retirement Expense | $ 19 | $ 15 | $ 39 | $ 29 |
| Postretirement Obligations | | | | |
| Service cost | $ — | $ — | $ — | $ — |
| Interest cost | 1 | 1 | 2 | 2 |
| Recognition of net actuarial gain | (2) | (1) | (3) | (2) |
| Amortization of prior service credit | — | — | — | — |
| | $ (1) | $ — | $ (1) | $ — |

For the 13 and 26 weeks ended August 4, 2018, the Company incurred non-cash settlement charges of $50 million related 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 the result of an increase in lump sum distributions associated with store closings, organizational restructuring and periodic distribution activity.

## 7. 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:

| | August 3, 2019 | | | | August 4, 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | | Fair Value Measurements | | | | Fair Value Measurements | | |
| | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| | (millions) | | | | | | | |
| Marketable equity and debt securities | $ 112 | $ 31 | $ 81 | $ — | $ 96 | $ 27 | $ 69 | $ — |

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, excluding capital leases and other obligations:

| | August 3, 2019 | | | August 4, 2018 | | |
|---|---|---|---|---|---|---|
| | Notional Amount | Carrying Amount | Fair Value | Notional Amount | Carrying Amount | Fair Value |
| | (millions) | | | | | |
| Long-term debt | $ 4,667 | $ 4,680 | $ 4,742 | $ 5,423 | $ 5,447 | $ 5,314 |

## 8. 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 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 26 weeks ended August 3, 2019 and August 4, 2018, Condensed Consolidating Balance Sheets as of August 3, 2019, August 4, 2018 and February 2, 2019, and the related Condensed Consolidating Statements of Cash Flows for the 26 weeks ended August 3, 2019 and August 4, 2018 are presented on the following pages.

**Condensed Consolidating Statement of Comprehensive Income**
**For the 13 Weeks Ended August 3, 2019**
**(millions)**

| | Parent | Subsidiary Issuer | Other Subsidiaries | Consolidating Adjustments | Consolidated |
|---|---|---|---|---|---|
| Net sales | $ — | $ 2,219 | $ 4,416 | $ (1,089) | $ 5,546 |
| Credit card revenues (expense), net | — | (2) | 178 | — | 176 |
| | | | | | |
| Cost of sales | — | (1,341) | (3,143) | 1,089 | (3,395) |
| Selling, general and administrative expenses | — | (872) | (1,305) | — | (2,177) |
| Gains on sale of real estate | — | — | 7 | — | 7 |
| Impairment and other costs | — | — | (2) | — | (2) |
| Operating income | — | 4 | 151 | — | 155 |
| Benefit plan income, net | — | 3 | 5 | — | 8 |
| Interest (expense) income, net: | | | | | |
| External | 4 | (52) | 1 | — | (47) |
| Intercompany | — | (18) | 18 | — | — |
| Equity in earnings (loss) of subsidiaries | 82 | (108) | — | 26 | — |
| Income (loss) before income taxes | 86 | (171) | 175 | 26 | 116 |
| Federal, state and local income tax benefit (expense) | — | 7 | (37) | — | (30) |
| Net income (loss) | 86 | (164) | 138 | 26 | 86 |
| Net loss attributable to noncontrolling interest | — | — | — | — | — |
| Net income (loss) attributable to Macy's, Inc. shareholders | $ 86 | $ (164) | $ 138 | $ 26 | $ 86 |
| Comprehensive income (loss) | $ 91 | $ (159) | $ 142 | $ 17 | $ 91 |
| Comprehensive loss attributable to noncontrolling interest | — | — | — | — | — |
| Comprehensive income (loss) attributable to Macy's, Inc. shareholders | $ 91 | $ (159) | $ 142 | $ 17 | $ 91 |

**Condensed Consolidating Statement of Comprehensive Income**
**For the 13 Weeks Ended August 4, 2018**
**(millions)**

| | Parent | Subsidiary Issuer | Other Subsidiaries | Consolidating Adjustments | Consolidated |
|---|---|---|---|---|---|
| Net sales | $ — | $ 2,072 | $ 4,914 | $ (1,414) | $ 5,572 |
| Credit card revenues, net | — | 3 | 183 | — | 186 |
| | | | | | |
| Cost of sales | — | (1,271) | (3,463) | 1,414 | (3,320) |
| Selling, general and administrative expenses | — | (812) | (1,352) | — | (2,164) |
| Gains on sale of real estate | — | 19 | 27 | — | 46 |
| Impairment and other costs | — | 2 | (19) | — | (17) |
| Operating income | — | 13 | 290 | — | 303 |
| Benefit plan income, net | — | 4 | 7 | — | 11 |
| Settlement charges | (6) | (16) | (28) | — | (50) |
| Interest (expense) income, net: | | | | | |
| External | 5 | (69) | 2 | — | (62) |
| Intercompany | — | (17) | 17 | — | — |
| Losses on early retirement of debt | — | (5) | — | — | (5) |
| Equity in earnings of subsidiaries | 167 | 8 | — | (175) | — |
| Income (loss) before income taxes | 166 | (82) | 288 | (175) | 197 |
| Federal, state and local income tax benefit (expense) | — | 30 | (63) | — | (33) |
| Net income (loss) | 166 | (52) | 225 | (175) | 164 |
| Net loss attributable to noncontrolling interest | — | — | 2 | — | 2 |
| Net income (loss) attributable to Macy's, Inc. shareholders | $ 166 | $ (52) | $ 227 | $ (175) | $ 166 |
| Comprehensive income (loss) | $ 186 | $ (35) | $ 236 | $ (203) | $ 184 |
| Comprehensive loss attributable to noncontrolling interest | — | — | 2 | — | 2 |
| Comprehensive income (loss) attributable to Macy's, Inc. shareholders | $ 186 | $ (35) | $ 238 | $ (203) | $ 186 |

**Condensed Consolidating Statement of Comprehensive Income**
**For the 26 Weeks Ended August 3, 2019**
**(millions)**

| | Parent | Subsidiary Issuer | Other Subsidiaries | Consolidating Adjustments | Consolidated |
|---|---|---|---|---|---|
| Net sales | $ — | $ 4,373 | $ 9,184 | $ (2,507) | $ 11,050 |
| Credit card revenues (expense), net | — | (5) | 353 | — | 348 |
| | | | | | |
| Cost of sales | — | (2,682) | (6,623) | 2,507 | (6,798) |
| Selling, general and administrative expenses | 1 | (1,674) | (2,614) | — | (4,287) |
| Gains on sale of real estate | — | 24 | 25 | — | 49 |
| Impairment and other costs | — | — | (3) | — | (3) |
| Operating income | 1 | 36 | 322 | — | 359 |
| Benefit plan income, net | — | 6 | 9 | — | 15 |
| Interest (expense) income, net: | | | | | |
| External | 9 | (105) | 2 | — | (94) |
| Intercompany | — | (37) | 37 | — | — |
| Equity in earnings (loss) of subsidiaries | 214 | (138) | — | (76) | — |
| Income (loss) before income taxes | 224 | (238) | 370 | (76) | 280 |
| Federal, state and local income tax benefit (expense) | (1) | 31 | (87) | — | (57) |
| Net income (loss) | 223 | (207) | 283 | (76) | 223 |
| Net loss attributable to noncontrolling interest | — | — | — | — | — |
| Net income (loss) attributable to Macy's, Inc. shareholders | $ 223 | $ (207) | $ 283 | $ (76) | $ 223 |
| Comprehensive income (loss) | $ 234 | $ (197) | $ 291 | $ (94) | $ 234 |
| Comprehensive loss attributable to noncontrolling interest | — | — | — | — | — |
| Comprehensive income (loss) attributable to Macy's, Inc. shareholders | $ 234 | $ (197) | $ 291 | $ (94) | $ 234 |

**Condensed Consolidating Statement of Comprehensive Income**
**For the 26 Weeks Ended August 4, 2018**
**(millions)**

| | Parent | Subsidiary Issuer | Other Subsidiaries | Consolidating Adjustments | Consolidated |
|---|---|---|---|---|---|
| Net sales | $ — | $ 4,081 | $ 10,277 | $ (3,246) | $ 11,112 |
| Credit card revenues (expense), net | — | (3) | 346 | — | 343 |
| | | | | | |
| Cost of sales | — | (2,591) | (7,356) | 3,246 | (6,701) |
| Selling, general and administrative expenses | — | (1,641) | (2,606) | — | (4,247) |
| Gains on sale of real estate | — | 42 | 28 | — | 70 |
| Impairment and other costs | — | 2 | (38) | — | (36) |
| Operating income (loss) | — | (110) | 651 | — | 541 |
| Benefit plan income, net | — | 8 | 14 | — | 22 |
| Settlement charges | (6) | (16) | (28) | — | (50) |
| Interest (expense) income, net: | | | | | |
| External | 9 | (139) | 2 | — | (128) |
| Intercompany | — | (36) | 36 | — | — |
| Losses on early retirement of debt | — | (5) | — | — | (5) |
| Equity in earnings of subsidiaries | 304 | 109 | — | (413) | — |
| Income (loss) before income taxes | 307 | (189) | 675 | (413) | 380 |
| Federal, state and local income tax benefit (expense) | (1) | 67 | (150) | — | (84) |
| Net income (loss) | 306 | (122) | 525 | (413) | 296 |
| Net loss attributable to noncontrolling interest | — | — | 10 | — | 10 |
| Net income (loss) attributable to Macy's, Inc. shareholders | $ 306 | $ (122) | $ 535 | $ (413) | $ 306 |
| Comprehensive income (loss) | $ 333 | $ (99) | $ 540 | $ (451) | $ 323 |
| Comprehensive loss attributable to noncontrolling interest | — | — | 10 | — | 10 |
| Comprehensive income (loss) attributable to Macy's, Inc. shareholders | $ 333 | $ (99) | $ 550 | $ (451) | $ 333 |

**Condensed Consolidating Balance Sheet**
**As of August 3, 2019**
**(millions)**

| | Parent | Subsidiary Issuer | Other Subsidiaries | Consolidating Adjustments | Consolidated |
|---|---|---|---|---|---|
| ASSETS: | | | | | |
| Current Assets: | | | | | |
| Cash and cash equivalents | $ 320 | $ 100 | $ 254 | $ — | $ 674 |
| Receivables | 1 | 44 | 195 | — | 240 |
| Merchandise inventories | — | 2,138 | 2,891 | — | 5,029 |
| Prepaid expenses and other current assets | — | 139 | 464 | — | 603 |
| Income taxes | 39 | — | — | (39) | — |
| Total Current Assets | 360 | 2,421 | 3,804 | (39) | 6,546 |
| Property and Equipment – net | — | 3,162 | 3,321 | — | 6,483 |
| Right of Use Assets | — | 660 | 1,976 | — | 2,636 |
| Goodwill | — | 3,326 | 582 | — | 3,908 |
| Other Intangible Assets – net | — | 4 | 436 | — | 440 |
| Other Assets | — | 39 | 689 | — | 728 |
| Deferred Income Taxes | 9 | — | — | (9) | — |
| Intercompany Receivable | 2,564 | — | 643 | (3,207) | — |
| Investment in Subsidiaries | 3,484 | 2,957 | — | (6,441) | — |
| Total Assets | $ 6,417 | $ 12,569 | $ 11,451 | $ (9,696) | $ 20,741 |
| LIABILITIES AND SHAREHOLDERS' EQUITY: | | | | | |
| Current Liabilities: | | | | | |
| Short-term debt | $ — | $ 6 | $ — | $ — | $ 6 |
| Merchandise accounts payable | — | 717 | 957 | — | 1,674 |
| Accounts payable and accrued liabilities | 74 | 754 | 1,911 | — | 2,739 |
| Income taxes | — | 47 | 12 | (39) | 20 |
| Total Current Liabilities | 74 | 1,524 | 2,880 | (39) | 4,439 |
| Long-Term Debt | — | 4,680 | — | — | 4,680 |
| Long-Term Lease Liabilities | — | 594 | 2,242 | — | 2,836 |
| Intercompany Payable | — | 3,207 | — | (3,207) | — |
| Deferred Income Taxes | — | 643 | 572 | (9) | 1,206 |
| Other Liabilities | 28 | 364 | 873 | — | 1,265 |
| Shareholders' Equity: | | | | | |
| Macy's, Inc. | 6,315 | 1,557 | 4,884 | (6,441) | 6,315 |
| Noncontrolling Interest | — | — | — | — | — |
| Total Shareholders' Equity | 6,315 | 1,557 | 4,884 | (6,441) | 6,315 |
| Total Liabilities and Shareholders' Equity | $ 6,417 | $ 12,569 | $ 11,451 | $ (9,696) | $ 20,741 |

**Condensed Consolidating Balance Sheet**
**As of August 4, 2018**
**(millions)**

| | Parent | Subsidiary Issuer | Other Subsidiaries | Consolidating Adjustments | Consolidated |
|---|---|---|---|---|---|
| ASSETS: | | | | | |
| Current Assets: | | | | | |
| Cash and cash equivalents | $ 744 | $ 66 | $ 258 | $ — | $ 1,068 |
| Receivables | 1 | 43 | 217 | — | 261 |
| Merchandise inventories | — | 2,121 | 2,835 | — | 4,956 |
| Prepaid expenses and other current assets | — | 135 | 445 | — | 580 |
| Income taxes | 46 | — | — | (46) | — |
| Total Current Assets | 791 | 2,365 | 3,755 | (46) | 6,865 |
| Property and Equipment – net | — | 3,253 | 3,294 | — | 6,547 |
| Goodwill | — | 3,326 | 582 | — | 3,908 |
| Other Intangible Assets – net | — | 41 | 442 | — | 483 |
| Other Assets | — | 89 | 776 | — | 865 |
| Deferred Income Taxes | 10 | — | — | (10) | — |
| Intercompany Receivable | 1,347 | — | 1,038 | (2,385) | — |
| Investment in Subsidiaries | 3,876 | 3,140 | — | (7,016) | — |
| Total Assets | $ 6,024 | $ 12,214 | $ 9,887 | $ (9,457) | $ 18,668 |
| LIABILITIES AND SHAREHOLDERS’ EQUITY: | | | | | |
| Current Liabilities: | | | | | |
| Short-term debt | $ — | $ 42 | $ 21 | $ — | $ 63 |
| Merchandise accounts payable | — | 788 | 1,007 | — | 1,795 |
| Accounts payable and accrued liabilities | 84 | 777 | 1,747 | — | 2,608 |
| Income taxes | — | 33 | 28 | (46) | 15 |
| Total Current Liabilities | 84 | 1,640 | 2,803 | (46) | 4,481 |
| Long-Term Debt | — | 5,457 | 16 | — | 5,473 |
| Intercompany Payable | — | 2,385 | — | (2,385) | — |
| Deferred Income Taxes | — | 588 | 616 | (10) | 1,194 |
| Other Liabilities | 24 | 441 | 1,161 | — | 1,626 |
| Shareholders' Equity: | | | | | |
| Macy's, Inc. | 5,916 | 1,703 | 5,313 | (7,016) | 5,916 |
| Noncontrolling Interest | — | — | (22) | — | (22) |
| Total Shareholders' Equity | 5,916 | 1,703 | 5,291 | (7,016) | 5,894 |
| Total Liabilities and Shareholders' Equity | $ 6,024 | $ 12,214 | $ 9,887 | $ (9,457) | $ 18,668 |

**Condensed Consolidating Balance Sheet**
**As of February 2, 2019**
**(millions)**

| | Parent | Subsidiary Issuer | Other Subsidiaries | Consolidating Adjustments | Consolidated |
|---|---|---|---|---|---|
| ASSETS: | | | | | |
| Current Assets: | | | | | |
| Cash and cash equivalents | $ 889 | $ 59 | $ 214 | $ — | $ 1,162 |
| Receivables | — | 68 | 332 | — | 400 |
| Merchandise inventories | — | 2,342 | 2,921 | — | 5,263 |
| Prepaid expenses and other current assets | — | 143 | 477 | — | 620 |
| Total Current Assets | 889 | 2,612 | 3,944 | — | 7,445 |
| Property and Equipment – net | — | 3,287 | 3,350 | — | 6,637 |
| Goodwill | — | 3,326 | 582 | — | 3,908 |
| Other Intangible Assets – net | — | 38 | 440 | — | 478 |
| Other Assets | — | 41 | 685 | — | 726 |
| Deferred Income Taxes | 12 | — | — | (12) | — |
| Intercompany Receivable | 1,713 | — | 1,390 | (3,103) | — |
| Investment in Subsidiaries | 4,030 | 3,119 | — | (7,149) | — |
| Total Assets | $ 6,644 | $ 12,423 | $ 10,391 | $ (10,264) | $ 19,194 |
| LIABILITIES AND SHAREHOLDERS' EQUITY: | | | | | |
| Current Liabilities: | | | | | |
| Short-term debt | $ — | $ 42 | $ 1 | $ — | $ 43 |
| Merchandise accounts payable | — | 713 | 942 | — | 1,655 |
| Accounts payable and accrued liabilities | 170 | 950 | 2,246 | — | 3,366 |
| Income taxes | 14 | 52 | 102 | — | 168 |
| Total Current Liabilities | 184 | 1,757 | 3,291 | — | 5,232 |
| Long-Term Debt | — | 4,692 | 16 | — | 4,708 |
| Intercompany Payable | — | 3,103 | — | (3,103) | — |
| Deferred Income Taxes | — | 679 | 571 | (12) | 1,238 |
| Other Liabilities | 24 | 406 | 1,150 | — | 1,580 |
| Shareholders' Equity: | | | | | |
| Macy's, Inc. | 6,436 | 1,786 | 5,363 | (7,149) | 6,436 |
| Noncontrolling Interest | — | — | — | — | — |
| Total Shareholders' Equity | 6,436 | 1,786 | 5,363 | (7,149) | 6,436 |
| Total Liabilities and Shareholders' Equity | $ 6,644 | $ 12,423 | $ 10,391 | $ (10,264) | $ 19,194 |

**Condensed Consolidating Statement of Cash Flows**
**For the 26 Weeks Ended August 3, 2019**
**(millions)**

| | Parent | Subsidiary Issuer | Other Subsidiaries | Consolidating Adjustments | Consolidated |
|---|---|---|---|---|---|
| Cash flows from operating activities: | | | | | |
| Net income (loss) | $ 223 | $ (207) | $ 283 | $ (76) | $ 223 |
| Impairment and other costs | — | — | 3 | — | 3 |
| Equity in loss (earnings) of subsidiaries | (214) | 138 | — | 76 | — |
| Dividends received from subsidiaries | 606 | — | — | (606) | — |
| Depreciation and amortization | — | 169 | 303 | — | 472 |
| Gains on sale of real estate | — | (24) | (25) | — | (49) |
| Changes in assets, liabilities and other items not separately identified | (52) | 47 | (294) | — | (299) |
| Net cash provided by operating activities | 563 | 123 | 270 | (606) | 350 |
| Cash flows from investing activities: | | | | | |
| Purchase of property and equipment and capitalized software, net of dispositions | — | (97) | (345) | — | (442) |
| Other, net | — | (11) | (1) | — | (12) |
| Net cash used by investing activities | — | (108) | (346) | — | (454) |
| Cash flows from financing activities: | | | | | |
| Debt repaid, including debt issuance costs | — | (42) | — | — | (42) |
| Dividends paid | (233) | — | (606) | 606 | (233) |
| Issuance of common stock | 6 | — | — | — | 6 |
| Intercompany activity, net | (813) | 93 | 720 | — | — |
| Other, net | (92) | (21) | (15) | — | (128) |
| Net cash provided (used) by financing activities | (1,132) | 30 | 99 | 606 | (397) |
| Net increase (decrease) in cash, cash equivalents and restricted cash | (569) | 45 | 23 | — | (501) |
| Cash, cash equivalents and restricted cash at beginning of period | 889 | 64 | 295 | — | 1,248 |
| Cash, cash equivalents and restricted cash at end of period | $ 320 | $ 109 | $ 318 | $ — | $ 747 |

**Condensed Consolidating Statement of Cash Flows**
**For the 26 Weeks Ended August 4, 2018**
**(millions)**

| | Parent | Subsidiary Issuer | Other Subsidiaries | Consolidating Adjustments | Consolidated |
|---|---|---|---|---|---|
| Cash flows from operating activities: | | | | | |
| Net income (loss) | $ 306 | $ (122) | $ 525 | $ (413) | $ 296 |
| Impairment and other costs | — | (2) | 38 | — | 36 |
| Settlement charges | 6 | 16 | 28 | — | 50 |
| Equity in earnings of subsidiaries | (304) | (109) | — | 413 | — |
| Dividends received from subsidiaries | 492 | — | — | (492) | — |
| Depreciation and amortization | — | 165 | 305 | — | 470 |
| Gains on sale of real estate | — | (42) | (28) | — | (70) |
| Changes in assets, liabilities and other items not separately identified | (154) | 298 | (381) | (1) | (238) |
| Net cash provided by operating activities | 346 | 204 | 487 | (493) | 544 |
| Cash flows from investing activities: | | | | | |
| Purchase of property and equipment and capitalized software, net of dispositions | — | (49) | (271) | — | (320) |
| Other, net | — | (15) | (28) | 51 | 8 |
| Net cash used by investing activities | — | (64) | (299) | 51 | (312) |
| Cash flows from financing activities: | | | | | |
| Debt repaid | — | (306) | (1) | (50) | (357) |
| Dividends paid | (232) | — | (492) | 492 | (232) |
| Issuance of common stock | 38 | — | — | — | 38 |
| Proceeds from noncontrolling interest | — | — | 5 | — | 5 |
| Intercompany activity, net | (441) | 162 | 279 | — | — |
| Other, net | (76) | (9) | (5) | — | (90) |
| Net cash used by financing activities | (711) | (153) | (214) | 442 | (636) |
| Net decrease in cash, cash equivalents and restricted cash | (365) | (13) | (26) | — | (404) |
| Cash, cash equivalents and restricted cash at beginning of period | 1,109 | 79 | 325 | — | 1,513 |
| Cash, cash equivalents and restricted cash at end of period | $ 744 | $ 66 | $ 299 | $ — | $ 1,109 |

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

For purposes of the following discussion, all references to "second quarter of 2019" and "second quarter of 2018" are to the Company's 13-week fiscal periods ended August 3, 2019 and August 4, 2018, respectively. References to "2019" and "2018" are to the Company's 26-week periods ended August 3, 2019 and August 4, 2018, 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 2018 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 "Risk Factors" and in "Forward-Looking Statements") and in the 2018 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 33 and 34.

***Overview***

During the second quarter of 2019, the Company delivered comparable sales growth, but earnings results for the period were below expectations. The Company entered the quarter with elevated spring inventory levels, but slower sales at the beginning of the quarter along with accelerated declines in international tourism created a need to take additional markdowns to clear excess spring inventory. Actions have been and are being taken to support a higher gross margin rate in the back half of fiscal 2019:

- Inventory was well positioned at the end of the second quarter and fall receipt planning is leaner.
- The Company is enhancing its inventory allocation strategy, enabling it to reallocate inventory in-season throughout its various sales channels based on customer demand, which is expected to result in fewer markdowns and out-of-stocks.
- The Company is evolving its marketing strategy to leverage strategic partnerships, simplify offers, and improve segmentation and targeting of customers.
- Data analytic capabilities are being enhanced to provide more granular information and to assist in executing pricing and markdown decisions at a localized level.

In addition to the above actions, the Company has continued to invest in its fiscal 2019 strategic initiatives and such investment is expected to contribute to comparable sales growth in the back half of the year:

- Work on the Growth100 locations is ahead of fiscal 2018's schedule and is expected to be completed well in advance of the fiscal 2019 holiday season. Sales for the original Growth50 locations continue to outperform the other Macy's locations and it is expected that the Growth150 locations will make up approximately 50% of Macy's store location sales.
- Macy's Backstage has been expanded to 47 additional locations in fiscal 2019 and three additional locations are expected to open later this year. In total, the Company was operating 219 Macy's Backstage locations (212 inside Macy's stores and seven freestanding locations) as of August 3, 2019. In addition, the Company has opened its Macy's Backstage specific distribution center in Columbus, Ohio to provide improved logistic efficiency, speed and scale to support the continued growth of this off-price business.
- The Company's vendor direct program (i.e., merchandise purchased from the Company's websites and digital applications and shipped directly to customers from the respective vendor) has continued to expand and is on track to reach 1 million SKUs by the end of fiscal 2019.
- The mobile-first strategy has continued to create a better omnichannel experience for customers, and mobile continues to remain the Company's fastest growing channel.
- Sales at the Company's destination businesses (six merchandise categories: dresses, fine jewelry, big ticket, men's tailored, women's shoes and beauty) were up approximately 5% in the second quarter of 2019 and accounted for almost 40% of the Company's sales. Additional resources are being allocated to these categories to continue to drive growth and increase market share.

Bloomingdale's experienced a challenging quarter, driven largely by declines in international tourism. Women's and men's shoes and Bloomingdale's The Outlets performed well during the quarter. Two additional Bloomingdale's The Outlets are planned to open in the third quarter of 2019.

Bluemercury, the Company's luxury beauty products and spa retailer, continued its growth during the quarter both in stand-alone stores and stores within Macy's stores. In total, the Company was operating 187 bluemercury locations (20 inside Macy's stores and 167 freestanding locations) as of August 3, 2019.

***Results of Operations***

*Comparison of the Second Quarter of 2019 and the Second Quarter of 2018*

| | Second Quarter of 2019 | | Second Quarter of 2018 | |
|---|---|---|---|---|
| | Amount | % to Net Sales | Amount | % to Net Sales |
| | (dollars in millions, except per share figures) | | | |
| Net sales | $ 5,546 | | $ 5,572 | |
| Credit card revenues, net | 176 | 3.2 % | 186 | 3.3 % |
| Cost of sales | (3,395) | (61.2) % | (3,320) | (59.6) % |
| Selling, general and administrative expenses | (2,177) | (39.3) % | (2,164) | (38.8) % |
| Gains on sale of real estate | 7 | 0.1 % | 46 | 0.8 % |
| Impairment and other costs | (2) | — % | (17) | (0.3) % |
| Operating income | 155 | 2.8 % | 303 | 5.4 % |
| Benefit plan income, net | 8 | | 11 | |
| Settlement charges | — | | (50) | |
| Interest expense, net | (47) | | (62) | |
| Losses on the early retirement of debt | — | | (5) | |
| Income before income taxes | 116 | | 197 | |
| Federal, state and local income tax expense | (30) | | (33) | |
| Net income | 86 | | 164 | |
| Net loss attributable to noncontrolling interest | — | | 2 | |
| Net income attributable to Macy's, Inc. shareholders | $ 86 | 1.6 % | $ 166 | 3.0 % |
| Diluted earnings per share attributable to Macy's, Inc. shareholders | $ 0.28 | | $ 0.53 | |
| Supplemental Financial Measure | | | | |
| Gross margin (a) | $ 2,151 | 38.8 % | $ 2,252 | 40.4 % |
| Supplemental Non-GAAP Financial Measure | | | | |
| Diluted earnings per share attributable to Macy's, Inc. shareholders, excluding the impact of certain items | $ 0.28 | | $ 0.70 | |

(a) Gross margin is defined as net sales less cost of sales.

*Net Sales and Comparable Sales*

Net sales for the second quarter of 2019 decreased $26 million, or 0.5%, compared to the second quarter of 2018. Comparable sales on an owned basis for the second quarter of 2019 increased 0.2% compared to the second quarter of 2018. On an owned plus licensed basis, comparable sales increased 0.3% during the second quarter of 2019.

Digital sales continued to experience strong growth with double-digit gains in thesecond quarter of 2019 and sales performance was strong in the Company's Growth50 locations and its destination businesses, particularly fine jewelry, men's tailored and women's shoes. Sales performance was weaker in the home and ready-to-wear categories. International tourism sales were down approximately 9.0% in the quarter. Geographically, the North Central was the strongest region during the second quarter of 2019.

*Credit Card Revenues, Net*

Credit card revenues, net were $176 million in the second quarter of 2019, a decrease of $10 million, or 5.4%, compared to $186 million recognized in the second quarter of 2018. This decrease was driven by increased fraud and bad debt realized by the credit card program, which impacted the profit share recognized in the quarter. Proprietary card penetration increased 10 basis points to 46.7% in the second quarter of 2019 compared to 46.6% in the second quarter of 2018.

*Cost of Sales*

Cost of sales increased by $75 million compared to the second quarter of 2018, a 160 basis point increase as a percent to net sales to 61.2% in the second quarter of 2019. The increase in cost of sales was primarily driven by increased markdowns needed to clear excess inventories as well as higher delivery expense, which resulted from free shipping offered as part of the Company's loyalty programs coupled with increased digital sales transaction volume compared to the prior year quarter.

*Selling, General and Administrative Expenses*

Selling, general and administrative ("SG&A") expenses for the second quarter of 2019 increased $13 million from the second quarter of 2018. The SG&A rate as a percent to net sales of 39.3% was 50 basis points higher in the second quarter of 2019, as compared to the second quarter of 2018. This increase in SG&A expenses was driven primarily by investments in the expansion of Macy's Backstage as well as the other strategic initiatives previously discussed.

*Gains on Sale of Real Estate*

The second quarter of 2019 included asset sale gains of $7 million compared to $46 million in the second quarter of 2018. The second quarter of 2018 asset sale gains were driven by approximately $17 million related to the Macy's Brooklyn transaction.

*Impairment and Other Costs*

The second quarters of 2019 and 2018 included $2 million and $17 million, respectively, of impairment and other costs. Impairment and other costs in the second quarter of 2018 were associated with the wind-down of Macy's China Limited.

*Benefit Plan Income, Net*

The second quarters of 2019 and 2018 included $8 million and $11 million, respectively, of non-cash net benefit plan income relating to the Company's defined benefit plans. This income includes the net of: interest cost, expected return on plan assets and amortization of prior service costs or credits and actuarial gains and losses.

*Settlement Charges*

The second quarter of 2018 included $50 million of non-cash settlement charges related 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 primarily associated with retiree distribution elections and restructuring activity.

*Net Interest Expense*

Net interest expense for the second quarter of 2019 decreased $15 million from the second quarter of 2018 due to a reduction in the Company's debt resulting from tender offer and open market repurchases in 2018.

*Losses on Early Retirement of Debt*

In the second quarter of 2018, the Company repurchased approximately $344 million face value of senior notes and debentures. The debt repurchases were made in the open market for a total cost of approximately $354 million, including expenses related to the transactions. As a result of the debt repurchases, the Company recognized $5 million in expenses and fees net of the write-off of unamortized debt premiums in the second quarter of 2018.

*Effective Tax Rate*

The Company's effective tax rate was 25.9% for the second quarter of 2019 and 16.8% for the second quarter of 2018 compared to the federal income tax statutory rate of 21%. The quarterly effective tax rates were impacted by the settlement of certain state and local tax matters.

*Net Income Attributable to Macy's, Inc. Shareholders*

Net income attributable to Macy's, Inc. shareholders for the second quarter of 2019 decreased $80 million compared to the second quarter of 2018. The second quarter of 2019 was driven by lower operating income partially offset by lower interest expense and lower settlement charges than the second quarter of 2018.

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

Diluted earnings per share for the second quarter of 2019 decreased $0.25 compared to the second quarter of 2018, reflecting lower net income.

*Comparison of the 26 Weeks Ended August 3, 2019 and August 4, 2018*

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Amount | % to Net Sales | Amount | % to Net Sales |
| | (dollars in millions, except per share figures) | | | |
| Net sales | $ 11,050 | | $ 11,112 | |
| Credit card revenues, net | 348 | 3.1 % | 343 | 3.1 % |
| | | | | |
| Cost of sales | (6,798) | (61.5) % | (6,701) | (60.3) % |
| Selling, general and administrative expenses | (4,287) | (38.8) % | (4,247) | (38.2) % |
| Gains on sale of real estate | 49 | 0.4 % | 70 | 0.6 % |
| Impairment and other costs | (3) | — % | (36) | (0.3) % |
| Operating income | 359 | 3.2 % | 541 | 4.9 % |
| Benefit plan income, net | 15 | | 22 | |
| Settlement charges | — | | (50) | |
| Interest expense, net | (94) | | (128) | |
| Losses on the early retirement of debt | — | | (5) | |
| Income before income taxes | 280 | | 380 | |
| Federal, state and local income tax expense | (57) | | (84) | |
| Net income | 223 | | 296 | |
| Net loss attributable to noncontrolling interest | — | | 10 | |
| Net income attributable to Macy's, Inc. shareholders | $ 223 | 2.0 % | $ 306 | 2.8 % |
| | | | | |
| Diluted earnings per share attributable to Macy's, Inc. shareholders | $ 0.71 | | $ 0.98 | |
| | | | | |
| Supplemental Financial Measure | | | | |
| Gross margin (a) | $ 4,252 | 38.5 % | $ 4,411 | 39.7 % |
| | | | | |
| Supplemental Non-GAAP Financial Measure | | | | |
| Diluted earnings per share attributable to Macy's, Inc. shareholders, excluding the impact of certain items | $ 0.72 | | $ 1.19 | |

(a) Gross margin is defined as net sales less cost of sales.

*Net Sales and Comparable Sales*

Net sales for 2019 decreased $62 million, or 0.6%, compared to 2018. Comparable sales on an owned basis for 2019 increased 0.4% compared to 2018. On an owned plus licensed basis, comparable sales increased 0.5% during 2019.

Digital sales continued to experience strong growth with double-digit gains in 2019 and Macy's Growth50 locations and destination businesses achieved strong growth. Sales during 2019 were strong in the merchandise categories that make up our destination businesses, particularly dresses, fine jewelry, men's tailored and women's shoes. Active and kids were also strong performers during 2019, while sales were weaker in handbags and ready-to-wear categories during 2019. Geographically, the North Central was the strongest region during 2019.

*Credit Card Revenues, Net*

Credit card revenues, net were $348 million in 2019, an increase of $5 million compared to $343 million recognized in 2018. Increased proprietary card usage driven by the enhanced Macy's Star Rewards loyalty program and higher consumer credit balances drove the favorable results. Proprietary card penetration increased 40 basis points to 46.5% in 2019 compared to 46.1% in 2018.

*Cost of Sales*

Cost of sales increased by $97 million compared to 2018, a 120 basis point increase as a percent to net sales to 61.5% in 2019. The increase in cost of sales was primarily driven by markdowns taken during the spring as well as higher delivery expense which resulted from free shipping offered as part of the Company's loyalty programs coupled with increased digital sales transaction volume compared to the prior year.

*Selling, General and Administrative Expenses*

SG&A expenses for 2019 increased $40 million from 2018. The SG&A rate as a percent to net sales of 38.8% was 60 basis points higher in 2019, as compared to 2018. This increase in SG&A expenses was driven primarily by investments in the expansion of Macy's Backstage as well as the other strategic initiatives previously discussed.

*Gains on Sale of Real Estate*

2019 included asset sale gains of $49 million compared to $70 million in 2018. 2019 included a $21 million gain related to the Macy's White Plains transaction, while 2018 included approximately $35 million related to the Macy's Brooklyn transaction.

*Impairment and Other Costs*

2019 and 2018 included $3 million and $36 million, respectively, of impairment and other costs. Impairment and other costs in 2018 were associated with the wind-down of Macy's China Limited.

*Benefit Plan Income, Net*

2019 and 2018 included $15 million and $22 million, respectively, of non-cash net benefit plan income related to the Company's defined benefit plans. This income includes the net of: interest cost, expected return on plan assets and amortization of prior service costs or credits and actuarial gains and losses.

*Settlement Charges*

2018 included $50 million 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 primarily associated with retiree distribution elections and restructuring activity.

*Net Interest Expense*

Net interest expense for 2019 decreased $34 million from 2018 due to a reduction in the Company's debt resulting from tender offer and open market repurchases in 2018.

*Losses on Early Retirement of Debt*

In 2018, the Company recognized $5 million in expenses and fees net of the write-off of unamortized debt premiums as a result of the open market repurchases discussed within the quarterly results of operations.

*Effective Tax Rate*

The Company's effective tax rate was 20.4% for 2019 and 22.1% for 2018 compared to the federal income tax statutory rate of 21%. The effective tax rates were impacted by the settlement of certain state and local tax matters.

*Net Income Attributable to Macy's, Inc. Shareholders*

Net income attributable to Macy's, Inc. shareholders for 2019 decreased $83 million compared to 2018. 2019 was driven by lower operating income partially offset by lower interest expense and lower settlement charges than 2018.

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

Diluted earnings per share for 2019 decreased $0.27 compared to 2018, reflecting lower net income.

***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 2019 was $350 million, compared to $544 million in 2018. The difference in operating cash flows period over period is due to lower merchandise payables and earnings before interest, taxes, depreciation and amortization excluding impairment and other costs, settlement charges and losses on the early retirement of debt. These declines were partially offset by lower tax payments in 2019 compared to 2018.

*Investing Activities*

Net cash used by investing activities was $454 million in 2019, compared to $312 million in 2018. The increase in 2019 was driven by the Company's investments in its strategic initiatives resulting in $501 million of capital expenditures, inclusive of property and equipment and capitalized software, compared to $408 million in 2018. Offsetting this outflow in 2019, the Company received cash of $59 million from the disposition of property and equipment primarily related to the execution of real estate transactions, compared to $88 million of proceeds in 2018.

*Financing Activities*

Net cash used by the Company for financing activities was $397 million for 2019, including debt repaid of $39 million, which included a repayment at maturity of $36 million for the 8.5% senior debentures, payment of $233 million of cash dividends and a $128 million decrease in outstanding checks. These outflows were partially offset by $6 million of proceeds received from the issuance of common stock.

Net cash used by the Company for financing activities was $636 million for 2018, including payment of $232 million of cash dividends. This outflow was partially offset by $38 million from the issuance of common stock, primarily related to the exercise of stock options. During the second quarter of 2018, the Company repurchased approximately $344 million face value of senior notes and debentures. The debt repurchases were made in the open market for a total cost of approximately $354 million, including premium expenses and other fees related to the transactions.

On May 9, 2019, the Company entered into a new credit agreement with certain financial institutions that replaced the previous credit agreement which was set to expire on May 6, 2021. Similar to the previous agreement, the new credit agreement provides 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). The new credit agreement is scheduled to expire on May 9, 2024, subject to up to two one-year extensions that may be requested by the Company and agreed to by the lenders. As of August 3, 2019, 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 August 3, 2019, the Company did not have any borrowings outstanding under its commercial paper program.

As of August 3, 2019, the Company was required under its credit agreement 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. The Company's interest coverage ratio for the second quarter of 2019 was 12.72 and its leverage ratio at August 3, 2019 was 1.84, in each case as calculated in accordance with the credit agreement. As of August 3, 2019, the Company was in compliance with the ratios.

On August 23, 2019, the Company announced that the Board of Directors declared a quarterly dividend of 37.75 cents per share on its common stock, payable October 1, 2019, to Macy's shareholders of record at the close of business on September 13, 2019.

*Capital Resources*

Management believes that, with respect to the Company's current operations, its 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.

***Outlook and Recent Developments***

On August 14, 2019, the Company issued a press release to report preliminary earnings for its second quarter of 2019 and reaffirmed its annual sales guidance provided previously in the 2018 10-K. Based primarily on the second quarter of 2019 performance, the Company lowered its annual guidance for diluted earnings per share attributable to Macy's, Inc. shareholders, excluding settlement charges, impairment and other costs (adjusted diluted earnings per share), by $0.20 from a range of $3.05 to $3.25 to $2.85 to $3.05. Adjusted diluted earnings per share excluding asset sale gains is now expected to be in the range of $2.60 to $2.80. The revised annual earnings guidance excludes any potential impact from a fourth tranche of tariffs, which the Company estimates could have up to a $0.05 impact on fiscal 2019's annual earnings.

*Important Information Regarding Non-GAAP Financial Measures*

The Company reports its financial results in accordance with U.S. 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 adjusting for 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 net income and 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 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 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.

*Changes 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.

| | Second Quarter of 2019 | 2019 |
|---|---|---|
| Increase in comparable sales on an owned basis (note 1) | 0.2% | 0.4% |
| Impact of growth in comparable sales of departments licensed to third parties (note 2) | 0.1% | 0.1% |
| Increase in comparable sales on an owned plus licensed basis | 0.3% | 0.5% |

Notes:

(1) 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 licensed to third parties. Stores impacted by a natural disaster or undergoing significant expansion or shrinkage remain in the comparable sales calculation unless the store, or material portion of the store, is closed for a significant period of time. Definitions and calculations of comparable sales may differ among companies in the retail industry.

(2) Represents the impact of including the sales of departments licensed to third parties occurring in stores in operation throughout the year presented and the immediately preceding year and all online sales in the calculation of comparable sales. The Company licenses third parties to operate certain departments in its stores and online and receives commissions from these third parties based on a percentage of their net sales. In its financial statements prepared in conformity with GAAP, the Company includes these commissions (rather than the sales of the departments licensed to third parties) in its net sales. The Company does not, however, include any amounts with respect to licensed department sales (or any commissions earned on such sales) in its comparable sales in accordance with GAAP (i.e., on an owned basis). The 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.

*Adjusted Net Income and Adjusted Diluted Earnings Per Share Attributable to Macy's, Inc. Shareholders*

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

| | Second Quarter of 2019 | | Second Quarter of 2018 | |
|---|---|---|---|---|
| | Net Income Attributable to Macy's, Inc. Shareholders | Diluted Earnings Per Share | Net Income Attributable to Macy's, Inc. Shareholders | Diluted Earnings Per Share |
| As reported | $ 86 | $ 0.28 | $ 166 | $ 0.53 |
| Impairment and other costs (note 3 and 4) | 2 | — | 15 | 0.05 |
| Settlement charges | — | — | 50 | 0.16 |
| Losses on early retirement of debt | — | — | 5 | 0.02 |
| Income tax impact of certain items noted above (note 4) | — | — | (17) | (0.06) |
| As adjusted | $ 88 | $ 0.28 | $ 219 | $ 0.70 |

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Net Income Attributable to Macy's, Inc. Shareholders | Diluted Earnings Per Share | Net Income Attributable to Macy's, Inc. Shareholders | Diluted Earnings Per Share |
| As reported | $ 223 | $ 0.71 | $ 306 | $ 0.98 |
| Impairment and other costs (note 3 and 4) | 3 | 0.01 | 28 | 0.09 |
| Settlement charges | — | — | 50 | 0.16 |
| Losses on early retirement of debt | — | — | 5 | 0.02 |
| Income tax impact of certain items noted above (note 4) | (1) | — | (20) | (0.06) |
| As adjusted | $ 225 | $ 0.72 | $ 369 | $ 1.19 |

Notes:

(3) For the 13 and 26 weeks ended August 4, 2018, the above pre-tax adjustment excludes impairment and other costs attributable to the noncontrolling interest shareholder of $2 million and $8 million, respectively.

(4) The impact during the 13 and 26 weeks ended August 3, 2019 represents a value less than zero for net income attributable to Macy's, Inc. shareholders or $0.01 per diluted share attributable to Macy's, Inc. shareholders.

***Critical Accounting Policies***

*Goodwill and Intangible Assets*

The Company reviews the carrying value of its goodwill and other intangible assets with indefinite lives at least annually, as of the end of fiscal May, or more frequently if an event occurs or circumstances change, for possible impairment in accordance with ASC Topic 350, *Intangibles - Goodwill and Other*. For impairment testing, goodwill has been assigned to reporting units which consist of the Company's retail operating divisions. Macy's and bluemercury are the only reporting units with goodwill as of August 3, 2019, and 97% of the Company's goodwill is allocated to the Macy's reporting unit.

The Company may elect to evaluate qualitative factors to determine if it is more likely than not that the fair value of a reporting unit or fair value of indefinite lived intangible assets is less than its carrying value. If the qualitative evaluation indicates that it is more likely than not that the fair value of a reporting unit or indefinite lived intangible asset is less than its carrying amount, a quantitative impairment test is required. Alternatively, the Company may bypass the qualitative assessment for a reporting unit or indefinite lived intangible asset and directly perform the quantitative assessment. This determination can be made on an individual reporting unit or asset basis, and performance of the qualitative assessment may resume in a subsequent period.

The quantitative impairment test involves estimating the fair value of each reporting unit and indefinite lived intangible asset and comparing these estimated fair values with the respective reporting unit or indefinite lived intangible asset carrying value. If the carrying value of a reporting unit exceeds its fair value, an impairment loss will be recognized in an amount equal to such excess, limited to the total amount of goodwill allocated to the reporting unit. If the carrying value of an individual indefinite lived intangible asset exceeds its fair value, such individual indefinite lived intangible asset is written down by an amount equal to such excess.

Estimating the fair values of reporting units and indefinite lived intangible assets involves the use of significant assumptions, estimates and judgments with respect to a variety of factors, including sales, gross margin and SG&A rates, capital expenditures, cash flows and the selection and use of an appropriate discount rate and market values and multiples of earnings and revenues of similar public companies. Projected sales, gross margin and SG&A expense rate assumptions and capital expenditures are based on the Company's annual business plan or other forecasted results. Discount rates reflect market-based estimates of the risks associated with the projected cash flows of the reporting unit or indefinite lived intangible asset.

The use of different assumptions, estimates or judgments in the goodwill impairment testing process, including with respect to the estimated future cash flows of the Company's reporting units, the discount rate used to discount such estimated cash flows to their net present value, and the reasonableness of the resultant implied control premium relative to the Company's market capitalization, could materially increase or decrease the fair value of the reporting unit and/or its net assets and, accordingly, could materially increase or decrease any related impairment charge.

For its annual goodwill impairment test as of the end of fiscal May 2019, the Company performed a quantitative impairment assessment for all of its reporting units. The Company determined the fair value of each of its reporting units using a market approach, an income approach, or a combination of both, where appropriate. In the most recent annual impairment test performed as of the end of fiscal May 2019, the fair value of the Macy's reporting unit exceeded its related carrying value by approximately 29%.

As of the end of fiscal May 2019, the Company elected to perform a qualitative impairment test on its intangible assets with indefinite lives and concluded that it is more likely than not that the fair values exceed the carrying values and the intangible assets with indefinite lives are not impaired.

During and subsequent to the second quarter of fiscal 2019, the Company observed a general decline in the market valuation of the Company’s common shares which could impact the assumptions used to perform an impairment evaluation of its goodwill and indefinite lived intangible assets. Although as of August 3, 2019, the estimated fair values of the reporting units and indefinite lived trade names exceeded their carrying values, the Company continues to monitor the key inputs to fair value discussed above. A sustained decline in market capitalization or future declines in macroeconomic factors or business conditions would likely result in an impairment charge in future periods.

***New Pronouncements***

*Accounting Pronouncements Recently Adopted*

See Part I, Item 1, “Financial Statements — Note 1 — Organization and Summary of Significant Accounting Policies.”

## 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 2018 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 2018 10-K.

## Item 4. Controls and Procedures.

The Company's Chief Executive Officer and Chief Financial Officer have carried out, as of August 3, 2019, 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 August 3, 2019 the Company's disclosure controls and procedures were 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.

From time to time adoption of new accounting pronouncements, major organizational restructuring and realignment occurs for which the Company reviews its internal control over financial reporting. As a result of this review, 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.

## 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.**

Except as set forth below, there have been no material changes to the Risk Factors described in Part I, Item 1A."Risk Factors" in the Company's 2018 10-K.

The risk factor "***We depend upon designers, vendors and other sources of merchandise, goods and services. Our business could be affected by disruptions in, or other legal, regulatory, political or economic issues associated with, our supply network***" is deleted and replaced as follows:

***We depend upon designers, vendors and other sources of merchandise, goods and services. Our business could be affected by disruptions in, or other legal, regulatory, political or economic issues associated with, our supply network.***

Our relationships with established and emerging designers have been significant contributors to the Company's past success. Our ability to find qualified vendors and access products in a timely and efficient manner is often challenging, particularly with respect to goods sourced outside the U.S.. We source the majority of our merchandise from manufacturers located outside the U.S., primarily Asia.  Any major changes in tax policy, such as the disallowance of tax deductions for imported merchandise could have a material adverse effect on our business, results of operations and liquidity.

The procurement of all our goods and services are subject to the effects of price increases which we may or may not be able to pass through to our customers. In addition, our procurement of goods and services from outside the U.S. is subject to risks associated with political or financial instability, trade restrictions, tariffs, currency exchange rates, transport capacity and costs and other factors relating to foreign trade. All of these factors may affect our ability to access suitable merchandise on acceptable terms, are beyond our control and could negatively affect our business and results of operations.

On May 10, 2019, the current U.S. Administration imposed a 25% tariff on approximately $200 billion worth of imports from China into the U.S. On August 1, 2019, the current U.S. Administration announced its plans to impose a 10% tariff on all remaining imports from China, valued at approximately $300 billion, which imports include merchandise for both private-label and national brands sold in our stores. Depending on the type of import, the new 10% tariff is scheduled to be effective September 1, 2019 or December 15, 2019, with both dates applying to merchandise sold in our stores. We are evaluating the expected impact of the effective tariffs, including a potential continued escalation of retaliatory tariffs, as well as other recent changes in foreign trade policy on our supply chain, costs, sales and profitability and are actively working through strategies to mitigate such impact, including reviewing sourcing options and working with our vendors and merchants. At this time, it is unknown how long U.S. tariffs on Chinese goods will remain in effect or whether additional tariffs will be imposed. While it is too early to predict how these changes in foreign trade policy and any recently enacted, proposed and future tariffs on products imported by us from China will affect our business, these changes would negatively impact our business and results of operations if they seriously disrupt the movement of products through our supply chain or increase their cost. In addition, while we may be able to shift our sourcing options, executing such a shift would be time consuming and would be difficult or impracticable for many products and may result in an increase in our manufacturing costs. The adoption and expansion of trade restrictions, retaliatory tariffs, or other governmental action related to tariffs or international trade agreements or policies has the potential to adversely impact demand for our products, our costs, our customers, our suppliers, and/or the U.S. economy, which in turn could adversely impact our results of operations and business.

**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 thesecond quarter of 2019.

| | Total Number of Shares Purchased | Average Price Paid per Share ($) | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1) | Maximum Dollar Value of Shares that may yet be Purchased Under the Plans or Programs (1)($) |
|---|---|---|---|---|
| | (thousands) | | (thousands) | (millions) |
| May 5, 2019 – June 1, 2019 | — | — | — | 1,716 |
| June 2, 2019 – July 6, 2019 | — | — | — | 1,716 |
| July 7, 2019 – August 3, 2019 | — | — | — | 1,716 |
| | — | — | — | |

(1) 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 August 3, 2019. All authorizations are cumulative and do not have an expiration date. As of August 3, 2019, $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.

**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;
- the success of the Company’s operational decisions, such as product sourcing, merchandise mix and pricing, and marketing, and strategic initiatives, such as Growth stores, Backstage on-mall off-price business, and vendor direct expansion;
- 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;
- competitive pressures from department stores, 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 and to maintain its brand and reputation;
- 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;
- the cost of employee benefits as well as attracting and retaining quality employees;
- transactions and strategy involving the Company's real estate portfolio;
- the seasonal nature of the Company's business;
- conditions to, or changes in the timing of, proposed transactions, and changes in expected synergies, cost savings and non-recurring charges;
- 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; and
- duties, taxes, other charges and quotas on imports.

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 this report and 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.

**Item 6. Exhibits.**

| | |
|---|---|
| 10.1 | Credit Agreement dated as of May 9, 2019 among Macy's, Inc., Macy's Retail Holdings, Inc., the lenders party thereto and Bank of America, N.A., as administrative agent (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed May 15, 2019) |
| 10.2 | Guarantee Agreement dated as of May 9, 2019 among Macy's, Inc., Macy's Retail Holdings, Inc. and Bank of America, N.A., as administrative agent (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed May 15, 2019) |
| 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 August 3, 2019, filed on August 30, 2019, are formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) Consolidated Statements of Income, (ii) Consolidated Statements of Comprehensive Income, (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Changes in Shareholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) the Notes to Consolidated Financial Statements. |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101) |

## 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**
**Executive Vice President, Chief Legal Officer and Secretary**

By: /s/ FELICIA WILLIAMS

**Felicia Williams**
**Senior Vice President, Controller and Enterprise Risk Officer**
**(Principal Accounting Officer)**

Date: August 30, 2019

Exhibit 31.1

# CERTIFICATION

I, Jeff Gennette, certify that:

1 I have reviewed this quarterly report on Form 10-Q of Macy's, Inc.;

2 Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3 Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4 The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5 The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 30, 2019

/s/ Jeff Gennette
Jeff Gennette
Chief Executive Officer

Exhibit 31.2

# CERTIFICATION

I, Paula A. Price, certify that:

1 I have reviewed this quarterly report on Form 10-Q of Macy's, Inc.;

2 Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3 Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4 The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5 The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 30, 2019

/s/ Paula A. Price
Paula A. Price
Chief Financial Officer

**Exhibit 32.1**

CERTIFICATION UNDER SECTION 906 OF THE SARBANES-OXLEY ACT

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in connection with the filing of the Form 10-Q of Macy's, Inc. (the "Company") for the fiscal quarter ended August 3, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company certifies that, to his knowledge:

1 The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2 The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

Dated: August 30, 2019

/s/ Jeff Gennette
Name: Jeff Gennette
Title: Chief Executive Officer

**Exhibit 32.2**

CERTIFICATION UNDER SECTION 906 OF THE SARBANES-OXLEY ACT

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in connection with the filing of the Form 10-Q of Macy's, Inc. (the "Company") for the fiscal quarter ended August 3, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company certifies that, to her knowledge:

1 The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2 The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

Dated: August 30, 2019

/s/ Paula A. Price
Name: Paula A. Price
Title: Chief Financial Officer