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

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the Fiscal Year Ended
February 2, 2019

Commission File Number:
1-13536



7 West Seventh Street
Cincinnati, Ohio 45202
(513) 579-7000
and
151 West 34th Street
New York, New York 10001
(212) 494-1602

Incorporated in Delaware

I.R.S. No. 13-3324058

Securities Registered Pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, \$.01 par value per share	New York Stock Exchange

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of the last business day of the registrant's most recently completed second fiscal quarter (August 4, 2018) was approximately \$11,956,587,132.

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

<u>Class</u>	<u>Outstanding as March 2, 2019</u>
Common Stock, \$.01 par value per share	307,800,430 shares

DOCUMENTS INCORPORATED BY REFERENCE

<u>Document</u>	<u>Parts Into Which Incorporated</u>
Proxy Statement for the Annual Meeting of Stockholders to be held May 17, 2019	Part III

Unless the context requires otherwise, references to “Macy’s” or the “Company” are references to Macy’s and its subsidiaries and references to “2018,” “2017,” “2016,” “2015” and “2014” are references to the Company’s fiscal years ended February 2, 2019, February 3, 2018, January 28, 2017, January 30, 2016 and January 31, 2015, respectively. Fiscal year 2017 included 53 weeks; fiscal years 2018, 2016, 2015 and 2014 included 52 weeks.

Forward-Looking Statements

This report and other reports, statements and information previously or subsequently filed by the Company with the Securities and Exchange Commission (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 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 1. Business.

General

The Company is a corporation organized under the laws of the State of Delaware in 1985. The Company and its predecessors have been operating department stores since 1830. The Company operates 867 stores in 43 states, the District of Columbia, Puerto Rico and Guam. As of February 2, 2019, the Company's operations were conducted through Macy's, Bloomingdale's, Bloomingdale's The Outlet, Macy's Backstage, and bluemercury. In addition, Bloomingdale's in Dubai, United Arab Emirates and Al Zahra, Kuwait are operated under license agreements with Al Tayer Insignia, a company of Al Tayer Group, LLC.

The Company sells a wide range of merchandise, including apparel and accessories (men's, women's and kids'), cosmetics, home furnishings and other consumer goods. The specific assortments vary by size of store, merchandising assortments and character of customers in the trade areas. Most stores are located at urban or suburban sites, principally in densely populated areas across the United States.

Disaggregation of the Company's net sales by family of business for 2018, 2017 and 2016 were as follows:

	2018	2017	2016
Women's Accessories, Intimate Apparel, Shoes, Cosmetics and Fragrances...	\$ 9,500	\$ 9,483	\$ 9,795
Women's Apparel.....	5,675	5,807	6,009
Men's and Kids'.....	5,712	5,629	5,844
Home/Other (a).....	4,084	4,020	4,260
Total	<u>\$ 24,971</u>	<u>\$ 24,939</u>	<u>\$ 25,908</u>

(a) Other primarily includes restaurant sales, certain loyalty program income and breakage income from unredeemed gift cards.

In 2018, the Company's subsidiaries provided various support functions to the Company's retail operations on an integrated, company-wide basis.

- The Company's wholly-owned bank subsidiary, FDS Bank, provides certain collections, customer service and credit marketing services in respect of all credit card accounts that are owned either by Department Stores National Bank (“DSNB”), a subsidiary of Citibank, N.A., or FDS Bank and that constitute a part of the credit programs of the Company's retail operations.
- Macy's Systems and Technology, Inc. (“MST”), a wholly-owned indirect subsidiary of the Company, provides operational electronic data processing and management information services to all of the Company's operations other than bluemercury.
- Macy's Merchandising Group, Inc. (“MMG”), a wholly-owned direct subsidiary of the Company, and its subsidiary Macy's Merchandising Group International, LLC, are responsible for the design, development and marketing of Macy's private label brands and certain licensed brands. Bloomingdale's uses MMG for a small portion of its private label merchandise. The Company believes that its private label merchandise differentiates its merchandise assortments from those of its competitors and delivers exceptional value to its customers. MMG also offers its services, either directly or indirectly, to unrelated third parties.
- Macy's Logistics and Operations (“Macy's Logistics”), a division of a wholly-owned indirect subsidiary of the Company, provides warehousing and merchandise distribution services for the Company's operations and digital customer fulfillment.

The Company's executive offices are located at 7 West Seventh Street, Cincinnati, Ohio 45202, telephone number: (513) 579-7000 and 151 West 34th Street, New York, New York 10001, telephone number: (212) 494-1602.

Employees

As of February 2, 2019, excluding seasonal employees, the Company had approximately 130,000 employees, primarily including regular full-time and part-time. Because of the seasonal nature of the retail business, the number of employees peaks in the holiday season. Approximately 7% of the Company's employees were represented by unions as of February 2, 2019.

Seasonality

The retail business is seasonal in nature with a high proportion of sales and operating income generated in the months of November and December. Working capital requirements fluctuate during the year, increasing in mid-summer in anticipation of the fall merchandising season and increasing substantially prior to the holiday season when the Company carries significantly higher inventory levels.

Purchasing

The Company purchases merchandise from many suppliers, no one of which accounted for more than 5% of the Company's purchases during 2018. The Company has no material long-term purchase commitments with any of its suppliers, and believes that it is not dependent on any one supplier. The Company considers its relations with its suppliers to be good.

Private Label Brands and Related Trademarks

The principal private label brands currently offered by the Company include Alfani, American Rag, Aqua, Bar III, Belgique, Charter Club, Club Room, Epic Threads, first impressions, Giani Bernini, Greg Norman for Tasso Elba, Holiday Lane, Home Design, Hotel Collection, Hudson Park, Ideology, I-N-C, jenni, JM Collection, John Ashford, Karen Scott, lune+aster, M-61, Maison Jules, Martha Stewart Collection, Material Girl, Morgan Taylor, Oake, Sky, Style & Co., Sutton Studio, Tasso Elba, Thalia Sodi, the cellar, and Tools of the Trade.

The trademarks associated with the Company's aforementioned private label brands, other than American Rag, Greg Norman for Tasso Elba, Martha Stewart Collection, Material Girl and Thalia Sodi, are owned by the Company. The American Rag, Greg Norman, Martha Stewart Collection, Material Girl and Thalia Sodi brands are owned by third parties, which license the trademarks associated with such brands to Macy's pursuant to agreements. The agreements for American Rag, Greg Norman, Material Girl, and Thalia Sodi expire at the end of 2019, while the Martha Stewart agreement has renewal rights that extend through 2025.

Competition

The retail industry is highly competitive. The Company's operations compete with many retail formats on the national and local level, including department stores, specialty stores, general merchandise stores, manufacturers' outlets, off-price and discount stores, online retailers, catalogs and television shopping, among others. The Company seeks to attract customers by offering desirable selections, obvious value, and distinctive marketing in stores that are located in premier locations, and by providing an exciting shopping environment and superior service through an omnichannel experience. Other retailers may compete for customers on some or all of these bases, or on other bases, and may be perceived by some potential customers as being better aligned with their particular preferences.

Available Information

The Company makes its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act available free of charge through its internet website at <https://www.macysinc.com> as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the SEC. The SEC also maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC; the address of that site is <https://www.sec.gov>. In addition, the Company has made the following available free of charge through its website at <https://www.macysinc.com>:

- Charters of the Audit Committee, Compensation and Management Development Committee, Finance Committee, and Nominating and Corporate Governance Committee,
- Corporate Governance Principles,
- Lead Independent Director Policy,
- Non-Employee Director Code of Business Conduct and Ethics,

- Code of Conduct,
- Standards for Director Independence,
- Related Person Transactions Policy,
- Method to Facilitate Receipt, Retention and Treatment of Communications, and
- Proxy Access By-Laws.

Any of these items are also available in print to any shareholder who requests them. Requests should be sent to the Corporate Secretary of Macy's, Inc. at 7 West Seventh Street, Cincinnati, OH 45202.

Executive Officers of the Registrant

The following table sets forth certain information as of March 21, 2019 regarding the Executive Officers of the Company:

<u>Name</u>	<u>Age</u>	<u>Position with the Company</u>
Jeff Gennette.....	57	Chief Executive Officer, Chairman of the Board and Director
Paula A. Price	57	Executive Vice President and Chief Financial Officer
Harry A. Lawton III.....	44	President
Elisa D. Garcia.....	61	Executive Vice President, Chief Legal Officer and Secretary
Danielle L. Kirgan.....	43	Executive Vice President and Chief Human Resources Officer
Felicia Williams.....	53	Senior Vice President, Controller and Enterprise Risk Officer

Executive Officer Biographies

Jeff Gennette has been Chief Executive Officer of the Company since March 2017 and Chairman of the Board since January 2018; prior thereto he was President from March 2014 to August 2017, Chief Merchandising Officer from February 2009 to March 2014, Chairman and Chief Executive Officer of Macy's West in San Francisco from February 2008 to February 2009 and Chairman and Chief Executive Officer of Seattle-based Macy's Northwest from February 2006 through February 2008.

Paula A. Price has been Executive Vice President and Chief Financial Officer of the Company since July 2018; prior thereto she was a full-time lecturer in the Accounting and Management Unit at Harvard Business School from January 2014 to July 2018 and Executive Vice President and Chief Financial Officer of Ahold USA from May 2009 to January 2014.

Harry (Hal) A. Lawton III has been President of the Company since September 2017; prior thereto he served as Senior Vice President, North America at eBay, Inc. from April 2015 to September 2017 and held a number of leadership positions at Home Depot, Inc. from 2005 to 2015, including Senior Vice President of Merchandising and head of Home Depot's online business.

Elisa D. Garcia has been Executive Vice President, Chief Legal Officer and Secretary of the Company since September 2016; prior thereto she served as Chief Legal Officer of Office Depot, Inc. from December 2013 to September 2016, Executive Vice President and Secretary from July 2007 to September 2016 and General Counsel from July 2007 to December 2013.

Danielle L. Kirgan has been Executive Vice President and Chief Human Resources Officer of the Company since October 2017; prior thereto she served as Senior Vice President, People at American Airlines Group, Inc. from October 2016 to October 2017, Chief Human Resources Officer at Darden Restaurants, Inc. from January 2015 to October 2016 and Senior Vice President from May 2010, Vice President, Global Human Resources at ACI Worldwide, Inc. from January 2009 to December 2009, and Vice President, Human Resources at Conagra Foods, Inc. from 2004 to 2008.

Felicia Williams has been Senior Vice President, Controller and Enterprise Risk Officer of the Company since June 2016; prior thereto she served as Senior Vice President, Finance and Risk Management from February 2011 to June 2016, Senior Vice President, Treasury and Risk Management from September 2009 to February 2011, Vice President, Finance and Risk Management from October 2008 to September 2009, and Vice President, Internal Audit from March 2004 to October 2008.

Item 1A. Risk Factors.

In evaluating Macy's, the risks described below and the matters described in "Forward-Looking Statements" should be considered carefully. Such risks and matters are numerous and diverse, may be experienced continuously or intermittently, and may vary in intensity and effect. Any of such risks and matters, individually or in combination, could have a material adverse effect on our business, prospects, financial condition, results of operations and cash flows, as well as on the attractiveness and value of an investment in Macy's securities.

Strategic, Operational and Competitive Risks

Our strategic initiatives may not be successful, which could negatively affect our profitability and growth.

We are pursuing strategic initiatives to achieve our objective of accelerating profitable growth in our stores and our digital operations. This includes the adoption of new technologies, merchandising strategies and customer service initiatives all designed to improve the shopping experience. Our ability to achieve profitable growth is subject to the successful implementation of our strategic plans. If these investments or initiatives do not perform as expected or create implementation or operational difficulties, we may incur impairment charges and our profitability and growth could suffer.

Our sales and operating results depend on consumer preferences and consumer spending.

The fashion and retail industries are subject to sudden shifts in consumer trends and consumer spending. Our sales and operating results depend in part on our ability to predict or respond to changes in fashion trends and consumer preferences in a timely manner. We develop new retail concepts and continuously adjust our industry position in certain major and private-label brands and product categories in an effort to attract and retain customers. Any sustained failure to anticipate, identify and respond to emerging trends in lifestyle and consumer preferences could negatively affect our business and results of operations.

Our sales are significantly affected by discretionary spending by consumers. Consumer spending may be affected by many factors outside of our control, including general economic conditions, consumer disposable income levels, consumer confidence levels, the availability, cost and level of consumer debt, consumer behaviors towards incurring and paying debt, the cost of basic necessities and other goods, the strength of the U.S. Dollar relative to foreign currencies and the effects of the weather or natural disasters. These factors can have psychological or economic impacts on consumers that affect their discretionary spending habits. Any decline in discretionary spending by consumers could negatively affect our business and results of operations.

We face significant competition in the retail industry.

We conduct our retail merchandising business under highly competitive conditions. Although Macy's is one of the nation's largest retailers, we have numerous and varied competitors at the national and local levels, including department stores, specialty stores, general merchandise stores, manufacturers' outlets, off-price and discount stores, online retailers, catalogs and television shopping, among others. Competition is characterized by many factors, including assortment, advertising, price, quality, service, location, reputation and credit availability. Any failure by us to compete effectively could negatively affect our business and results of operations.

We face challenges as consumers migrate to online shopping and we depend on our ability to differentiate Macy's in retail's ever-changing environment.

As consumers continue to migrate online, we face pressures to not only compete from a price perspective with our competitors, some of whom sell the same products, but also to differentiate Macy's to stay relevant in retail's ever-changing environment. We continue to significantly invest in our omnichannel capabilities to provide a seamless shopping experience to our customers between our brick and mortar locations and our online and mobile environments. Insufficient, untimely or misguided investments in this area could significantly impact our profitability and growth and affect our ability to attract new customers, as well as maintain our existing ones.

In addition, declining customer store traffic and migration of sales from brick and mortar stores to digital platforms could lead to store closures, restructuring and other costs that could adversely impact our results of operations and cash flows.

Our ability to grow depends in part on our brick and mortar stores remaining relevant to customers.

We are investing in facilities and fixtures upgrades, merchandise assortment and customer service in selected stores to improve customer retention rates and overall customer satisfaction. Some stores are receiving targeted local marketing plans to drive customer traffic. While these "Growth" stores have outperformed the remainder of our store fleet, there can be no assurance that we will be able to achieve continued improvement in our brick and mortar business.

Because we rely on the ability of our physical retail locations to remain relevant to customers, providing desirable and sought-out shopping experiences is critical to our financial success. Changes in consumer shopping habits, financial difficulties at other anchor tenants, significant mall vacancy issues, mall violence and new mall developments could each adversely impact the traffic at current retail locations and lead to a decline in our financial condition or performance.

We may not be able to successfully execute our real estate strategy.

We continue to explore opportunities to monetize our real estate portfolio, including sales of stores as well as non-store real estate such as warehouses, outparcels and parking garages. We also continue to evaluate our real estate portfolio to identify opportunities where the redevelopment value of our real estate exceeds the value of non-strategic operating locations. This strategy is multi-pronged and may include transactions, strategic alliances or other arrangements with mall developers or other unrelated third-parties. Due to the cyclical nature of real estate markets, the performance of our real estate strategy is inherently volatile and could have a significant impact on our results of operations or financial condition.

Our revenues and cash requirements are affected by the seasonal nature of our business.

Our business is seasonal, with a high proportion of revenues and operating cash flows generated during the second half of the year, which includes the fall and holiday selling seasons. A disproportionate amount of our revenues is in the fourth quarter, which coincides with the holiday season. Should holiday sales fall below our expectations, a disproportionately negative impact on our results of operations could occur.

We incur significant additional expenses in the period leading up to the months of November and December in anticipation of higher sales volume in those periods, including costs for additional inventory, advertising and employees. If we are not successful in selling inventory, we may have to sell the inventory at significantly reduced prices or may not be able to sell the inventory at all, which could have a material adverse effect on our results of operations and cash flows.

We depend on our ability to attract, train, develop and retain quality employees.

Our business is dependent upon attracting, training, developing and retaining quality employees. Macy's has a large number of employees, many of whom are in entry level or part-time positions with historically high rates of turnover. The ability to meet our labor needs while controlling costs associated with hiring and training new employees is subject to external factors such as unemployment levels, prevailing wage rates, minimum wage legislation and changing demographics. In addition, as a large and complex enterprise operating in a highly competitive and challenging business environment, Macy's is highly dependent upon management personnel to develop and effectively execute successful business strategies and tactics. Any circumstances that adversely impact our ability to attract, train, develop and retain quality employees throughout the organization could negatively affect our business and results of operations.

We depend on the success of advertising and marketing programs.

Our business depends on effective marketing to create high customer traffic at stores and online. Macy's has many initiatives in this area, and we often change advertising and marketing programs to attract customers and increase sales. There can be no assurance as to our continued ability to effectively execute our advertising and marketing programs, and any failure to do so could negatively affect our business and results of operations.

If cash flows from our private label credit card decrease, our financial and operational results may be negatively impacted.

We previously sold most of our credit accounts and related receivables to Citibank. Following the sale, we share in the economic performance of the credit card program with Citibank. Deterioration in economic or political conditions could adversely affect the volume of new credit accounts, the amount of credit card program balances and the ability of credit card holders to pay their balances. These conditions could result in Macy's receiving lower payments under the credit card program.

Credit card operations are subject to many federal and state laws that may impose certain requirements and limitations on credit card providers. Citibank and our subsidiary bank, FDS Bank, may be required to comply with regulations that may negatively impact the operation of our private label credit card. This negative impact may affect our revenue streams derived from the sale of such credit card accounts and our financial results.

Gross margins could suffer if we are unable to effectively manage our inventory.

Our profitability depends on our ability to manage inventory levels and respond to shifts in consumer demand patterns. Overestimating customer demand for merchandise will likely result in the need to record inventory markdowns and sell excess inventory at clearance prices which would negatively impact our gross margins and operating results. Underestimating customer demand for merchandise can lead to inventory shortages, missed sales opportunities and negative customer experiences.

Our defined benefit plan funding requirements or plan settlement expense could impact our financial results and cash flow.

Significant changes in interest rates, decreases in the fair value of plan assets and timing and amount of benefit payments could affect the funded status of our plans and could increase future funding requirements of the plans. A significant increase in future funding requirements could have a negative impact on our cash flows, financial condition or results of operations.

These plans allow eligible retiring employees to receive lump sum distributions of benefits earned. Under applicable accounting rules, if annual lump sum distributions exceed an actuarially determined threshold of the total of the annual service and interest costs, we would be required to recognize in the current period of operations a settlement expense of a portion of the unrecognized actuarial loss and could have a negative impact on our results of operations.

Increases in the cost of employee benefits could impact our financial results and cash flow.

Our expenses relating to employee health benefits are significant. Unfavorable changes in the cost of such benefits could negatively affect our financial results and cash flow. Healthcare costs have risen significantly in recent years, and recent legislative and private sector initiatives regarding healthcare reform have resulted and could continue to result in significant changes to the U.S. healthcare system. Due to uncertainty regarding legislative or regulatory changes, we are not able to fully determine the impact that future healthcare reform will have on our company-sponsored medical plans.

If our company's reputation and brand are not maintained at a high level, our operations and financial results may suffer.

We believe our reputation and brand are partially based on the perception that we act equitably and honestly in dealing with our customers, employees, business partners and shareholders. Our reputation and brand may be deteriorated by any incident that erodes the trust or confidence of our customers or the general public, particularly if the incident results in significant adverse publicity or governmental inquiry. In addition, information concerning us, whether or not true, may be instantly and easily posted on social media platforms at any time, which information may be adverse to our reputation or brand. The harm may be immediate without affording us an opportunity for redress or correction. If our reputation or brand is damaged, our customers may refuse to continue shopping with us, potential employees may be unwilling to work for us, business partners may be discouraged from seeking future business dealings with us and, as a result, our operations and financial results may suffer.

If we are unable to protect our intellectual property, our brands and business could be damaged.

We believe that our copyrights, trademarks, trade dress, trade secrets and similar intellectual property are important assets and key elements of our strategy, including those related to our private brand merchandise. We rely on copyright and trademark law, trade secret protection and confidentiality agreements with our employees, consultants, vendors and others to protect our proprietary rights. If the steps we take to protect our proprietary rights are inadequate, or if we are unable to protect or preserve the value of our copyrights, trademarks, trade secrets and other proprietary rights for any reason, our merchandise brands and business could be negatively affected.

Our sales and operating results could be adversely affected by product safety concerns.

If Macy's merchandise offerings do not meet applicable safety standards or consumers' expectations regarding safety, we could experience decreased sales, increased costs and/or be exposed to legal and reputational risk. Events that give rise to actual, potential or perceived product safety concerns could expose Macy's to government enforcement action and/or private litigation. Reputational damage caused by real or perceived product safety concerns could negatively affect our business and results of operations.

A shutdown or disruption in our distribution and fulfillment centers could have an adverse impact on our business and operations.

Our business depends on the orderly receipt and distribution of merchandise and effective management of our distribution and fulfillment centers. Unforeseen disruptions in operations due to fire, severe weather conditions, natural disasters or other catastrophic events, labor disagreements, or other shipping problems may result in the loss or unavailability of inventory and/or delays in the delivery of merchandise to our stores and customers.

Technology and Data Security Risks

A material disruption in our computer systems could adversely affect our business or results of operations.

We rely extensively on our computer systems to process transactions, summarize results and manage our business. Our computer systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, cyber-attack or other security breaches, catastrophic events such as fires, floods, earthquakes, tornadoes, hurricanes, acts of war or terrorism, and usage errors by our employees. If our computer systems are damaged or cease to function properly, including a material disruption in our ability to authorize and process transactions at our stores or on our online systems, we may have to make a significant investment to fix or replace them, and we may suffer loss of critical data and interruptions or delays in our operations. Any material interruption in our computer systems could negatively affect our business and results of operations.

If our technology-based e-commerce systems do not function properly, our operating results could be negatively affected.

Customers are increasingly using computers, tablets and smart phones to shop online and to do price and comparison shopping. We strive to anticipate and meet our customers' changing expectations and are focused on building a seamless shopping experience across our omnichannel business. Any failure to provide user-friendly, secure e-commerce platforms that offer a variety of merchandise at competitive prices with low cost and quick delivery options that meet customers' expectations could place us at a competitive disadvantage, result in the loss of e-commerce and other sales, harm our reputation with customers and have a material adverse impact on the growth of our business and our operating results.

A breach of information technology systems could adversely affect our reputation, business partner and customer relationships and operations, and result in high costs.

Through our sales, marketing activities, and use of third-party information, we collect and store certain non-public personal information that customers provide to purchase products or services, enroll in promotional programs, register on websites, or otherwise communicate to us. This may include phone numbers, driver license numbers, contact preferences, personal information stored on electronic devices, and payment information, including credit and debit card data. We gather and retain information about employees in the normal course of business. We may share information about such persons with vendors that assist with certain aspects of our business. In addition, our online operations depend upon the transmission of confidential information over the Internet, such as information permitting cashless payments.

We employ safeguards for the protection of this information and have made significant investments to secure access to our information technology network. For instance, we have implemented authentication protocols, installed firewalls and anti-virus/anti-malware software, conducted continuous risk assessments, and established data security breach preparedness and response plans. We also employ encryption and other methods to protect our data, promote security awareness with our associates and work with business partners in an effort to create secure and compliant systems.

However, these protections may be compromised as a result of third-party security breaches, burglaries, cyberattacks, errors by employees or employees of third-party vendors, or contractors, misappropriation of data by employees, vendors or unaffiliated third-parties, or other irregularities that may result in persons obtaining unauthorized access to company data.

Retail data frequently targeted by cybercriminals includes consumer credit card data, personally identifiable information, including social security numbers, and health care information. For retailers, point of sale and e-commerce websites are often attacked through compromised credentials, including those obtained through phishing, vishing and credential stuffing. Other methods of attack include advanced malware, the exploitation of software and operating vulnerabilities, and physical device tampering/skimming at card reader units. We believe these attack methods will continue to evolve.

Despite instituting controls for the protection of such information, no commercial or government entity can be entirely free of vulnerability to attack or compromise given that the techniques used to obtain unauthorized access, disable or degrade service change frequently. During the normal course of business, we have experienced and expect to continue to experience attempts to compromise our information systems. Unauthorized parties may attempt to gain access to our systems or facilities, or those of third parties with whom we do business, through fraud, trickery, or other forms of deception to employees, contractors, vendors and temporary staff. We may be unable to protect the integrity of our systems or company data. An alleged or actual unauthorized access or unauthorized disclosure of non-public personal information could:

- materially damage our reputation and brand, negatively affect customer satisfaction and loyalty, expose us to individual claims or consumer class actions, administrative, civil or criminal investigations or actions, and infringe on proprietary information; and
- cause us to incur substantial costs, including costs associated with remediation of information technology systems, customer protection costs and incentive payments for the maintenance of business relationships, litigation costs, lost revenues resulting from negative changes in consumer shopping patterns, unauthorized use of proprietary information or the failure to retain or attract customers following an attack. While we maintain insurance coverage that may, subject to policy terms and conditions, cover certain aspects of cyber risks, such insurance coverage may be unavailable or insufficient to cover all losses or all types of claims that may arise in the continually evolving area of cyber risk.

Supply Chain and Third Party Risks

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 Macy'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 United States. 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 September 18, 2018, the Office of the U.S. Trade Representative announced that the current U.S. Administration would impose a 10% tariff on approximately \$200 billion worth of imports from China into the U.S. effective September 24, 2018, which was expected to increase to 25% starting January 1, 2019. On December 19, 2018, the U.S. Trade representative announced a modification to the effective date of the 25% tariffs on China goods from January 1, 2019 to March 2, 2019. We are evaluating the potential impact of the effective and proposed tariffs as well as other recent changes in foreign trade policy on our supply chain, costs, sales and profitability and are considering strategies to mitigate such impact, including reviewing sourcing options and working with our vendors and merchants. 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 could 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.

Disruption of global sourcing activities and quality concerns over our own brands could negatively impact brand reputation and earnings.

Economic and civil unrest in areas of the world where we source products, as well as shipping and dockage issues, could adversely impact the availability or cost of our products, or both. Most of Macy's goods imported to the U.S. arrive from Asia through ports located on the U.S. west coast and are subject to potential disruption due to labor unrest, security issues or natural disasters affecting any or all of these ports. In addition, in recent years, we have substantially increased the number and types of merchandise that are sold under Macy's proprietary brands. While we have focused on the quality of our proprietary branded products, we rely on third-parties to manufacture these products. Such third-party manufacturers may prove to be unreliable, the quality of our globally sourced products may vary from expectations and standards, the products may not meet applicable regulatory requirements which may require us to recall these products, or the products may infringe upon the intellectual property rights of third-parties. We face challenges in seeking indemnities from manufacturers of these products, including the uncertainty of recovering on such indemnity and the lack of understanding by manufacturers of U.S. product liability laws in certain foreign jurisdictions.

Parties with whom Macy's does business may be subject to insolvency risks or may otherwise become unable or unwilling to perform on their obligations to us.

Macy's is a party to contracts, transactions and business relationships with various third parties, including, without limitation, vendors, suppliers, service providers, lenders and participants in joint ventures, strategic alliances and other joint commercial relationships, pursuant to which such third parties have performance, payment and other obligations to Macy's. In some cases, we depend upon such third parties to provide essential leaseholds, products, services or other benefits, including with respect to store and distribution center locations, merchandise, advertising, software development and support, logistics, other agreements for goods and services to operate our business in the ordinary course, extensions of credit, credit card accounts and related receivables, and other vital matters. Current economic, industry and market conditions could result in increased risks to Macy's associated with the potential financial distress or insolvency of such third parties. If any of these third parties were to become subject to bankruptcy, receivership or similar proceedings, the rights and benefits with respect to our contracts, transactions and business relationships with such third parties could be terminated, modified in a manner adverse to us, or otherwise impaired. We may be unable to arrange for alternate or replacement contracts, transactions or business relationships on terms as favorable as existing contracts, transactions or business relationships. Our inability to do so could negatively affect our cash flows, financial condition and results of operations.

Global, Legal and External Risks

Macy's business is subject to unfavorable economic and political conditions and other related risks.

Unfavorable global, domestic or regional economic or political conditions and other developments and risks could negatively affect our business and results of operations. For example, unfavorable changes related to interest rates, rates of economic growth, fiscal and monetary policies of governments, inflation, deflation, consumer credit availability, consumer debt levels, consumer debt payment behaviors, tax rates and policy, unemployment trends, energy prices, and other matters that influence the availability and cost of merchandise, consumer confidence, spending and tourism could negatively affect our business and results of operations. In addition, unstable political conditions, civil unrest, terrorist activities and armed conflicts may disrupt commerce and could negatively affect our business and results of operations.

Our effective tax rate is impacted by a number of factors, including changes in federal or state tax law, interpretation of existing laws and the ability to defend and support the tax positions taken on historical tax returns. Certain changes in any of these factors could materially impact the effective tax rate and net income.

Our business could be affected by extreme weather conditions, regional or global health pandemics or natural disasters.

Extreme weather conditions in the areas in which our stores are located could negatively affect our business and results of operations. For example, frequent or unusually heavy snowfall, ice storms, rainstorms or other extreme weather conditions over a prolonged period could make it difficult for our customers to travel to our stores and thereby reduce our sales and profitability. Our business is also susceptible to unseasonable weather conditions. For example, extended periods of unseasonably warm temperatures during the winter season or cool weather during the summer season could reduce demand for a portion of our inventory and thereby reduce our sales and profitability. In addition, extreme weather conditions could result in disruption or delay of production and delivery of materials and products in our supply chain and cause staffing shortages in our stores.

Our business and results of operations could also be negatively affected if a regional or global health pandemic were to occur, depending upon its location, duration and severity. Customers might avoid public places, such as our stores, or in extreme cases governments might limit or ban public gatherings or travel. A regional or global health pandemic might also result in disruption or delay of production and delivery of materials and products in our supply chain and cause staffing shortages in our stores.

Natural disasters such as hurricanes, tornadoes and earthquakes, or a combination of these or other factors, could damage or destroy our facilities or make it difficult for customers to travel to our stores, thereby negatively affecting our business and results of operations.

Litigation, legislation or regulatory developments could adversely affect our business and results of operations.

We are subject to various federal, state and local laws, rules, regulations, inquiries and initiatives in connection with both our core business operations and our credit card and other ancillary operations (including the Credit Card Act of 2009 and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010). Recent and future developments relating to such matters could increase our compliance costs and adversely affect the profitability of our credit card and other

operations. We are also subject to anti-bribery, customs, child labor, truth-in-advertising and other laws, including consumer protection regulations and zoning and occupancy ordinances that regulate retailers generally and/or govern the importation, promotion and sale of merchandise and the operation of retail stores and warehouse facilities. Although we undertake to monitor changes in these laws, if these laws change without our knowledge, or are violated by importers, designers, manufacturers, distributors or agents, we could experience delays in shipments and receipt of goods or be subject to fines or other penalties under the controlling regulations, any of which could negatively affect our business and results of operations. In addition, we are regularly involved in various litigation matters that arise in the ordinary course of our business. Adverse outcomes in current or future litigation could negatively affect our financial condition, results of operations and cash flows.

Financial Risks

Inability to access capital markets could adversely affect our business or financial condition.

Changes in the credit and capital markets, including market disruptions, limited liquidity and interest rate fluctuations, may increase the cost of financing or restrict our access to this potential source of future liquidity. A decrease in the ratings that rating agencies assign to Macy's short and long-term debt may negatively impact our access to the debt capital markets and increase our cost of borrowing. In addition, our bank credit agreements require us to maintain specified interest coverage and leverage ratios. Our ability to comply with the ratios may be affected by events beyond our control, including prevailing economic, financial and industry conditions. If our results of operations or operating ratios deteriorate to a point where we are not in compliance with our debt covenants, and we are unable to obtain a waiver, much of our debt would be in default and could become due and payable immediately. Our assets may not be sufficient to repay in full this indebtedness, resulting in a need for an alternate source of funding. We cannot make any assurances that we would be able to obtain such an alternate source of funding on satisfactory terms, if at all, and our inability to do so could cause the holders of our securities to experience a partial or total loss of their investments in Macy's.

Factors beyond our control could affect Macy's stock price.

Macy's stock price, like that of other retail companies, is subject to significant volatility because of many factors, including factors beyond our control. These factors may include:

- general economic, stock, credit and real estate market conditions;
- risks relating to Macy's business and industry, including those discussed above;
- strategic actions by us or our competitors;
- adverse business announcements by our competitors;
- variations in our quarterly results of operations;
- future sales or purchases of Macy's common stock; and
- investor perceptions of the investment opportunity associated with Macy's common stock relative to other investment alternatives.

We may fail to meet the expectations of our stockholders or of analysts at some time in the future. If the analysts who regularly follow Macy's stock lower their rating or lower their projections for future growth and financial performance, Macy's stock price could decline. Also, sales of a substantial number of shares of Macy's common stock in the public market or the appearance that these shares are available for sale could adversely affect the market price of Macy's common stock.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The properties of the Company consist primarily of stores and related facilities, including a logistics network. The Company also owns or leases other properties, including corporate office space in Cincinnati and New York and other facilities at which centralized operational support functions are conducted. As of February 2, 2019, the operations of the Company included 867 stores in 43 states, the District of Columbia, Puerto Rico and Guam, comprising a total of approximately 126 million square feet. Of such stores, 360 were owned, 386 were leased, 117 stores were operated under arrangements where the Company owned the building and leased the land and four stores were comprised of partly owned and partly leased buildings. All owned properties are held free and clear of mortgages. Pursuant to various shopping center agreements, the Company is obligated to operate certain stores for periods of up to 15 years. Some of these agreements require that the stores be operated under a particular name. Most leases require the Company to pay real estate taxes, maintenance and other 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.

The Company's operations were conducted through the following branded store locations:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Macy's.....	649	660	673
Bloomingdale's	55	55	55
bluemercury	163	137	101
	<u>867</u>	<u>852</u>	<u>829</u>

Store count activity was as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Store count at beginning of fiscal year	852	829	868
Stores opened or acquired	27	38	27
Stores closed or consolidated into existing centers	(12)	(15)	(66)
Store count at end of fiscal year	<u>867</u>	<u>852</u>	<u>829</u>

Additional information about the Company's stores as of February 2, 2019 is as follows:

Geographic Region	Total	Owned	Leased	Subject to a Ground Lease	Partly Owned and Partly Leased
North Central.....	144	76	48	19	1
Northeast	258	84	144	30	—
Northwest	136	43	71	20	2
South.....	195	110	60	25	—
Southwest	134	47	63	23	1
	<u>867</u>	<u>360</u>	<u>386</u>	<u>117</u>	<u>4</u>

The five geographic regions detailed in the foregoing table are based on the Company's Macy's-branded operational structure. The Company's retail stores are located at urban or suburban sites, principally in densely populated areas across the United States.

Additional information about the Company's logistics network as of February 2, 2019 is as follows:

Location	Primary Function	Owned or Leased	Square Footage (thousands)
Cheshire, CT.....	Direct to customer	Owned	700
Chicago, IL.....	Stores	Owned	861
Denver, CO.....	Stores	Leased	20
Goodyear, AZ.....	Direct to customer	Owned	1,560
Hayward, CA.....	Stores	Owned	386
Houston, TX.....	Stores	Owned	1,124
Joppa, MD.....	Stores	Owned	850
Kapolei, HI.....	Stores	Leased	260
Los Angeles, CA.....	Stores	Owned	1,178
Martinsburg, WV.....	Direct to customer	Owned	2,060
Miami, FL.....	Stores	Leased	535
Portland, TN.....	Direct to customer	Owned	1,455
Raritan, NJ.....	Stores	Owned	980
Sacramento, CA.....	Direct to customer	Leased	385
Secaucus, NJ.....	Stores	Leased	675
South Windsor, CT.....	Stores	Owned	670
Stone Mountain, GA.....	Stores	Owned	1,000
Tampa, FL.....	Stores	Owned	670
Tulsa, OK.....	Direct to customer	Owned	2,195
Tukwila, WA.....	Stores	Leased	500
Union City, CA.....	Stores	Leased	165
Youngstown, OH.....	Stores	Owned	851

Item 3. 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.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The Company's common stock is listed on the NYSE under the trading symbol “M.” As of February 2, 2019, the Company had approximately 14,625 stockholders of record.

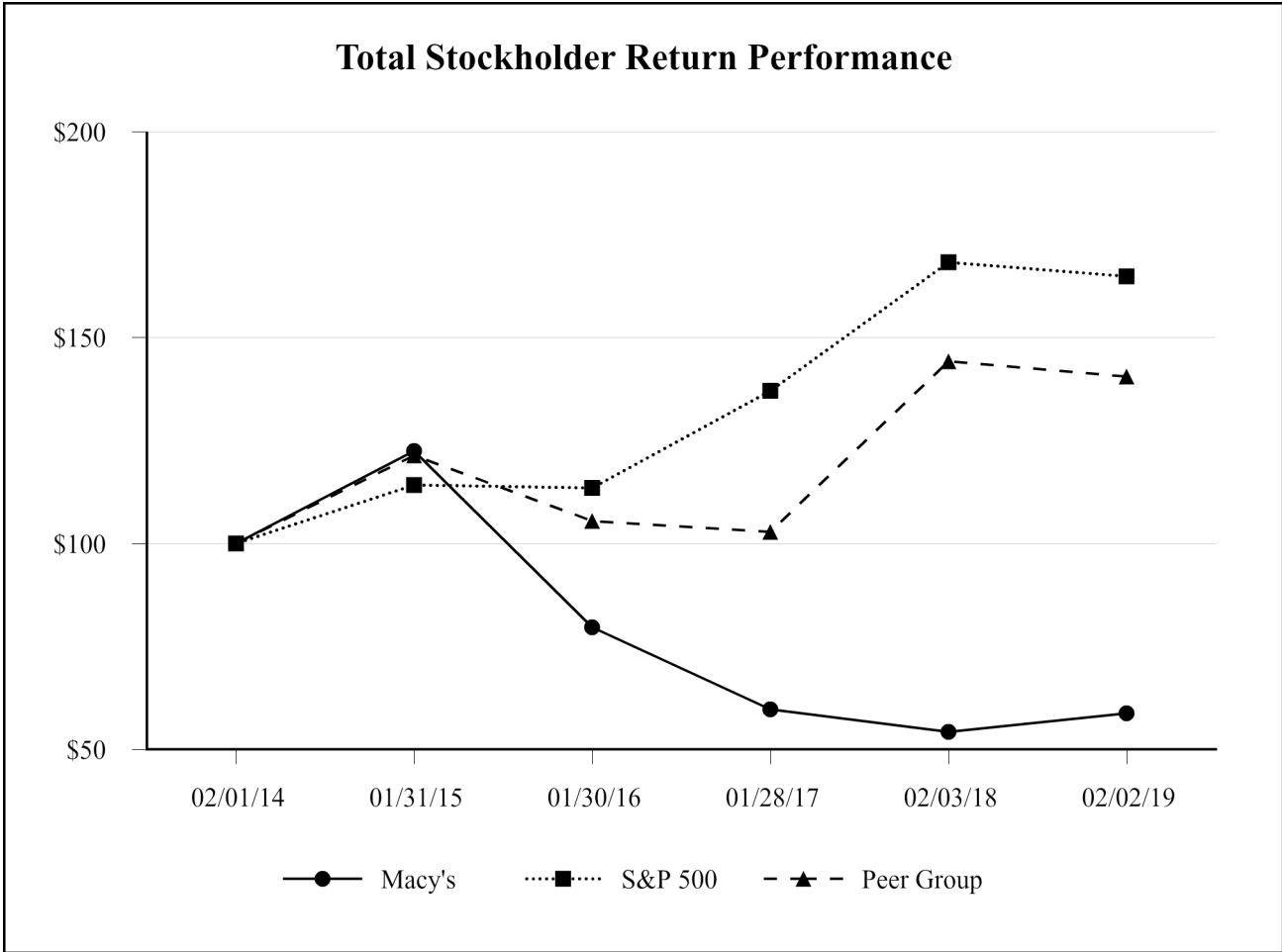
The declaration and payment of future dividends will be at the discretion of the Company’s Board of Directors, are subject to restrictions under the Company’s credit facility and may be affected by various other factors, including the Company’s earnings, financial condition and legal or contractual restrictions.

The following table provides information regarding the Company’s purchases of common stock during the fourth quarter of 2018.

	Total Number of Shares Purchased	Average Price per Share (\$)	Number of Shares Purchased under Program (1)	Open Authorization Remaining \$(1)
	(thousands)		(thousands)	(millions)
November 4, 2018 - December 1, 2018	—	—	—	1,716
December 2, 2018 - January 5, 2019	—	—	—	1,716
January 6, 2019 - February 2, 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. All authorizations are cumulative and do not have an expiration date. As of February 2, 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.

The following graph compares the cumulative total stockholder return on the Company's common stock with the Standard & Poor's 500 Composite Index and the Company's peer group for the period from February 1, 2014 through February 2, 2019, assuming an initial investment of \$100 and the reinvestment of all dividends, if any.



The companies included in the peer group are Bed, Bath & Beyond, Dillard's, Gap, J.C. Penney, Kohl's, L Brands, Nordstrom, Ross Stores, Sears Holdings, Target, TJX Companies and Wal-Mart.

Item 6. Selected Financial Data.

The selected financial data set forth below should be read in conjunction with the Consolidated Financial Statements and the notes thereto and the other information contained elsewhere in this report. The Company adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers, on February 4, 2018 using the full retrospective transition method and recast results from 2017 and 2016. Results from periods prior to 2016 have not been recast for the adoption of this standard.

	<u>2018</u>	<u>2017*</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
	(millions, except per share)				
Consolidated Statement of Income Data:					
Net sales	\$ 24,971	\$ 24,939	\$ 25,908	\$ 27,079	\$ 28,105
Gross margin (a)	9,756	9,758	10,242	10,583	11,242
Operating income	1,738	1,864	1,371	2,028	2,773
Net income	1,098	1,555	619	1,070	1,526
Net income attributable to Macy's, Inc. shareholders	1,108	1,566	627	1,072	1,526
Basic earnings per share attributable to					
Macy's, Inc. shareholders	\$ 3.60	\$ 5.13	\$ 2.03	\$ 3.26	\$ 4.30
Diluted earnings per share attributable to					
Macy's, Inc. shareholders	\$ 3.56	\$ 5.10	\$ 2.02	\$ 3.22	\$ 4.22
Average number of shares outstanding	307.7	305.4	308.5	328.4	355.2
Cash dividends paid per share	\$ 1.5100	\$ 1.5100	\$ 1.4925	\$ 1.3925	\$ 1.1875
Depreciation and amortization	\$ 962	\$ 991	\$ 1,058	\$ 1,061	\$ 1,036
Capital expenditures	\$ 932	\$ 760	\$ 912	\$ 1,113	\$ 1,068
Balance Sheet Data (at year end):					
Cash and cash equivalents	\$ 1,162	\$ 1,455	\$ 1,297	\$ 1,109	\$ 2,246
Property and equipment - net	6,637	6,672	7,017	7,616	7,800
Total assets	19,194	19,583	20,082	20,576	21,330
Short-term debt	43	22	309	642	76
Long-term debt	4,708	5,861	6,562	6,995	7,233
Total Shareholders' equity	6,436	5,733	4,375	4,253	5,378

* 53 weeks

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

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The discussion in this Item 7 should be read in conjunction with the Consolidated Financial Statements and the related notes included elsewhere in this report. The discussion in this Item 7 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 "Forward-Looking Statements."

Company Overview

The Company is an omnichannel retail organization operating stores, websites and mobile applications under three brands (Macy's, Bloomingdale's and bluemercury) that sell a wide range of merchandise, including apparel and accessories (men's, women's and kids'), cosmetics, home furnishings and other consumer goods. The Company operates 867 stores in 43 states, the District of Columbia, Puerto Rico and Guam. As of February 2, 2019, the Company's operations were conducted through Macy's, Bloomingdale's, Bloomingdale's The Outlet, Macy's Backstage, and bluemercury, which are aggregated into one reporting segment in accordance with the FASB Accounting Standards Codification ("ASC") Topic 280, Segment Reporting.

Bloomingdale's in Dubai, United Arab Emirates and Al Zahra, Kuwait are operated under a license agreement with Al Tayer Insignia, a company of the Al Tayer Group, LLC.

Strategic Initiatives and 2018 Summary

The Company continues to implement its North Star strategy to transform its omnichannel business and focus on key growth areas, embrace customer centricity, and optimize value in its real estate portfolio. The components to this strategy are:

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

During 2018, the Company completed the foundational work for five key strategic initiatives underlying components of the North Star strategy. This activity resulted in positive contributions from each initiative during the fiscal year.

- The Macy's Star Rewards loyalty program marked its one-year anniversary and continued to offer improved benefits to its members, including exclusive experiences for the program's platinum loyalty members. Loyalty program members are shopping more and spending more in total, resulting in increased penetration of the Company's proprietary credit card. Additionally, a tender-neutral option was launched during 2018, resulting in the addition of more than three million new members to the loyalty program.
- Continuing the aggressive expansion of Backstage, Macy's mall-based off-price business, the Company opened more than 120 new Backstage locations within Macy's stores. This expansion brings the total Backstage locations

to 172 (seven freestanding and 165 inside Macy's stores) as of February 2, 2019. The Company will expand to at least 45 more Backstage locations within Macy's stores in 2019.

- The Company enhanced customer options for pick-up, delivery and checkout at Macy's, including the expansion of Buy Online Pickup in Stores ("BOPS"), launch of Buy Online Ship to Store ("BOSS") and creation of At Your Service stations in all stores.
- The Company's vendor direct program (merchandise purchased from the Company's websites and digital applications and shipped directly to customers from the respective vendor) continued its expansion during 2018, with increased assortment and the addition of new categories and brands. This program will continue its expansion into more categories and brands in 2019.
- The Growth50 locations (a mix of stores where the Company accelerated a number of successful store initiatives, such as facility upgrades, merchandising strategies, and localized marketing) contributed to the strong operating results for 2018, with sales results outperforming the other Macy's locations. As a result of the performance of the Growth50 locations, the Company will expand the initiative to another 100 stores in 2019, creating the Growth150.

2018 was also a year of innovation. The Company acquired STORY and invested in b8ta to integrate in-store experiences with innovative technology and increase customer engagement. STORY is a concept store in New York City that reinvents itself every few weeks to attract new customers and retain existing ones. b8ta is a technology-powered retailer whose software platform provides an automated and seamless experience for emerging brands launching a physical retail presence. This technology platform allows the Company to implement its Market @ Macy's concept, also launched during 2018, across its store base at a faster pace. The Company also delivered the first national virtual reality roll-out in retail, opening over 100 virtual reality furniture galleries in 2018.

The Company will carry three of its 2018 strategic initiatives forward into 2019 (Growth150, Backstage, and vendor direct) and will add two new initiatives: 1) the enhancement of the Company's mobile platforms and 2) investment in destination businesses comprising six merchandise categories (dresses, fine jewelry, big ticket, men's tailored, women's shoes and beauty).

As part of the Company's commitment to increased productivity to fund investment in the business, in February 2019 the Company launched a comprehensive, multi-year program focused on growing its profitability rate by improving productivity across the enterprise. The program includes initiatives to improve margin through enhanced inventory planning and operations, supply chain efficiencies, pricing optimization, improved private brand sourcing and customer acquisition and retention strategies.

As an initial step, the Company developed a plan in 2018 that reduces the complexity of the upper management structure to increase the speed of decision making, reduce costs and respond to changing customer expectations. Beginning in 2019, the Company expects the announced restructuring actions to generate annual expense savings of \$100 million. In addition to the expected 2019 savings, the Company anticipates that these activities will fuel the productivity plan over the next three to five years and contribute significantly to profitable growth. For 2018, the Company recorded expense of approximately \$80 million of severance and other human resource-related costs associated with these restructuring activities.

In 2018, the Company continued to execute on its real estate strategy through both monetization and redevelopment of certain assets. Overall, the Company had asset sale gains of \$389 million, totaling \$474 million in cash proceeds in 2018. Included in these gains and proceeds are the sale of the former I. Magnin building in Union Square San Francisco, the sale of the upper seven floors of the Macy's State Street store in Chicago, as well as the continued recognition of the deferred gain from Macy's Brooklyn transaction executed in 2015.

During 2018, the Company announced a retail store strategy for Macy's that focuses on identifying a scalable investment strategy for all of the brand's stores, improving the customer's experience and growing total sales profitably. This strategy includes categorization of the Company's Macy's stores into three groups: Flagship, Magnet and Neighborhood stores.

- Flagship stores include Herald Square and 10 other regional flagship stores which serve as premier retail destinations within their respective regions.
- Magnet stores are retail destinations within major markets that offer an expanded selection of merchandise. Included within these stores are the Growth50 stores, which, as noted previously, will be expanded to another 100 stores in 2019.

- Neighborhood stores are smaller locations that are visited primarily for convenience and on-line order fulfillment.

Bloomingtondale's had a strong 2018, including an improved trend in stores performance and online growth. Notably, the renovation of Bloomingtondale's flagship store at 59th Street brought new energy, products and experiences to this location, serving as a shopping destination for both locals and tourists.

The Company continued its growth of its luxury beauty products and spa retailer, bluemercury, by opening additional freestanding bluemercury stores in urban and suburban markets and adding bluemercury products and boutiques to Macy's stores. As of February 2, 2019, the Company is operating 183 bluemercury locations (163 freestanding and 20 inside Macy's stores).

In January 2019, the Company ended the joint venture with Fung Retailing Limited after winding down the operations of Macy's China Limited earlier in 2018. In conjunction with the termination of the joint venture, the Company acquired the noncontrolling interest in Macy's China Limited from Fung Retailing Limited, resulting in one hundred percent ownership. For the period of time prior to the acquisition of the noncontrolling interest, Fung Retailing Limited's thirty-five percent proportionate share of the results of Macy's China Limited was reported as noncontrolling interest in the Consolidated Financial Statements.

Overview of 2018 Financial Results

2018 saw the execution of the Company's North Star strategy which resulted in healthier stores and continued e-commerce growth. 2018 ended with a solid fourth quarter and selected results of 2018 include:

- Net sales increased 0.1% compared to 2017, which included a 53rd week of operations.
- Comparable sales on an owned basis increased 1.7% and comparable sales on an owned plus licensed basis increased 2.0%.
- Asset sale gains decreased \$155 million to \$389 million compared to 2017.
- Federal, state, and local income tax expense for 2018 was \$322 million compared to a benefit of \$39 million in 2017, which included a non-cash tax benefit of \$584 million associated with the remeasurement of the Company's deferred tax balances due to U.S. federal tax reform enacted in 2017. As a result of U.S. federal tax reform, the Company's federal statutory effective tax rate declined to 21% in January 2018 from 35%.
- Net income attributable to Macy's, Inc. shareholders for 2018 was \$1,108 million, a decrease of \$458 million from \$1,566 million in 2017.
- Diluted earnings per share attributable to Macy's, Inc. shareholders decreased to \$3.56 in 2018 compared to \$5.10 in 2017. Excluding restructuring, impairment, store closing and other costs, settlement charges, losses and gains on early retirement of debt and the deferred tax effects of U.S. federal tax reform, adjusted diluted earnings per share attributable to Macy's, Inc. shareholders increased to \$4.18 in 2018 from \$3.79 in 2017. In addition, excluding asset sales gains, adjusted diluted earnings per share attributable to Macy's, Inc. shareholders increased to \$3.26 in 2018 from \$2.69 in 2017.
- Earnings before interest, taxes, depreciation and amortization excluding restructuring, impairment, store closing and other costs and settlement charges ("Adjusted EBITDA") was \$2,877 million in 2018, as compared to \$3,109 million in 2017.
- Return on invested capital ("ROIC"), a key measure of operating productivity, was 19.9% for 2018 compared to 20.8% for 2017.
- The Company repurchased \$1,094 million of debt in 2018, consisting of \$344 million of debt repurchased in the open market and \$750 million of debt repurchased in a tender offer ("tender offer").

See pages 29 to 32 for reconciliations of the non-GAAP financial measures presented above to the most comparable U.S. generally accepted accounting principles ("GAAP") financial measures and other important information.

Results of Operations

	2018		2017		2016	
	Amount	% to Sales	Amount	% to Sales	Amount	% to Sales
(dollars in millions, except per share figures)						
Net sales	\$ 24,971		\$ 24,939		\$ 25,908	
Increase (decrease) in comparable sales	1.7 %		(2.2) %		(3.5) %	
Credit card revenues, net	768	3.1 %	702	2.8 %	656	2.5 %
Cost of sales	(15,215)	(60.9) %	(15,181)	(60.9) %	(15,666)	(60.5) %
Selling, general and administrative expenses	(9,039)	(36.2) %	(8,954)	(35.9) %	(9,257)	(35.7) %
Gains on sale of real estate	389	1.5 %	544	2.2 %	209	0.8 %
Restructuring, impairment, store closing and other costs	(136)	(0.5) %	(186)	(0.7) %	(479)	(1.8) %
Operating income	1,738	7.0 %	1,864	7.5 %	1,371	5.3 %
Benefit plan income, net	39		57		55	
Settlement charges	(88)		(105)		(98)	
Interest expense - net	(236)		(310)		(363)	
Gains (losses) on early retirement of debt	(33)		10		—	
Income before income taxes	1,420		1,516		965	
Federal, state and local income tax benefit (expense)	(322)		39		(346)	
Net income	1,098		1,555		619	
Net loss attributable to noncontrolling interest	10		11		8	
Net income attributable to Macy's, Inc. shareholders	<u>\$ 1,108</u>	<u>4.4 %</u>	<u>\$ 1,566</u>	<u>6.3 %</u>	<u>\$ 627</u>	<u>2.4 %</u>

Diluted earnings per share attributable to Macy's, Inc. shareholders	\$ 3.56		\$ 5.10		\$ 2.02	
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Supplemental Financial Measure

Gross margin	\$ 9,756	39.1 %	\$ 9,758	39.1 %	\$ 10,242	39.5 %
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Supplemental Non-GAAP Financial Measures

Increase (decrease) in comparable sales on an owned plus licensed basis	2.0 %		(1.9) %		(2.9) %	
Adjusted diluted earnings per share attributable to Macy's, Inc. shareholders	\$ 4.18		\$ 3.79		\$ 3.14	
Adjusted EBITDA	\$ 2,877		\$ 3,109		\$ 2,971	
ROIC	19.9 %		20.8 %		18.5 %	

See pages 29 to 32 for a reconciliation of these non-GAAP financial measures to their most comparable GAAP financial measure and for other important information.

Store information (at year-end):

Stores operated	867		852		829	
Square footage (in millions)	126.0		127.7		130.2	

Comparison of 2018 and 2017

Net Sales and Comparable Sales

Net sales for 2018 were \$24,971 million, an increase of \$32 million, or 0.1%, from 2017, which included a 53rd week of operations. The increase in comparable sales on an owned basis, which excludes the 53rd week of sales in 2017, for 2018 was 1.7% compared to 2017. The increase in comparable sales on an owned plus licensed basis for 2018 was 2.0% compared to 2017. Geographically, sales in 2018 were strongest in the South, Southwest and Northeast regions of the country. Digital sales continued to be strong in 2018 and experienced double digit growth. By family of business, sales in 2018 were strongest in active apparel, fine jewelry, fragrances, men's tailored clothing, kids', women's shoes, dresses and furniture. Sales in 2018 were less strong in women's sportswear collections, handbags, fashion watches and color cosmetics. Sales of the Company's private label brands represented approximately 20% of net sales in the Macy's-branded operations in both 2018 and 2017.

Credit Card Revenues, Net

Net credit card revenues were \$768 million for 2018, an increase of \$66 million compared to \$702 million recognized in 2017. 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 to 46.9% in 2018 from 46.2% in 2017.

Cost of Sales

Cost of sales for 2018 increased \$34 million from 2017. The cost of sales rate as a percent to net sales of 60.9% in 2018 was flat to 2017, primarily due to lower merchandise costs, including lower markdowns, which offset higher delivery expenses associated with the Company's omnichannel activities, free shipping promotions and loyalty programs.

Selling, General, and Administrative (SG&A) Expenses

SG&A expenses for 2018 increased \$85 million from 2017 and the SG&A rate as a percent to net sales increased 30 basis points to 36.2% as compared to 2017. The dollar and rate increase compared to 2017 was primarily reflective of investments in the Company's strategic initiatives, technology and the Company's new employee incentive plan. In addition, advertising expense, net of cooperative advertising allowances, increased to \$1,162 million in 2018 from \$1,108 million in 2017.

Gains on Sale of Real Estate

The Company recognized gains of \$389 million in 2018 associated with sales of real estate, as compared to \$544 million in 2017. 2018 included gains of \$178 million related to the I. Magnin building in Union Square San Francisco and \$58 million related to the continued recognition of the deferred gain from the Macy's Brooklyn transaction which closed in 2015. 2017 included gains of \$234 million related to the Macy's Union Square location, \$71 million related to the Macy's Brooklyn transaction, \$47 million related to the downtown Minneapolis properties and \$40 million related to the downtown Seattle Macy's location.

Restructuring, Impairment, Store Closing and Other Costs

Restructuring, impairment, store closing and other costs for 2018 and 2017 of \$136 million and \$186 million, respectively, included severance and other human resource-related costs, asset impairment charges and other costs associated with organizational changes and store closings. 2018 included costs and expenses primarily associated with the organizational changes and store closings announced in January 2019, while 2017 included costs and expenses primarily associated with the organizational changes and store closings announced in August 2017 and January 2018.

Benefit Plan Income, Net

2018 and 2017 included \$39 million and \$57 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

\$88 million and \$105 million of non-cash settlement charges were recognized in 2018 and 2017, respectively. These charges relate to the pro-rata recognition of net actuarial losses associated with the Company's defined benefit retirement

plans and are the result of an increase in lump sum distributions associated with retiree distribution elections and restructuring activity.

Net Interest Expense

Net interest expense, excluding losses and gains on early retirement of debt, for 2018 decreased \$74 million from 2017. This decrease was primarily driven by the reduction in the Company's debt resulting from the tender offer repurchases in 2017 and open market repurchases in 2018.

Losses and Gains on Early Retirement of Debt

In 2018, the Company repurchased approximately \$344 million face value of senior notes and debentures and completed a tender offer debt repurchase of \$750 million face value of senior notes and debentures. As a result of these transactions, the Company recognized \$33 million in expenses and fees net of the write-off of unamortized debt premiums.

In 2017, the Company repurchased approximately \$247 million face value of senior notes and debentures and completed a tender offer debt repurchase of \$400 million face value of senior notes and debentures. As a result of these transactions, the Company recognized a \$10 million benefit related to the write-off of the unamortized premium associated with the debt repayments, net of the premium costs and other expenses.

Effective Tax Rate

The Company's effective tax rate was expense of 22.7% for 2018 and a benefit of 2.6% for 2017. On a comparative basis, the 2018 rate reflects the Company's lower federal income tax statutory rate of 21% as compared to 35% resulting from the U.S. federal tax reform enacted in 2017. 2017 included the recognition of a non-cash tax benefit of \$584 million associated with the remeasurement of the Company's deferred tax balances due to U.S. federal tax reform. Further, 2017 included the recognition of approximately \$15 million of net tax shortfalls associated with share-based payment awards.

Net Income Attributable to Macy's, Inc. Shareholders

Net income attributable to Macy's, Inc. shareholders for 2018 decreased \$458 million compared to 2017, driven by higher taxes and lower earnings before interest and taxes ("EBIT"), partially offset by higher credit card revenue and lower net interest expense.

Comparison of 2017 and 2016

Net Sales and Comparable Sales

Net sales for 2017, which included a 53rd week, decreased \$969 million or 3.7% compared to 2016. The decrease in comparable sales on an owned basis for 2017 was 2.2% compared to 2016. The decrease in comparable sales on an owned plus licensed basis for 2017 was 1.9% compared to 2016. Geographically, sales in 2017 were strongest in Florida, Eastern Texas, Louisiana, Hawaii, Oregon, Southern California and Arizona. Digital sales continued to be strong in 2017 and experienced double digit growth. By family of business, sales in 2017 were strongest in active apparel, fine jewelry, fragrances, dresses and men's tailored clothing. Sales in 2017 were less strong in handbags although the trend improved in the second half of the year. Sales of the Company's private label brands represented approximately 20% of net sales in the Macy's-branded operations in 2017 and 2016.

Credit Card Revenues, Net

Credit card revenues, net were \$702 million for 2017, an increase of \$46 million compared to \$656 million recognized in 2016. Increased proprietary card usage driven by the enhanced Macy's Star Rewards loyalty program drove the favorable results.

Cost of Sales

Cost of sales for 2017 decreased \$485 million from 2016. The cost of sales rate as a percent to net sales of 60.9% was 40 basis points higher in 2017, as compared to 60.5% in 2016, primarily due to higher delivery expenses associated with the Company's omnichannel activities and free shipping promotions.

SG&A Expenses

SG&A expenses for 2017 decreased \$303 million from 2016, however, the SG&A rate as a percent to net sales of 35.9% was 20 basis points higher in 2017, as compared to 2016. The dollar decrease from 2016 was mainly due to store closings and the restructuring activities announced in 2016 and 2017, offset slightly by higher expenses associated with the continued investments in the Company's omnichannel operations, and investments in bluemercury and Macy's Backstage.

Advertising expense, net of cooperative advertising allowances, was \$1,108 million for 2017 compared to \$1,153 million for 2016.

Gains on Sale of Real Estate

The Company recognized gains of \$544 million in 2017 associated with sales of real estate, as compared to \$209 million in 2016. 2017 included gains of \$234 million related to the Macy's Union Square location, \$71 million related to the Macy's Brooklyn transaction, \$47 million related to the downtown Minneapolis properties and \$40 million related to the downtown Seattle Macy's location. 2016 included \$33 million of gains related to the Macy's Brooklyn transaction.

Restructuring, Impairment, Store Closing and Other Costs

Restructuring, impairment, store closing and other costs for 2017 and 2016 of \$186 million and \$479 million, respectively, included severance and other human resource-related costs, asset impairment charges and other costs associated with organizational changes and store closings. 2017 included costs and expenses primarily associated with the organizational changes and store closings announced in August 2017 and January 2018, while 2016 included costs and expenses primarily associated with the organizational changes and store closings announced in August 2016 and January 2017.

Benefit Plan Income, Net

2017 and 2016 included \$57 million and \$55 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

\$105 million and \$98 million of non-cash settlement charges were recognized in 2017 and 2016, respectively. These charges relate to the pro-rata recognition of net actuarial losses associated with the Company's defined benefit retirement plans and are the result of an increase in lump sum distributions associated with retiree distribution elections and restructuring activity.

Net Interest Expense

Net interest expense, excluding gains on early retirement of debt, for 2017 decreased \$53 million from 2016. This decrease was primarily driven by the early repayment of \$647 million of debt and the repayment at maturity of \$300 million of debt in 2017.

Gains on Early Retirement of Debt

In 2017, the Company repurchased approximately \$247 million face value of senior notes and debentures and completed a tender offer debt repurchase of \$400 million face value of senior notes and debentures. As a result of these transactions, the Company recognized a \$10 million benefit related to the write-off of the unamortized premium associated with the debt repayments, net of the premium costs and other expenses.

Effective Tax Rate

The Company's effective tax rate was a benefit of 2.6% for 2017 and expense of 35.9% for 2016. As previously discussed, 2017 differs from the federal income tax statutory rate of 33.7%, principally due to U.S. federal tax reform enacted in 2017 that led to the recognition of a non-cash tax benefit of \$584 million associated with the remeasurement of the Company's deferred tax balances. Further, 2017 included the recognition of approximately \$15 million of net tax shortfalls associated with share-based payment awards.

Net Income Attributable to Macy's, Inc. Shareholders

Net income attributable to Macy's, Inc. shareholders for 2017 increased compared to 2016, driven by higher operating income due to higher asset sale gains, lower SG&A expenses, restructuring, impairment, store closing and other costs, partially offset by lower sales and gross margin. Coupled with higher credit card revenue, lower net interest expense and a net income tax benefit resulted in net income attributable to Macy's Inc. shareholders increasing by \$939 million in 2017 as compared to 2016.

Guidance

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

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

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

Based on its assessment of current and anticipated market conditions and its recent performance, the Company's 2019 guidance assumptions include the following:

- Net sales are estimated to be approximately flat to 2018.
- Comparable sales on both an owned and owned plus licensed basis are estimated to be flat to up 1.0%.
- Credit revenue is estimated to be approximately \$740 million to \$765 million.
- Gross margin rate is estimated to be down moderately in the first half and down slightly in the second half of the year.
- SG&A expense rate is expected to be up slightly with expense savings increasing throughout the year and helping to offset incremental investment spend.
- Benefit plan income is estimated to be approximately \$25 million.
- Estimated asset sale gains of approximately \$100 million.
- Estimated interest expense of approximately \$190 million.
- Effective tax rate is expected to be 23.0%.
- Adjusted diluted earnings per share is expected to be \$3.05 to \$3.25. Adjusted diluted earnings per share, excluding asset sale gains, is expected to be \$2.80 to \$3.00.
- Estimated depreciation and amortization of approximately \$975 million.
- Capital expenditures are estimated at approximately \$1 billion.

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 was \$1,735 million in 2018 compared to \$1,976 million in 2017. The decline was driven by lower earnings before interest, taxes, depreciation and amortization ("EBITDA") and higher net inventory investment. These declines in operating cash flows were partially offset by lower cash paid for taxes in 2018 compared to 2017.

Investing Activities

Net cash used by investing activities for 2018 was \$456 million, compared to net cash used by investing activities of \$351 million for 2017. Investing activities for 2018 included purchases of property and equipment totaling \$657 million and capitalized software of \$275 million, compared to purchases of property and equipment totaling \$487 million and capitalized software of \$273 million for 2017.

Capital expenditures were higher by \$172 million in 2018 as compared to 2017. This increase in capital expenditures was largely driven by the Company's Growth50 and Backstage strategic initiatives.

In 2018, the Company continued to execute on its real estate strategy that includes creating value through monetization and, in some cases, redevelopment of real estate assets. Overall, property and equipment sales, primarily related to real estate, generated cash proceeds of \$474 million in 2018 compared to \$411 million in 2017.

Financing Activities

Net cash used by the Company for financing activities was \$1,544 million for 2018, including the repayment of \$1,149 million of debt and the payment of \$463 million of cash dividends, partially offset by the issuance of \$45 million of common stock, primarily related to the exercise of stock options, and proceeds of \$7 million received from Macy's China Limited's noncontrolling interest shareholder.

During December 2018, the Company completed a tender offer and purchased \$750 million in aggregate principal amount of certain senior unsecured notes and debentures. The purchased senior unsecured notes and debentures included \$164 million of 6.65% senior debentures due 2024, \$155 million of 7.0% senior debentures due 2028, \$114 million of 6.9% senior debentures due 2029, \$103 million of 4.5% senior notes due 2034, \$94 million of 6.79% senior debentures due 2027, \$35 million of 6.7% senior debentures due 2034, \$34 million of 6.375% senior notes due 2037, \$34 million of 6.7% senior debentures due 2028, \$10 million of 6.9% senior debentures due 2032, \$5 million of 8.75% senior debentures due 2029, and \$2 million of 7.875% senior debentures due 2030. The total cash cost for the tender offer was \$789 million. The Company recognized \$28 million of expense related to the recognition of the tender premium and other costs partially offset by the unamortized debt premium associated with this debt. This expense is presented as losses on early retirement of debt on the Consolidated Statements of Income during 2018.

During 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 and other fees related to the transactions. Such repurchases resulted in the recognition of expense of \$5 million during 2018 presented as losses on early retirement of debt on the Consolidated Statements of Income.

Net cash used by the Company for financing activities was \$1,446 million for 2017, including the repayment of \$988 million of debt and the payment of \$461 million of cash dividends, partially offset by the issuance of \$6 million of common stock, primarily related to the exercise of stock options, and proceeds of \$13 million received from Macy's China Limited's noncontrolling interest shareholder.

During December 2017, the Company completed a tender offer and purchased \$400 million in aggregate principal amount of certain senior unsecured notes and debentures. The purchased senior unsecured notes and debentures included \$147 million of 6.9% senior debentures due 2032, \$108 million of 6.7% senior debentures due 2034, \$96 million of 6.375% senior notes due 2037, \$43 million of 8.75% senior debentures due 2029, and \$6 million of 7.875% senior debentures due 2030. The total cash cost for the tender offer was \$423 million. The Company recognized \$11 million of income related to the recognition of the unamortized debt premium partially offset by the tender premium and other costs

associated with this debt. This income is presented as gains on early retirement of debt on the Consolidated Statements of Income during 2017.

In July 2017, the Company paid \$300 million of debt at maturity. During the first and second quarters of 2017, the Company repurchased \$247 million face value of senior notes and debentures. The debt repurchases were made in the open market for a total cash cost of \$257 million, including expenses related to the transactions. Such repurchases resulted in the recognition of expense of \$1 million during 2017 presented as losses on early retirement of debt on the Consolidated Statements of Income.

The Company entered into a credit agreement with certain financial institutions as of May 6, 2016 providing for revolving credit borrowings and letters of credit in an aggregate amount not to exceed \$1,500 million (which may be increased to \$1,750 million at the option of the Company, subject to the willingness of existing or new lenders to provide commitments for such additional financing) outstanding at any particular time. This agreement is set to expire May 6, 2021 and replaced the prior agreement which was set to expire May 10, 2018.

As of February 2, 2019 and February 3, 2018, there were no revolving credit loans outstanding under this credit agreement, and there were no borrowings under the agreement during 2018 and 2017. In addition, there were no standby letters of credit outstanding at February 2, 2019 and February 3, 2018. Revolving loans under the credit agreement bear interest based on various published rates.

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 the bank credit agreement with certain financial institutions. There were no borrowings under the program during 2018 and 2017. As of February 2, 2019 and February 3, 2018, there were no remaining borrowings outstanding under the commercial paper program.

The credit agreement requires the Company 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 2018 was 11.22 and its leverage ratio at February 2, 2019 was 1.74, in each case as calculated in accordance with the credit agreement. The interest coverage ratio is defined as EBITDA divided by net interest expense and the leverage ratio is defined as debt divided by EBITDA. For purposes of these calculations EBITDA is calculated as net income plus interest expense, taxes, depreciation, amortization, non-cash impairment of goodwill, intangibles and real estate, non-recurring cash charges not to exceed in the aggregate \$300 million and extraordinary losses less interest income and non-recurring or extraordinary gains. Debt is adjusted to exclude the premium on acquired debt and net interest is adjusted to exclude the amortization of premium on acquired debt and premium on early retirement of debt.

A breach of a restrictive covenant in the Company's credit agreement or the inability of the Company to maintain the financial ratios described above could result in an event of default under the credit agreement. In addition, an event of default would occur under the credit agreement if any indebtedness of the Company in excess of an aggregate principal amount of \$150 million becomes due prior to its stated maturity or the holders of such indebtedness become able to cause it to become due prior to its stated maturity. Upon the occurrence of an event of default, the lenders could, subject to the terms and conditions of the credit agreement, elect to declare the outstanding principal, together with accrued interest, to be immediately due and payable. Moreover, most of the Company's senior notes and debentures contain cross-default provisions based on the non-payment at maturity, or other default after an applicable grace period, of any other debt, the unpaid principal amount of which is not less than \$100 million that could be triggered by an event of default under the credit agreement. In such an event, the Company's senior notes and debentures that contain cross-default provisions would also be subject to acceleration.

At February 2, 2019, no notes or debentures contain provisions requiring acceleration of payment upon a debt rating downgrade. However, the terms of approximately \$3,759 million in aggregate principal amount of the Company's senior notes outstanding at that date require the Company to offer to purchase such notes at a price equal to 101% of their principal amount plus accrued and unpaid interest in specified circumstances involving both a change of control (as defined in the applicable indenture) of the Company and the rating of the notes by specified rating agencies at a level below investment grade.

As of February 2, 2019, the Company had \$1,716 million of authorization remaining under its share repurchase program. The Company may continue or, from time to time, suspend repurchases of shares under its share repurchase program, depending on prevailing market conditions, alternate uses of capital and other factors.

On February 22, 2019, the Company's board of directors declared a quarterly dividend of 37.75 cents per share on its common stock, payable April 1, 2019, to shareholders of record at the close of business on March 15, 2019.

Contractual Obligations and Commitments

At February 2, 2019, the Company had contractual obligations (within the scope of Item 303(a)(5) of Regulation S-K) as follows:

	Obligations Due, by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
	(millions)				
Short-term debt.....	\$ 42	\$ 42	\$ —	\$ —	\$ —
Long-term debt.....	4,671	—	1,092	1,150	2,429
Interest on debt.....	2,069	214	402	327	1,126
Capital lease obligations.....	46	3	6	6	31
Operating leases (a).....	4,254	325	624	547	2,758
Letters of credit.....	28	28	—	—	—
Other obligations.....	5,022	3,188	825	299	710
	<u>\$ 16,132</u>	<u>\$ 3,800</u>	<u>\$ 2,949</u>	<u>\$ 2,329</u>	<u>\$ 7,054</u>

(a) Operating leases include executed leases not yet commenced.

“Other obligations” in the foregoing table includes post employment and postretirement benefits, self-insurance reserves, group medical/dental/life insurance programs, merchandise purchase obligations and obligations under outsourcing arrangements, construction contracts, energy and other supply agreements identified by the Company and liabilities for unrecognized tax benefits that the Company expects to settle in cash in the next year excluding interest and penalties. The Company's merchandise purchase obligations fluctuate on a seasonal basis, typically being higher in the summer and early fall and being lower in the late winter and early spring. The Company purchases a substantial portion of its merchandise inventories and other goods and services otherwise than through binding contracts. Consequently, the amounts shown as “Other obligations” in the foregoing table do not reflect the total amounts that the Company would need to spend on goods and services in order to operate its businesses in the ordinary course.

Of the Company's \$149 million of unrecognized tax benefits at February 2, 2019, within "other obligations" in the foregoing table, the Company has excluded \$4 million of deferred tax assets and \$117 million of long-term liabilities for unrecognized tax benefits for various tax positions taken. The table also excludes federal, state and local interest and penalties related to unrecognized tax benefits of \$56 million. These liabilities may increase or decrease over time as a result of tax examinations, and given the status of examinations, the Company cannot reliably estimate the period of any cash settlement with the respective taxing authorities.

Liquidity and Capital Resources Outlook

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

purposes including the redemption or repurchase of debt, equity or other securities through open market purchases, privately negotiated transactions or otherwise, and the funding of pension related obligations.

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

Important Information Regarding Non-GAAP Financial Measures

The Company reports its financial results in accordance with GAAP. However, management believes that certain non-GAAP financial measures provide users of the Company's financial information with additional useful information in evaluating operating performance. Management believes that providing supplemental changes in comparable sales on an owned plus licensed basis, which includes the impact of growth in comparable sales of departments licensed to third parties, assists in evaluating the Company's ability to generate sales growth, whether through owned businesses or departments licensed to third parties, on a comparable basis, and in evaluating the impact of changes in the manner in which certain departments are operated. In addition, management believes that excluding certain items that are not associated with the Company's core operations and that may vary substantially in frequency and magnitude period-to-period from diluted earnings per share attributable to Macy's, Inc. shareholders, EBIT and EBITDA, including as a percent to sales, provide useful supplemental measures that assist in evaluating the Company's ability to generate earnings and leverage sales, respectively, and to more readily compare these metrics between past and future periods. Management also believes that EBIT, EBITDA, Adjusted EBIT and Adjusted EBITDA are frequently used by investors and securities analysts in their evaluations of companies, and that such supplemental measures facilitate comparisons between companies that have different capital and financing structures and/or tax rates. In addition, management believes that ROIC is a useful supplemental measure in evaluating how efficiently the Company employs its capital. The Company uses some of these non-GAAP financial measures as performance measures for components of executive compensation.

The reconciliation of the forward-looking non-GAAP financial measure of changes in comparable sales on an owned plus licensed basis to GAAP comparable sales (i.e., on an owned basis) is in the same manner as illustrated below, where the impact of growth in comparable sales of departments licensed to third parties is the only reconciling item. In addition, the Company does not provide the most directly comparable forward-looking GAAP measure of diluted earnings per share attributable to Macy's, Inc. shareholders excluding certain items because the timing and amount of excluded items 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.

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Increase (decrease) in comparable sales on an owned basis (note 1)	1.7%	(2.2)%	(3.5)%
Impact of growth in comparable sales of departments licensed to third parties (note 2) ...	0.3%	0.3 %	0.6 %
Increase (decrease) in comparable sales on an owned plus licensed basis	<u>2.0%</u>	<u>(1.9)%</u>	<u>(2.9)%</u>

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, adjusting for the 53rd week in 2017, 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 a material portion of the store, is closed for a significant period of time. Definitions and calculations of comparable sales 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, adjusting for the 53rd week in 2017, in the calculation of comparable sales. The Company licenses third parties to operate certain departments in its stores and online and receives commissions from these third parties based on a percentage of their net sales. In its financial statements prepared in conformity with GAAP, the Company includes these commissions (rather than sales of the departments licensed to third parties) in its net sales. The Company does not, however, include any amounts in respect of licensed department sales (or any commissions earned on such sales) in its comparable sales in accordance with GAAP (i.e., on an owned basis). The amounts of commissions earned on sales of departments licensed to third parties are not material to its net sales for the periods presented.

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

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
As reported	\$ 3.56	\$ 5.10	\$ 2.02
Restructuring, impairment, store closing and other costs (a)	0.41	0.61	1.54
Settlement charges	0.28	0.34	0.31
Losses (gains) on early retirement of debt	0.11	(0.03)	—
Income tax impact of certain items identified above	(0.18)	(0.33)	(0.73)
Deferred tax effects of federal tax reform	—	(1.90)	—
As adjusted	<u>\$ 4.18</u>	<u>\$ 3.79</u>	<u>\$ 3.14</u>
Gains on sale of real estate	(1.25)	(1.77)	(0.67)
Income tax impact of gains on sale of real estate	0.33	\$ 0.67	0.26
As adjusted excluding gains on sale of real estate	<u>\$ 3.26</u>	<u>\$ 2.69</u>	<u>\$ 2.73</u>

(a) 2018 excludes impairment, restructuring, and other costs attributable to the noncontrolling interest shareholder of \$8 million.

Adjusted EBIT and EBITDA as a Percent to Net Sales

The following is a tabular reconciliation of the non-GAAP financial measure EBIT and EBITDA, as adjusted to exclude certain items ("Adjusted EBIT and Adjusted EBITDA"), as a percent to net sales to GAAP net income attributable to Macy's, Inc. shareholders as a percent to net sales, which the Company believes to be the most directly comparable GAAP financial measure.

	2018	2017	2016
	(millions, except percentages)		
Net sales	\$ 24,971	\$ 24,939	\$ 25,908
Net income attributable to Macy's, Inc. shareholders	\$ 1,108	\$ 1,566	\$ 627
Net income attributable to Macy's, Inc. shareholders as a percent to net sales	4.4%	6.3%	2.4%
Net income attributable to Macy's, Inc. shareholders	\$ 1,108	\$ 1,566	\$ 627
Restructuring, impairment, store closing and other costs (a)	128	186	479
Settlement charges	88	105	98
Interest expense - net	236	310	363
Losses (gains) on early retirement of debt	33	(10)	—
Federal, state and local income tax expense (benefit)	322	(39)	346
Adjusted EBIT	\$ 1,915	\$ 2,118	\$ 1,913
Adjusted EBIT as a percent to net sales	7.7%	8.5%	7.4%
Add back depreciation and amortization	962	991	1,058
Adjusted EBITDA	\$ 2,877	\$ 3,109	\$ 2,971
Adjusted EBITDA as a percent to net sales	11.5%	12.5%	11.5%

(a) 2018 excludes impairment, restructuring, and other costs attributable to the noncontrolling interest shareholder of \$8 million.

ROIC

The Company defines ROIC as adjusted EBITDA, excluding net rent expense, as a percent to average invested capital. Average invested capital is comprised of an annual two-point (i.e., end of the year presented and the immediately preceding year) average of gross property and equipment, a capitalized value of non-capitalized leases equal to periodic annual reported net rent expense multiplied by a factor of eight and a four-point (i.e., end of each quarter within the period presented) average of other selected assets and liabilities. The calculation of the capitalized value of non-capitalized leases is consistent with industry and credit rating agency practice and the specified assets are subject to a four-point average to compensate for seasonal fluctuations.

The following is a tabular reconciliation of the non-GAAP financial measure of ROIC to net income as a percent to property and equipment - net, which the Company believes to be the most directly comparable GAAP financial measure.

	2018	2017	2016
	(millions, except percentages)		
Net income	\$ 1,098	\$ 1,555	\$ 619
Property and equipment - net	\$ 6,655	\$ 6,845	\$ 7,317
Net income as a percent to property and equipment - net	16.5%	22.7%	8.5%
Net income	\$ 1,098	\$ 1,555	\$ 619
Add back interest expense, net	236	310	363
Add back (deduct) losses (gains) on early retirement of debt	33	(10)	—
Add back (deduct) federal, state and local tax expense (benefit)	322	(39)	346
Add back restructuring, impairment, store closing and other costs	136	186	479
Add back settlement charges	88	105	98
Add back depreciation and amortization	962	991	1,058
Add back rent expense, net			
Real estate	327	310	306
Personal property	9	10	11
Deferred rent amortization	14	14	9
Adjusted EBITDA	\$ 3,225	\$ 3,432	\$ 3,289
Property and equipment - net	\$ 6,655	\$ 6,845	\$ 7,317
Add back accumulated depreciation and amortization	4,553	4,733	5,088
Add capitalized value of non-capitalized leases	2,800	2,672	2,608
Add (deduct) other selected assets and liabilities:			
Receivables	273	327	402
Merchandise inventories	5,664	5,712	6,012
Prepaid expenses and other current assets	608	616	687
Other assets	803	830	881
Merchandise accounts payable	(2,219)	(2,115)	(2,173)
Accounts payable and accrued liabilities	(2,917)	(3,127)	(3,075)
Total average invested capital	\$ 16,220	\$ 16,493	\$ 17,747
ROIC	19.9%	20.8%	18.5%

Critical Accounting Policies

Merchandise Inventories

Merchandise inventories are valued at the lower of cost or market using the last-in, first-out (LIFO) retail inventory method. Under the retail inventory method, inventory is segregated into departments of merchandise having similar characteristics, and is stated at its current retail selling value. The retail inventory method inherently requires management judgments and estimates, such as the amount and timing of permanent markdowns to clear unproductive or slow-moving inventory, which may impact the ending inventory valuation as well as gross margins.

Permanent markdowns designated for clearance activity are recorded when the utility of the inventory has diminished. Factors considered in the determination of permanent markdowns include current and anticipated demand, customer preferences, age of the merchandise and fashion trends. When a decision is made to permanently mark down merchandise, the resulting gross margin reduction is recognized in the period the markdown is recorded.

Long-Lived Asset Impairment and Restructuring Charges

The carrying values of long-lived assets are periodically reviewed by the Company whenever events or changes in circumstances indicate that the carrying value may not be recoverable, such as historical operating losses or plans to close stores before the end of their previously estimated useful lives. Additionally, on an annual basis, the recoverability of the carrying values of individual stores is evaluated. A potential impairment has occurred if projected future undiscounted cash flows are less than the carrying value of the assets. The estimate of cash flows includes management's assumptions of cash inflows and outflows directly resulting from the use of those assets in operations. When a potential impairment has occurred, an impairment write-down is recorded if the carrying value of the long-lived asset exceeds its fair value. The Company believes its estimated cash flows are sufficient to support the carrying value of its long-lived assets. If estimated cash flows significantly differ in the future, the Company may be required to record asset impairment write-downs.

If the Company commits to a plan to dispose of a long-lived asset before the end of its previously estimated useful life, estimated cash flows are revised accordingly, and the Company may be required to record an asset impairment write-down. Additionally, related liabilities arise such as severance, contractual obligations and other accruals associated with store closings from decisions to dispose of assets. The Company estimates these liabilities based on the facts and circumstances in existence for each restructuring decision. The amounts the Company will ultimately realize or disburse could differ from the amounts assumed in arriving at the asset impairment and restructuring charge recorded.

Income Taxes

Income taxes are estimated based on the tax statutes, regulations and case law of the various jurisdictions in which the Company operates. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and net operating loss and tax credit carryforwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred income tax assets are evaluated for recoverability based on all available evidence, including past operating results, estimates of future taxable income, and the feasibility of tax planning strategies. Deferred income tax assets are reduced by a valuation allowance when it is more likely than not that some portion of the deferred income tax assets will not be realized.

Uncertain tax positions are recognized if the weight of available evidence indicates that it is more likely than not that the tax position will be sustained on examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Uncertain tax positions meeting the more-likely-than-not recognition threshold are then measured to determine the amount of benefit eligible for recognition in the financial statements. Each uncertain tax position is measured at the largest amount of benefit that is more likely than not to be realized upon ultimate settlement. Uncertain tax positions are evaluated and adjusted as appropriate, while taking into account the progress of audits of various taxing jurisdictions. Resolution of these matters could have a material impact on the Company's consolidated financial position, results of operations or cash flows.

Significant judgment is required in evaluating the Company's uncertain tax positions, provision for income taxes, and any valuation allowance recorded against deferred tax assets. Although the Company believes that its judgments are reasonable, no assurance can be given that the final tax outcome of these matters will not be different from that which is reflected in the Company's historical income provisions and accruals.

Pension and Supplementary Retirement Plans

The Company has a funded defined benefit pension plan (the "Pension Plan") and an unfunded defined benefit supplementary retirement plan (the "SERP"). The Company accounts for these plans in accordance with ASC Topic 715, Compensation - Retirement Benefits. Under ASC Topic 715, an employer recognizes the funded status of a defined benefit postretirement plan as an asset or liability on the balance sheet and recognizes changes in that funded status in the year in which the changes occur through comprehensive income. Additionally, pension expense is generally recognized on an accrual basis over the average remaining lifetime of participants. The pension expense calculation is generally independent of funding decisions or requirements.

The Pension Protection Act of 2006 provides the funding requirements for the Pension Plan which are different from the employer's accounting for the plan as outlined in ASC Topic 715. No funding contributions were required, and the Company made no funding contributions to the Pension Plan in 2018 and 2017. As of the date of this report, the Company does not anticipate making funding contributions to the Pension Plan in 2019. Management believes that, with respect to the Company's current operations, cash on hand and funds from operations, together with available borrowing under its credit facility and other capital resources, will be sufficient to cover the Company's Pension Plan cash requirements in both the near term and also over the longer term.

The calculation of pension expense and pension liabilities requires the use of a number of assumptions. Changes in these assumptions can result in different expense and liability amounts, and future actual experience may differ significantly from current expectations. The Company believes that the most critical assumptions relate to the long-term rate of return on plan assets (in the case of the Pension Plan) and the discount rate used to determine the present value of projected benefit obligations.

The Company's assumed annual long-term rate of return for the Pension Plan's assets was 6.75% for 2018, and 7.00% for 2017 and 2016 based on expected future returns on the portfolio of assets. For 2019, the Company is lowering the assumed annual long-term rate of return to 6.50% based on expected future returns of the portfolio of assets. The Company develops its expected long-term rate of return assumption by evaluating input from several professional advisors taking into account the asset allocation of the portfolio and long-term asset class return expectations, as well as long-term inflation assumptions. Pension expense increases or decreases as the expected rate of return on the assets of the Pension Plan decreases or increases, respectively. Lowering or raising the expected long-term rate of return assumption on the Pension Plan's assets by 0.25% would increase or decrease the estimated 2019 pension expense by approximately \$7 million.

The Company discounted its future pension obligations using a weighted-average rate of 4.03% at February 2, 2019 and 3.74% at February 3, 2018 for the Pension Plan and 4.10% at February 2, 2019 and 3.78% at February 3, 2018 for the SERP. The discount rate used to determine the present value of the Company's Pension Plan and SERP obligations is based on a yield curve constructed from a portfolio of high quality corporate debt securities with various maturities. Each year's expected future benefit payments are discounted to their present value at the appropriate yield curve rate, thereby generating the overall discount rate for Pension Plan and SERP obligations. As the discount rate is reduced or increased, the pension liability would increase or decrease, respectively, and future pension expense would decrease or increase, respectively. Lowering the discount rates by 0.25% would increase the projected benefit obligations at February 2, 2019 by approximately \$77 million and would decrease estimated 2019 pension expense by approximately \$3 million. Increasing the discount rates by 0.25% would decrease the projected benefit obligations at February 2, 2019 by approximately \$72 million and would increase estimated 2019 pension expense by approximately \$3 million.

The Company estimates the service and interest cost components of net periodic benefit costs for the Pension Plan and SERP. This method uses a full yield curve approach in the estimation of these components of net periodic benefit costs. Under this approach, the Company applies discounting using individual spot rates from the yield curve composed of the rates of return from a portfolio of high quality corporate debt securities available at the measurement date. These spot rates align to each of the projected benefit obligation and service cost cash flows.

New Pronouncements

See Note 1, "Organization and Summary of Significant Accounting Policies," of the Consolidated Financial Statements for discussion on new accounting pronouncements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

The Company is exposed to market risk from changes in interest rates that may adversely affect its financial position, results of operations and cash flows. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposures through its regular operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. The Company does not use financial instruments for trading or other speculative purposes and is not a party to any leveraged financial instruments.

The Company is exposed to interest rate risk through its borrowing activities, which are described in Note 6 to the Consolidated Financial Statements. All of the Company’s borrowings are under fixed rate instruments. However, the Company, from time to time, may use interest rate swap and interest rate cap agreements to help manage its exposure to interest rate movements and reduce borrowing costs. At February 2, 2019, the Company was not a party to any derivative financial instruments and based on the Company’s lack of market risk sensitive instruments outstanding at February 2, 2019, the Company has determined that there was no material market risk exposure to the Company’s consolidated financial position, results of operations or cash flows as of such date.

Item 8. Consolidated Financial Statements and Supplementary Data.

Information called for by this item is set forth in the Company’s Consolidated Financial Statements and supplementary data contained in this report and is incorporated herein by this reference. Specific financial statements and supplementary data can be found at the pages listed in the following index:

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

a. Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have carried out, as of February 2, 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 February 2, 2019 the Company's disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in reports the Company files under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the 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.

b. Management's Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f). The Company's management conducted an assessment of the Company's internal control over financial reporting based on the framework established by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework* (2013). Based on this assessment, the Company's management has concluded that, as of February 2, 2019, the Company's internal control over financial reporting is effective.

The Company's independent registered public accounting firm, KPMG LLP, has audited the effectiveness of the Company's internal control over financial reporting as of February 2, 2019 and has issued an attestation report expressing an unqualified opinion on the effectiveness of the Company's internal control over financial reporting, as stated in their report located on page F-3.

c. Changes in Internal Control over Financial Reporting

From time to time 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 quarter that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this item for executive officers is set forth under "Item 1. Business - Executive Officers of the Registrant" in this report. The other information called for by this item is set forth under "Item 1. Election of Directors" and "Further Information Concerning the Board of Directors - Committees of the Board" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement to be delivered to stockholders in connection with the 2019 Annual Meeting of Shareholders (the "Proxy Statement"), and incorporated herein by reference.

The Company's Code of Conduct is in compliance with the applicable rules of the SEC that apply to the principal executive officer, principal financial officer and principal accounting officer or comptroller, or persons performing similar functions. A copy of the Code of Conduct is available, free of charge, through the Company's website at <https://www.macysinc.com>. We intend to satisfy any disclosure requirement under Item 5 of Form 8-K regarding an amendment to, or waiver from, a provision of the Code of Conduct by posting such information to the Company's website at the address and location specified above.

Set forth below are the names, ages and principal occupations of the Company's non-employee directors as of March 21, 2019.

<u>Name</u>	<u>Age</u>	<u>Director Since</u>	<u>Principal Occupation</u>
David P. Abney.....	63	2018	Chairman and Chief Executive Officer of UPS, Inc., a multinational package delivery and supply chain management company, since 2016 and 2014, respectively. Chief Operating Officer of UPS, Inc. since 2007.
Francis S. Blake	69	2015	Former Chairman and Chief Executive Officer of The Home Depot, Inc., a multinational home improvement retailer.
John A. Bryant.....	53	2015	Former Chairman and Chief Executive Officer of Kellogg Company, a multinational cereal and snack food producer.
Deirdre P. Connelly	58	2008	Former President, North American Pharmaceuticals of GlaxoSmithKline, a global pharmaceutical company.
Leslie D. Hale	46	2015	President and Chief Executive Officer of RLJ Lodging Trust, a publicly-traded lodging real estate investment trust, since 2018.
William H. Lenehan	42	2016	President and Chief Executive Officer of Four Corners Property Trust, Inc., a real estate investment trust, since 2015.
Sara Levinson.....	68	1997	Co-Founder and Director of Katapult, a digital entertainment company making products for today's creative generation, since 2013.
Joyce M. Roché.....	72	2006	Former President and Chief Executive Officer of Girls Incorporated, a national non-profit research, education and advocacy organization.
Paul C. Varga.....	55	2012	Former Chairman and Chief Executive Officer of Brown-Forman Corporation, a spirits and wine company.
Marna C. Whittington	71	1993	Former Chief Executive Officer of Allianz Global Investors Capital, a diversified global investment firm.

Item 11. Executive Compensation.

Information called for by this item is set forth under “Compensation Discussion & Analysis,” “Compensation of the Named Executives for 2018,” “Compensation Committee Report,” “Compensation Committee Interlocks and Insider Participation” and “Further Information Concerning the Board of Directors – Risk Oversight” in the Proxy Statement and incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information called for by this item is set forth under “Stock Ownership – Certain Beneficial Owners,” “Stock Ownership – Securities Authorized for Issuance Under Equity Compensation Plans,” and “Stock Ownership – Stock Ownership of Directors and Executive Officers” in the Proxy Statement and incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information called for by this item is set forth under “Further Information Concerning the Board of Directors – Director Independence” and “Policy on Related Person Transactions” in the Proxy Statement and incorporated herein by reference.

Item 14. Principal Accountant Fees and Services.

Information called for by this item is set forth under “Item 2. Ratification of the Appointment of Independent Registered Public Accounting Firm” in the Proxy Statement and incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) The following documents are filed as part of this report:

1. Financial Statements:

The list of financial statements required by this item is set forth in Item 8 “Consolidated Financial Statements and Supplementary Data” and is incorporated herein by reference.

2. Financial Statement Schedules:

All schedules are omitted because they are inapplicable, not required, or the information is included elsewhere in the Consolidated Financial Statements or the notes thereto.

3. Exhibits:

<u>Exhibit Number</u>	<u>Description</u>	<u>Document if Incorporated by Reference</u>
3.1	Amended and Restated Certificate of Incorporation	Exhibit 3.1 to the Company's Current Report on Form 8-K filed May 18, 2010
3.1.1	Certificate of Designations of Series A Junior Participating Preferred Stock	Exhibit 3.1.1 to the Company's Annual Report on Form 10-K (File No. 1-13536) for the fiscal year ended January 28, 1995
3.1.2	Article Seventh of the Amended and Restated Certificate of Incorporation	Exhibit 3.1 to the Company's Current Report on Form 8-K filed May 24, 2011
3.2	Amended and Restated By-Laws	Exhibit 3.1 to the Company's Current Report on Form 8-K filed September 30, 2016
4.1	Amended and Restated Certificate of Incorporation	See Exhibits 3.1, 3.1.1 and 3.1.2
4.2	Amended and Restated By-Laws	See Exhibit 3.2
4.3	Indenture, dated as of January 15, 1991, among the Company (as successor to The May Department Stores Company (“May Delaware”)), Macy's Retail Holdings, Inc. (“Macy's Retail”) (f/k/a The May Department Stores Company (NY) or “May New York”) and The Bank of New York Mellon Trust Company, N.A. (“BNY Mellon”, successor to J.P. Morgan Trust Company and as successor to The First National Bank of Chicago), as Trustee (“1991 Indenture”)	Exhibit 4(2) to May New York's Current Report on Form 8-K filed January 15, 1991
4.3.1	Guarantee of Securities, dated as of August 30, 2005, by the Company relating to 1991 Indenture	Exhibit 10.13 to the Company's Current Report on Form 8-K filed August 30, 2005 (“August 30, 2005 Form 8-K”)
4.4	Indenture, dated as of December 15, 1994, between the Company and U.S. Bank National Association (successor to State Street Bank and Trust Company and The First National Bank of Boston), as Trustee (“1994 Indenture”)	Exhibit 4.1 to the Company's Registration Statement on Form S-3 (Registration No. 33-88328) filed January 9, 1995
4.4.1	Ninth Supplemental Indenture to 1994 Indenture, dated as of July 14, 1997, between the Company and U.S. Bank National Association (successor to State Street Bank and Trust Company and The First National Bank of Boston), as Trustee	Exhibit 3 to the Company's Current Report on Form 8-K filed July 15, 1997

<u>Exhibit Number</u>	<u>Description</u>	<u>Document if Incorporated by Reference</u>
4.4.2	Tenth Supplemental Indenture to 1994 Indenture, dated as of August 30, 2005, among the Company, Macy's Retail and U.S. Bank National Association (as successor to State Street Bank and Trust Company and as successor to The First National Bank of Boston), as Trustee	Exhibit 10.14 to August 30, 2005 Form 8-K
4.4.3	Guarantee of Securities, dated as of August 30, 2005, by the Company relating to 1994 Indenture	Exhibit 10.16 to August 30, 2005 Form 8-K
4.5	Indenture, dated as of September 10, 1997, between the Company and U.S. Bank National Association (successor to Citibank, N.A.), as Trustee ("1997 Indenture")	Exhibit 4.4 to the Company's Amendment No. 1 to Form S-3 (Registration No. 333-34321) filed September 11, 1997
4.5.1	First Supplemental Indenture to 1997 Indenture, dated as of February 6, 1998, between the Company and U.S. Bank National Association (successor to Citibank, N.A.), as Trustee	Exhibit 2 to the Company's Current Report on Form 8-K filed February 6, 1998
4.5.2	Third Supplemental Indenture to 1997 Indenture, dated as of March 24, 1999, between the Company and U.S. Bank National Association (successor to Citibank, N.A.), as Trustee	Exhibit 4.2 to the Company's Registration Statement on Form S-4 (Registration No. 333-76795) filed April 22, 1999
4.5.3	Seventh Supplemental Indenture to 1997 Indenture, dated as of August 30, 2005 among the Company, Macy's Retail and U.S. Bank National Association (successor to Citibank, N.A.), as Trustee	Exhibit 10.15 to August 30, 2005 Form 8-K
4.5.4	Guarantee of Securities, dated as of August 30, 2005, by the Company relating to 1997 Indenture	Exhibit 10.17 to August 30, 2005 Form 8-K
4.6	Indenture, dated as of June 17, 1996, among the Company (as successor to May Delaware), Macy's Retail (f/k/a May New York) and The Bank of New York Mellon Trust Company, N.A. ("BNY Mellon", successor to J.P. Morgan Trust Company), as Trustee ("1996 Indenture")	Exhibit 4.1 to the Registration Statement on Form S-3 (Registration No. 333-06171) filed June 18, 1996 by May Delaware
4.6.1	First Supplemental Indenture to 1996 Indenture, dated as of August 30, 2005, by and among the Company (as successor to May Delaware), Macy's Retail (f/k/a May New York) and BNY Mellon (successor to J.P. Morgan Trust Company, National Association), as Trustee	Exhibit 10.9 to August 30, 2005 Form 8-K
4.7	Indenture, dated as of July 20, 2004, among the Company (as successor to May Delaware), Macy's Retail (f/k/a May New York) and BNY Mellon, as Trustee ("2004 Indenture")	Exhibit 4.1 to Current Report on Form 8-K (File No. 001-00079) filed July 22, 2004 by May Delaware
4.7.1	First Supplemental Indenture to 2004 Indenture, dated as of August 30, 2005 among the Company (as successor to May Delaware), Macy's Retail and BNY Mellon (successor to J.P. Morgan Trust Company, National Association), as Trustee	Exhibit 10.10 to August 30, 2005 Form 8-K
4.8	Indenture, dated as of November 2, 2006, by and among Macy's Retail, the Company and U.S. Bank National Association, as Trustee ("2006 Indenture")	Exhibit 4.6 to the Company's Registration Statement on Form S-3ASR (Registration No. 333-138376) filed November 2, 2006
4.8.1	Third Supplemental Indenture to 2006 Indenture, dated March 12, 2007, among Macy's Retail, the Company and U.S. Bank National Association, as Trustee	Exhibit 4.2 to the Company's Current Report on Form 8-K filed March 12, 2007

<u>Exhibit Number</u>	<u>Description</u>	<u>Document if Incorporated by Reference</u>
4.8.2	Sixth Supplemental Indenture to 2006 Indenture, dated December 10, 2015, among Macy's Retail, the Company and U.S. Bank National Association, as Trustee	Exhibit 4.2 to the Company's Current Report on Form 8-K filed December 10, 2015
4.9	Indenture, dated as of January 13, 2012, among Macy's Retail, the Company and BNY Mellon, as Trustee ("2012 Indenture")	Exhibit 4.1 to the Company's Current Report on Form 8-K filed January 13, 2012 ("January 13, 2012 Form 8-K")
4.9.1	First Supplemental Trust Indenture to 2012 Indenture, dated as of January 13, 2012, among Macy's Retail, as issuer, the Company, as guarantor, and BNY Mellon, as trustee	Exhibit 4.2 to January 13, 2012 Form 8-K
4.9.2	Second Supplemental Trust Indenture to 2012 Indenture, dated as of January 13, 2012, among Macy's Retail, as issuer, the Company, as guarantor, and BNY Mellon, as trustee	Exhibit 4.3 to January 13, 2012 Form 8-K
4.9.3	Third Supplemental Trust Indenture, dated as of November 20, 2012, among Macy's Retail, as issuer, the Company, as guarantor, and BNY Mellon, as trustee	Exhibit 4.2 to the Company's Current Report on Form 8-K filed November 20, 2012 ("November 20, 2012 Form 8-K")
4.9.4	Fourth Supplemental Trust Indenture, dated as of November 20, 2012, among Macy's Retail, as issuer, the Company, as guarantor, and BNY Mellon, as trustee	Exhibit 4.3 to November 20, 2012 Form 8-K
4.9.5	Fifth Supplemental Trust Indenture, dated as of September 6, 2013, among Macy's Retail, as issuer, the Company, as guarantor, and BNY Mellon, as trustee	Exhibit 4.2 to the Company's Current Report on Form 8-K filed September 6, 2013
4.9.6	Sixth Supplemental Trust Indenture, dated as of May 23, 2014, among Macy's Retail, as issuer, the Company, as guarantor, and BNY Mellon, as trustee	Exhibit 4.2 to the Company's Current Report on Form 8-K filed May 23, 2014
4.9.7	Seventh Supplemental Trust Indenture, dated as of November 18, 2014, among Macy's Retail, as issuer, the Company, as guarantor, and BNY Mellon, as trustee	Exhibit 4.2 to the Company's Current Report on Form 8-K filed November 18, 2014
10.1	Credit Agreement, dated as of May 6, 2016, among the Company, Macy's Retail, the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent and paying agent, and Bank of America, N.A., as administrative agent	Exhibit 10.01 to the Company's Current Report on Form 8-K filed May 11, 2016 ("May 11, 2016 Form 8-K")
10.2	Guarantee Agreement, dated as of May 6, 2016, among the Company, Macy's Retail, certain subsidiary guarantors and JPMorgan Chase Bank, N.A., as paying agent	Exhibit 10.02 to May 11, 2016 Form 8-K
10.3	Tax Sharing Agreement, dated as of October 31, 2014, among Macy's, Inc. and members of the Affiliated Group	Exhibit 10.7 to the Company's Annual Report on Form 10-K (File No. 1-13536) for the fiscal year ended January 31, 2015 ("2014 Form 10-K")
10.4+	Amended and Restated Credit Card Program Agreement, dated November 10, 2014, among the Company, FDS Bank, Macy's Credit and Customer Services, Inc. ("MCCS"), Macy's West Stores, Inc., Bloomingdales, Inc., Department Stores National Bank ("DSNB") and Citibank, N.A.	Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed December 8, 2014
10.5	Senior Executive Incentive Compensation Plan *	Appendix B to the Company's Proxy Statement dated March 31, 2017

<u>Exhibit Number</u>	<u>Description</u>	<u>Document if Incorporated by Reference</u>
10.6	1994 Stock Incentive Plan, as amended and restated as of June 1, 2007 *	Exhibit 10.13 to the Company's Annual Report on Form 10-K (File No. 1-13536) for the fiscal year ended January 31, 2009 ("2008 Form 10-K")
10.7	Form of Indemnification Agreement *	Exhibit 10.14 to the Registration Statement on Form 10 (File No. 1-10951), filed November 27, 1991
10.8	Executive Severance Plan, effective November 1, 2009, as revised and restated January 1, 2014 *	Exhibit 10.14 to the Company's Annual Report on Form 10-K (File No. 1-13536) for the fiscal year ended February 1, 2014 ("2013 Form 10-K")
10.8.1	Senior Executive Severance Plan effective as of April 1, 2018 *	Exhibit 10.9.1 to the Company's Annual Report on Form 10-K (File No. 1-13536) for the fiscal year ended February 3, 2018 ("2017 Form 10-K")
10.9	Form of Non-Qualified Stock Option Agreement for the 1994 Stock Incentive Plan *	Exhibit 10.7 to the Current Report on Form 8-K (File No. 001-00079) filed March 23, 2005 by May Delaware ("March 23, 2005 Form 8-K")
10.9.1	Form of Nonqualified Stock Option Agreement under the 2009 Omnibus Incentive Compensation Plan (for Executives and Key Employees) *	Exhibit 10.15.3 to the Company's Annual Report on Form 10-K (File No. 1-13536) for the fiscal year ended February 2, 2013 ("2012 Form 10-K")
10.9.2	Form of Nonqualified Stock Option Agreement under the Amended and Restated 2009 Omnibus Incentive Compensation Plan (for Executives and Key Employees) *	Exhibit 10.14.4 to 2014 Form 10-K
10.9.3	Form of Nonqualified Stock Option Agreement under the Amended and Restated 2009 Omnibus Incentive Compensation Plan (for Executives and Key Employees), as amended *	Exhibit 10.10.5 to 2017 Form 10-K
10.9.4	Form of Stock Option Terms and Conditions under the 2018 Equity and Incentive Compensation Plan *	
10.10	Form of Restricted Stock Agreement for the 1994 Stock Incentive Plan *	Exhibit 10.4 to March 23, 2005 Form 8-K
10.10.1	Form of Time-Based Restricted Stock Agreement under the 2009 Omnibus Incentive Compensation Plan *	Exhibit 10.3 to the Company's Current Report on Form 8-K filed March 25, 2010
10.11	2016-2018 Performance-Based Restricted Stock Unit Terms and Conditions under the Amended and Restated 2009 Omnibus Incentive Compensation Plan *	Exhibit 10.13.2 to the Company's Annual Report on Form 10-K (File No. 1-13536) for the fiscal year ended January 30, 2016 ("2015 Form 10-K")
10.11.1	2017-2019 Performance-Based Restricted Stock Unit Terms and Conditions under the Amended and Restated 2009 Omnibus Incentive Compensation Plan *	Exhibit 10.13.2 to the Company's Quarterly Report on Form 10-Q filed August 25, 2017
10.11.2	2018-2020 Performance-Based Restricted Stock Unit Terms and Conditions under the Amended and Restated 2009 Omnibus Incentive Compensation Plan *	Exhibit 10.12.2 to 2017 Form 10-K
10.11.3	2019-2021 Performance-Based Restricted Stock Unit Terms and Conditions under the 2018 Equity and Incentive Compensation Plan *	
10.12	Form of Time-Based Restricted Stock Unit Agreement under the 2009 Omnibus Incentive Compensation Plan *	Exhibit 10.19 to 2012 Form 10-K

<u>Exhibit Number</u>	<u>Description</u>	<u>Document if Incorporated by Reference</u>
10.12.1	Form of Time-Based Restricted Stock Unit Agreement under the Amended and Restated 2009 Omnibus Incentive Compensation Plan *	Exhibit 10.18.1 to 2014 Form 10-K
10.12.2	Form of Time-Based Restricted Stock Unit Agreement under the Amended and Restated 2009 Omnibus Incentive Compensation Plan (with dividend equivalents) *	Exhibit 10.13.2 to 2017 Form 10-K
10.12.3	Form of Time-Based Restricted Stock Unit Agreement under the Amended and Restated 2009 Omnibus Incentive Compensation Plan, as amended *	Exhibit 10.13.3 to 2017 Form 10-K
10.12.4	Form of Time-Based Restricted Stock Unit Terms and Conditions under the 2018 Equity and Incentive Compensation Plan *	
10.13	Supplementary Executive Retirement Plan *	Exhibit 10.29 to 2008 Form 10-K
10.13.1	First Amendment to the Supplementary Executive Retirement Plan effective January 1, 2012 *	Exhibit 10.21.1 to the Company's Annual Report on Form 10-K (File No. 1-13536) for the fiscal year ended January 28, 2012
10.13.2	Second Amendment to Supplementary Executive Retirement Plan effective January 1, 2012 *	Exhibit 10.20.2 to 2012 Form 10-K
10.13.3	Third Amendment to Supplementary Executive Retirement Plan effective December 31, 2013 *	Exhibit 10.20.3 to 2013 Form 10-K
10.14	Executive Deferred Compensation Plan *	Exhibit 10.30 to 2008 Form 10-K
10.14.1	First Amendment to Executive Deferred Compensation Plan effective December 31, 2013 *	Exhibit 10.21.1 to 2013 Form 10-K
10.15	Macy's, Inc. 401(k) Retirement Investment Plan (the "Plan") (amending and restating the Macy's, Inc. 401(k) Retirement Investment Plan) effective as of January 1, 2014 *	Exhibit 10.22 to 2013 Form 10-K
10.15.1	First Amendment to the Plan regarding matching contributions with respect to the Plan's plan years beginning on and after January 1, 2014, effective January 1, 2014 *	Exhibit 10.21.1 to 2014 Form 10-K
10.15.2	Second Amendment to the Plan regarding marriage status, effective January 1, 2014 *	Exhibit 10.21.2 to 2014 Form 10-K
10.15.3	Third Amendment to the Plan regarding matching contributions with respect to the Plan's plan years beginning on and after January 1, 2014 *	Exhibit 10.21.3 to 2014 Form 10-K
10.15.4	Fourth Amendment to the Plan regarding rules applicable to Puerto Rico participants effective January 1, 2011 (and for the Plan's plan years beginning on and after that date)*	Exhibit 10.17.4 to 2015 Form 10-K
10.15.5	Fifth Amendment to the Plan regarding eligible associates to participate (pre-tax deferrals only, no match) immediately upon hire effective as of January 1, 2014*	Exhibit 10.17.5 to 2015 Form 10-K
10.16	Director Deferred Compensation Plan *	Exhibit 10.33 to 2008 Form 10-K
10.17	Macy's, Inc. Amended and Restated 2009 Omnibus Incentive Compensation Plan *	Appendix B to the Company's Proxy Statement dated April 2, 2014

<u>Exhibit Number</u>	<u>Description</u>	<u>Document if Incorporated by Reference</u>
10.18	Macy's, Inc. 2018 Equity and Incentive Compensation Plan *	Appendix B to the Company's Proxy Statement dated April 4, 2018
10.19	Macy's, Inc. Deferred Compensation Plan *	Exhibit 4.5 to the Company's Registration Statement on Form S-8 (Registration No. 333-192917) filed December 18, 2013
10.19.1	First Amendment to Deferred Compensation Plan regarding special rules of eligibility for newly eligible participants, effective April 1, 2014 *	Exhibit 10.24.1 to 2014 Form 10-K
10.19.2	Second Amendment to Deferred Compensation Plan regarding payment rules for plan years that begin on or after January 1, 2015, effective January 1, 2014 *	Exhibit 10.24.2 to 2014 Form 10-K
10.19.3	Third Amendment to Deferred Compensation Plan regarding a lump sum distribution from account if its balance does not exceed a certain amount, effective July 1, 2015*	Exhibit 10.20.3 to 2015 Form 10-K
10.20	Change in Control Plan, effective November 1, 2009, as revised and restated effective April 1, 2018 *	Exhibit 10.20 to 2017 Form 10-K
10.21	Time Sharing Agreement between Macy's, Inc. and Jeff Gennette, dated June 14, 2017 *	Exhibit 10.21.1 to 2017 Form 10-K
10.22	Retention Letter Agreement between Macy's, Inc. and Karen Hogue dated April 3, 2018 *	Exhibit 10.1 to the Company's Current Report on Form 8-K filed April 6, 2018
21	Subsidiaries	
23	Consent of KPMG LLP	
24	Powers of Attorney	
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 Annual Report on Form 10-K for the year ended February 2, 2019, filed April 3, 2019, formatted in XBRL: (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, tagged as block of text and in detail.	

+ Portions of the exhibit have been omitted pursuant to a request for confidential treatment. The confidential portions have been provided to the SEC.

* Constitutes a compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

Date: April 3, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on April 3, 2019.

*	*	*
Jeff Gennette	Paula A. Price	Felicia Williams
Chief Executive Officer (principal executive officer), Chairman of the Board and Director	Executive Vice President and Chief Financial Officer (principal financial officer)	Senior Vice President, Controller and Enterprise Risk Officer (principal accounting officer)
*	*	*
David P. Abney	Francis S. Blake	John A. Bryant
Director	Director	Director
*	*	*
Deirdre P. Connelly	Leslie D. Hale	William H. Lenehan
Director	Director	Director
*	*	*
Sara Levinson	Joyce M. Roché	Paul C. Varga
Director	Director	Director
*		
Marna C. Whittington		
Director		

* The undersigned, by signing her name hereto, does sign and execute this Annual Report on Form 10-K pursuant to the Powers of Attorney executed by the above-named officers and directors and filed herewith.

By: /s/ ELISA D. GARCIA

Elisa D. Garcia
Attorney-in-Fact

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REPORT OF MANAGEMENT

To the Shareholders of
Macy's, Inc.:

The integrity and consistency of the Consolidated Financial Statements of Macy's, Inc. and subsidiaries, which were prepared in accordance with accounting principles generally accepted in the United States of America, are the responsibility of management and properly include some amounts that are based upon estimates and judgments.

The Company maintains a system of internal accounting controls, which is supported by a program of internal audits with appropriate management follow-up action, to provide reasonable assurance, at appropriate cost, that the Company's assets are protected and transactions are properly recorded. Additionally, the integrity of the financial accounting system is based on careful selection and training of qualified personnel, organizational arrangements which provide for appropriate division of responsibilities and communication of established written policies and procedures.

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f) and has issued Management's Report on Internal Control over Financial Reporting.

The Consolidated Financial Statements of the Company have been audited by KPMG LLP. Their report expresses their opinion as to the fair presentation, in all material respects, of the financial statements and is based upon their independent audits.

The Audit Committee, composed solely of outside directors, meets periodically with KPMG LLP, the internal auditors and representatives of management to discuss auditing and financial reporting matters. In addition, KPMG LLP and the Company's internal auditors meet periodically with the Audit Committee without management representatives present and have free access to the Audit Committee at any time. The Audit Committee is responsible for recommending to the Board of Directors the engagement of the independent registered public accounting firm and the general oversight review of management's discharge of its responsibilities with respect to the matters referred to above.

Jeff Gennette
Chief Executive Officer, Chairman of the Board and Director

Paula A. Price
Executive Vice President and Chief Financial Officer

Felicia Williams
Senior Vice President, Controller and Enterprise Risk Officer

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
Macy's, Inc.:

Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying consolidated balance sheets of Macy's, Inc. and subsidiaries (the Company) as of February 2, 2019 and February 3, 2018, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended February 2, 2019, and the related notes (collectively, the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of February 2, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of February 2, 2019 and February 3, 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended February 2, 2019, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of February 2, 2019 based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A(b), "Management's Report on Internal Control over Financial Reporting." Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and

that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

We have served as the Company's auditor since 1988.

Cincinnati, Ohio

April 3, 2019

MACY'S, INC.
CONSOLIDATED STATEMENTS OF INCOME
(millions, except per share data)

	2018	2017	2016
Net sales	\$ 24,971	\$ 24,939	\$ 25,908
Credit card revenues, net.....	768	702	656
Cost of sales	(15,215)	(15,181)	(15,666)
Selling, general and administrative expenses.....	(9,039)	(8,954)	(9,257)
Gains on sale of real estate.....	389	544	209
Restructuring, impairment, store closing and other costs	(136)	(186)	(479)
Operating income	1,738	1,864	1,371
Benefit plan income, net.....	39	57	55
Settlement charges.....	(88)	(105)	(98)
Interest expense	(261)	(321)	(367)
Gains (losses) on early retirement of debt.....	(33)	10	—
Interest income	25	11	4
Income before income taxes.....	1,420	1,516	965
Federal, state and local income tax benefit (expense).....	(322)	39	(346)
Net income	1,098	1,555	619
Net loss attributable to noncontrolling interest	10	11	8
Net income attributable to Macy's, Inc. shareholders	\$ 1,108	\$ 1,566	\$ 627
Basic earnings per share attributable to Macy's, Inc. shareholders.....	\$ 3.60	\$ 5.13	\$ 2.03
Diluted earnings per share attributable to Macy's, Inc. shareholders.....	\$ 3.56	\$ 5.10	\$ 2.02

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

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

	2018	2017	2016
Net income	\$ 1,098	\$ 1,555	\$ 619
Other comprehensive income (loss), net of taxes:			
Net actuarial gain (loss) and prior service credit on post employment and postretirement benefit plans, net of tax effect of \$52 million, \$37 million and \$42 million	(151)	82	65
Reclassifications to net income:			
Net actuarial loss and prior service cost on post employment and postretirement benefit plans, net of tax effect of \$7 million, \$13 million and \$14 million	23	22	22
Settlement charges, net of tax effect of \$23 million, \$37 million and \$38 million.....	65	68	60
Total other comprehensive income (loss).....	(63)	172	147
Comprehensive income	1,035	1,727	766
Comprehensive loss attributable to noncontrolling interest.....	10	11	8
Comprehensive income attributable to Macy's, Inc. shareholders.....	\$ 1,045	\$ 1,738	\$ 774

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

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

ASSETS	February 2, 2019	February 3, 2018
Current Assets:		
Cash and cash equivalents	\$ 1,162	\$ 1,455
Receivables	400	363
Merchandise inventories	5,263	5,178
Prepaid expenses and other current assets	620	650
Total Current Assets	7,445	7,646
Property and Equipment – net	6,637	6,672
Goodwill	3,908	3,897
Other Intangible Assets – net	478	488
Other Assets	726	880
Total Assets	\$ 19,194	\$ 19,583
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Short-term debt	\$ 43	\$ 22
Merchandise accounts payable	1,655	1,590
Accounts payable and accrued liabilities	3,366	3,271
Income taxes	168	296
Total Current Liabilities	5,232	5,179
Long-Term Debt	4,708	5,861
Deferred Income Taxes	1,238	1,148
Other Liabilities	1,580	1,662
Shareholders' Equity:		
Common stock (307.5 and 304.8 shares outstanding)	3	3
Additional paid-in capital	652	676
Accumulated equity	8,050	7,246
Treasury stock	(1,318)	(1,456)
Accumulated other comprehensive loss	(951)	(724)
Total Macy's, Inc. Shareholders' Equity	6,436	5,745
Noncontrolling interest	—	(12)
Total Shareholders' Equity	6,436	5,733
Total Liabilities and Shareholders' Equity	\$ 19,194	\$ 19,583

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

MACY'S, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(millions)

	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 January 30, 2016.....	\$ 3	\$ 621	\$ 6,334	\$ (1,665)	\$ (1,043)	\$ 4,250	\$ 3	\$ 4,253
Cumulative-effect adjustment (a)			45			45		45
Net income (loss)			627			627	(8)	619
Other comprehensive income.....					147	147		147
Common stock dividends (\$1.4925 per share).....			(459)			(459)		(459)
Stock repurchases.....				(316)		(316)		(316)
Stock-based compensation expense		60				60		60
Stock issued under stock plans....		(64)		81		17		17
Retirement of common stock			(406)	406		—		—
Deferred compensation plan distributions.....				5		5		5
Macy's China Limited						—	4	4
Balance at January 28, 2017.....	3	617	6,141	(1,489)	(896)	4,376	(1)	4,375
Net income (loss)			1,566			1,566	(11)	1,555
Other comprehensive income.....					172	172		172
Common stock dividends (\$1.51 per share).....			(461)			(461)		(461)
Stock repurchases.....				(1)		(1)		(1)
Stock-based compensation expense		58				58		58
Stock issued under stock plans....		(24)		27		3		3
Deferred compensation plan distributions.....				7		7		7
Other.....		25				25		25
Balance at February 3, 2018.....	3	676	7,246	(1,456)	(724)	5,745	(12)	5,733
Net income (loss)			1,108			1,108	(10)	1,098
Other comprehensive loss					(63)	(63)		(63)
Common stock dividends (\$1.51 per share).....			(468)			(468)		(468)
Stock-based compensation expense		63				63		63
Stock issued under stock plans....		(87)		135		48		48
Deferred compensation plan distributions.....				3		3		3
Stranded tax costs (b).....			164		(164)	—		—
Macy's China Limited						—	22	22
Balance at February 2, 2019.....	\$ 3	\$ 652	\$ 8,050	\$ (1,318)	\$ (951)	\$ 6,436	\$ —	\$ 6,436

(a) Represents the cumulative-effect adjustment for the adoption of ASC Topic 606, Revenue from Contracts with Customers.

(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
(millions)

	2018	2017	2016
Cash flows from operating activities:			
Net income.....	\$ 1,098	\$ 1,555	\$ 619
Adjustments to reconcile net income to net cash provided by operating activities:			
Restructuring, impairment, store closing and other costs.....	136	186	479
Settlement charges.....	88	105	98
Depreciation and amortization.....	962	991	1,058
Stock-based compensation expense.....	63	58	61
Gains on sale of real estate.....	(389)	(544)	(209)
Amortization of financing costs and premium on acquired debt.....	(15)	(45)	(14)
Changes in assets and liabilities:			
(Increase) decrease in receivables.....	(61)	120	(1)
(Increase) decrease in merchandise inventories.....	(87)	221	107
Decrease in prepaid expenses and other current assets.....	21	17	37
Increase (decrease) in merchandise accounts payable.....	55	162	(132)
Increase (decrease) in accounts payable, accrued liabilities and other items not separately identified.....	44	(186)	(185)
Increase (decrease) in current income taxes.....	(136)	(114)	125
Increase (decrease) in deferred income taxes.....	112	(421)	(134)
Change in other assets and liabilities not separately identified.....	(156)	(129)	(108)
Net cash provided by operating activities.....	<u>1,735</u>	<u>1,976</u>	<u>1,801</u>
Cash flows from investing activities:			
Purchase of property and equipment.....	(657)	(487)	(596)
Capitalized software.....	(275)	(273)	(316)
Disposition of property and equipment.....	474	411	673
Other, net.....	2	(2)	(4)
Net cash used by investing activities.....	<u>(456)</u>	<u>(351)</u>	<u>(243)</u>
Cash flows from financing activities:			
Debt repaid.....	(1,149)	(988)	(754)
Dividends paid.....	(463)	(461)	(459)
Increase (decrease) in outstanding checks.....	16	(15)	61
Acquisition of treasury stock.....	—	(1)	(316)
Issuance of common stock.....	45	6	36
Proceeds from noncontrolling interest.....	7	13	6
Net cash used by financing activities.....	<u>(1,544)</u>	<u>(1,446)</u>	<u>(1,426)</u>
Net increase (decrease) in cash, cash equivalents and restricted cash.....	(265)	179	132
Cash, cash equivalents and restricted cash beginning of period.....	1,513	1,334	1,202
Cash, cash equivalents and restricted cash end of period.....	<u>\$ 1,248</u>	<u>\$ 1,513</u>	<u>\$ 1,334</u>
Supplemental cash flow information:			
Interest paid.....	\$ 328	\$ 361	\$ 396
Interest received.....	25	12	4
Income taxes paid (net of refunds received).....	345	496	352

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

MACY'S, INC.
NOTES TO 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, Puerto Rico and Guam. As of February 2, 2019, the Company's operations and operating segments were conducted through Macy's, Bloomingdale's, Bloomingdale's The Outlet, Macy's Backstage, and bluemercury, which are aggregated into one reporting segment in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 280, Segment Reporting. The metrics used by management to assess the performance of the Company's operating divisions include sales trends, gross margin rates, expense rates, and rates of earnings before interest and taxes ("EBIT") and earnings before interest, taxes, depreciation and amortization ("EBITDA"). The Company's operating divisions have historically had similar economic characteristics and are expected to have similar economic characteristics and long-term financial performance in future periods.

Fiscal Year

The Company's fiscal year ends on the Saturday closest to January 31. Fiscal years 2018, 2017 and 2016 ended on February 2, 2019, February 3, 2018 and January 28, 2017, respectively. Fiscal years 2018 and 2016 included 52 weeks and fiscal year 2017 included 53 weeks. References to years in the Consolidated Financial Statements relate to fiscal years rather than calendar years.

Basis of Presentation

In August 2015, the Company established a joint venture, Macy's China Limited, of which the Company held a sixty-five percent ownership interest and Hong Kong-based Fung Retailing Limited held the remaining thirty-five percent ownership interest. Macy's China Limited sold merchandise in China through an e-commerce presence on Alibaba Group's Tmall Global. In January 2019, the Company ended the joint venture with Fung Retailing Limited after winding down the operations of Macy's China Limited earlier in 2018. In conjunction with the termination of the joint venture, the Company acquired the noncontrolling interest in Macy's China Limited from Fung Retailing Limited, resulting in one hundred percent ownership. For the period of time prior to the acquisition of the noncontrolling interest, Fung Retailing Limited's thirty-five percent proportionate share of the results of Macy's China Limited was reported as noncontrolling interest in the Consolidated Financial Statements. All significant intercompany transactions were eliminated.

For 2018, the Consolidated Financial Statements include the accounts of Macy's, Inc. and its 100%-owned subsidiaries and, for the applicable periods, the majority-owned subsidiary, Macy's China Limited.

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

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. See Note 2 "Revenue" for further discussion of the Company's accounting policies for revenue from contracts with customers.

Cost of Sales

Cost of sales consists of the cost of merchandise, including inbound freight, shipping and handling costs, and depreciation. An estimated allowance for future sales returns is recorded and cost of sales is adjusted accordingly.

Cash and Cash Equivalents

Cash and cash equivalents include cash and liquid investments with original maturities of three months or less. Cash and cash equivalents includes amounts due in respect of credit card sales transactions that are settled early in the following period in the amount of \$114 million at February 2, 2019 and \$102 million at February 3, 2018.

Investments

The Company from time to time invests in debt and equity securities, including companies engaged in complementary businesses. All debt securities held by the Company are accounted for under ASC Topic 320, Investments – Debt Securities, while all marketable securities held by the Company are accounted for under ASC Topic 321, Investments – Equity Securities. Unrealized holding gains and losses on trading securities and equity securities with a readily determinable fair value are recognized in the Consolidated Statements of Income. Equity securities without a readily determinable fair value are generally recorded at cost. Unrealized holding gains and losses on available-for-sale securities are included as a separate component of accumulated other comprehensive income, net of income tax effect, until realized. At February 2, 2019, the Company did not hold any held-to-maturity or available-for-sale securities.

Receivables

Receivables were \$400 million at February 2, 2019, compared to \$363 million at February 3, 2018.

The Company and Citibank, the owner of most of the Company's credit assets, are party to a long-term marketing and servicing alliance pursuant to the terms of a Credit Card Program Agreement (the "Program Agreement"). Income earned under the Program Agreement is treated as credit card revenues, net on the Consolidated Statements of Income. Under the Program Agreement, Citibank offers proprietary and non-proprietary credit cards to the Company's customers through previously existing and newly opened accounts.

Merchandise Inventories

Merchandise inventories are valued at lower of cost or market using the last-in, first-out (LIFO) retail inventory method. Under the retail inventory method, inventory is segregated into departments of merchandise having similar characteristics, and is stated at its current retail selling value. Inventory retail values are converted to a cost basis by applying specific average cost factors for each merchandise department. Cost factors represent the average cost-to-retail ratio for each merchandise department based on beginning inventory and the annual purchase activity. At February 2, 2019 and February 3, 2018, merchandise inventories valued at LIFO, including adjustments as necessary to record inventory at the lower of cost or market, approximated the cost of such inventories using the first-in, first-out (FIFO) retail inventory method. The application of the LIFO retail inventory method did not result in the recognition of any LIFO charges or credits affecting cost of sales for 2018, 2017 or 2016. The retail inventory method inherently requires management judgments and estimates, such as the amount and timing of permanent markdowns to clear unproductive or slow-moving inventory, which may impact the ending inventory valuation as well as gross margins.

Permanent markdowns designated for clearance activity are recorded when the utility of the inventory has diminished. Factors considered in the determination of permanent markdowns include current and anticipated demand, customer preferences, age of the merchandise and fashion trends. When a decision is made to permanently markdown merchandise, the resulting gross margin reduction is recognized in the period the markdown is recorded.

Physical inventories are generally taken within each merchandise department annually, and inventory records are adjusted accordingly, resulting in the recording of actual shrinkage. Physical inventories are taken at all store locations for substantially all merchandise categories approximately three weeks before the end of the year. Shrinkage is estimated as a percentage of sales at interim periods and for this approximate three-week period, based on historical shrinkage rates. While it is not possible to quantify the impact from each cause of shrinkage, the Company has loss prevention programs and policies that are intended to minimize shrinkage, including the use of radio frequency identification cycle counts and interim inventories to keep the Company's merchandise files accurate.

Vendor Allowances

The Company receives certain allowances as reimbursement for markdowns taken and/or to support the gross margins earned in connection with the sales of merchandise. These allowances are recognized when earned. The Company also receives advertising allowances from approximately 800 of its merchandise vendors pursuant to cooperative advertising programs, with some vendors participating in multiple programs. These allowances represent reimbursements by vendors of costs incurred by the Company to promote the vendors' merchandise and are netted against advertising and promotional costs when the related costs are incurred. Advertising allowances in excess of costs incurred are recorded as a reduction of merchandise costs and, ultimately, through cost of sales when the merchandise is sold.

The arrangements pursuant to which the Company's vendors provide allowances, while binding, are generally informal in nature and one year or less in duration. The terms and conditions of these arrangements vary significantly from vendor to vendor and are influenced by, among other things, the type of merchandise to be supported.

Advertising

Advertising and promotional costs are generally expensed at first showing. Advertising and promotional costs and cooperative advertising allowances were as follows:

	2018	2017	2016
	(millions)		
Gross advertising and promotional costs	\$ 1,358	\$ 1,397	\$ 1,547
Cooperative advertising allowances	196	289	394
Advertising and promotional costs, net of cooperative advertising allowances	\$ 1,162	\$ 1,108	\$ 1,153
Net sales	\$ 24,971	\$ 24,939	\$ 25,908
Advertising and promotional costs, net of cooperative advertising allowances, as a percent to net sales	4.7%	4.4%	4.5%

Property and Equipment

Depreciation of owned properties is provided primarily on a straight-line basis over the estimated asset lives, which range from fifteen to fifty years for buildings and building equipment and three to fifteen years for fixtures and equipment. Real estate taxes and interest on construction in progress and land under development are capitalized. Amounts capitalized are amortized over the estimated lives of the related depreciable assets. The Company receives contributions from developers and merchandise vendors to fund building improvement and the construction of vendor shops. Such contributions are generally netted against the capital expenditures.

Buildings on leased land and leasehold improvements are amortized over the shorter of their economic lives or the lease term, beginning on the date the asset is put into use.

The carrying value of long-lived assets is periodically reviewed by the Company whenever events or changes in circumstances indicate that a potential impairment has occurred. For long-lived assets held for use, a potential impairment has occurred if projected future undiscounted cash flows are less than the carrying value of the assets. The estimate of cash flows includes management's assumptions of cash inflows and outflows directly resulting from the use of those assets in operations. When a potential impairment has occurred, an impairment write-down is recorded if the carrying value of the long-lived asset exceeds its fair value. The Company believes its estimated cash flows are sufficient to support the carrying value of its long-lived assets. If estimated cash flows significantly differ in the future, the Company may be required to record asset impairment write-downs.

If the Company commits to a plan to dispose of a long-lived asset before the end of its previously estimated useful life, estimated cash flows are revised accordingly, and the Company may be required to record an asset impairment write-down. Additionally, related liabilities arise such as severance, contractual obligations and other accruals associated with store closings from decisions to dispose of assets. The Company estimates these liabilities based on the facts and circumstances in existence for each restructuring decision. The amounts the Company will ultimately realize or disburse could differ from the amounts assumed in arriving at the asset impairment and restructuring charge recorded.

The Company classifies certain long-lived assets as held for disposal by sale and ceases depreciation when the particular criteria for such classification are met, including the probable sale within one year. For long-lived assets to be disposed of by sale, an impairment charge is recorded if the carrying amount of the asset exceeds its fair value less costs to sell. Such valuations include estimations of fair values and incremental direct costs to transact a sale.

Leases

The Company recognizes operating lease minimum rentals on a straight-line basis over the lease term. Executory costs such as real estate taxes and maintenance, and contingent rentals such as those based on a percentage of sales are recognized as incurred.

The lease term, which includes all renewal periods that are considered to be reasonably assured, begins on the date the Company has access to the leased property. The Company receives contributions from landlords to fund buildings and leasehold improvements. Such contributions are recorded as deferred rent and amortized as reductions to lease expense over the lease term.

Goodwill and Other Intangible Assets

The carrying value of goodwill and other intangible assets with indefinite lives are reviewed at least annually for possible impairment in accordance with ASC Subtopic 350-20, Goodwill, including the adoption of Accounting Standards Update ("ASU") 2017-04, Simplifying the Test for Goodwill Impairment, in the fourth quarter of 2017. Goodwill and other intangible assets with indefinite lives have been assigned to reporting units for purposes of impairment testing. The reporting units are the Company's retail operating divisions. Goodwill and other intangible assets with indefinite lives are tested for impairment annually at the end of the fiscal month of May. The Company evaluates qualitative factors to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying value and whether it is necessary to perform the goodwill impairment process. If required, the Company performs a quantitative impairment test which involves a comparison of each reporting unit's fair value to its carrying value and the Company estimates fair value based on discounted cash flows. The reporting unit's discounted cash flows require significant management judgment with respect to sales, gross margin and SG&A rates, capital expenditures and the selection and use of an appropriate discount rate. The 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 directly resulting from the use of those assets in operations. The estimates of fair value of reporting units are based on the best information available as of the date of the assessment. 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.

Capitalized Software

The Company capitalizes purchased and internally developed software and amortizes such costs to expense on a straight-line basis generally over three to five years. Capitalized software is included in other assets on the Consolidated Balance Sheets.

Gift Cards

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 records breakage income within net sales on the Consolidated Statements of Income.

Loyalty Programs

The Company maintains customer loyalty programs in which customers earn points based on their purchases. Under the Macy's Star Rewards loyalty program, 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 Macy's brand, the Company previously participated in a coalition program (Plenti) whereby customers could earn points based on spending levels with bonus opportunities through various targeted offers and promotions at Macy's and other partners. The

Company's participation in Plenti ended on May 3, 2018. Under the Bloomingdale's Loyallist program, 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.

Self-Insurance Reserves

The Company, through its insurance subsidiary, is self-insured for workers compensation and general liability claims up to certain maximum liability amounts. Although the amounts accrued are actuarially determined based on analysis of historical trends of losses, settlements, litigation costs and other factors, the amounts the Company will ultimately disburse could differ from such accrued amounts.

Post Employment and Postretirement Obligations

The Company, through its actuaries, utilizes assumptions when estimating the liabilities for pension and other employee benefit plans. These assumptions, where applicable, include the discount rates used to determine the actuarial present value of projected benefit obligations, the rate of increase in future compensation levels, mortality rates, the long-term rate of return on assets and the growth in health care costs. The Company measures post employment and postretirement assets and obligations using the month-end that is closest to the Company's fiscal year-end or an interim period quarter-end if a plan is determined to qualify for a remeasurement. The benefit expense is generally recognized in the Consolidated Financial Statements on an accrual basis over the average remaining lifetime of participants, and the accrued benefits are reported in other assets, accounts payable and accrued liabilities and other liabilities on the Consolidated Balance Sheets, as appropriate.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and net operating loss and tax credit carryforwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in the Consolidated Statements of Income in the period that includes the enactment date. Deferred income tax assets are reduced by a valuation allowance when it is more likely than not that some portion of the deferred income tax assets will not be realized.

Stock Based Compensation

The Company records stock-based compensation expense according to the provisions of ASC Topic 718, Compensation – Stock Compensation. ASC Topic 718 requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. Under the provisions of ASC Topic 718, the Company determines the appropriate fair value model to be used for valuing share-based payments and the amortization method for compensation cost.

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 2018, 2017 and 2016 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.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which established principles to report useful information to financial statements users about the nature, timing and uncertainty of revenue from contracts with customers. ASU No. 2014-09 along with various related amendments comprise ASC Topic 606, Revenue from Contracts with Customers, and provide guidance that is applicable to all contracts with customers regardless of industry-specific or transaction-specific fact patterns. The new standard and its related updates were adopted by the

Company on February 4, 2018. On the effective date, the Company elected to apply the new guidance retrospectively to each prior period presented.

Overall, the new standard did not have a material impact on the results of the Company's operations or consolidated statements of financial position, but impacted the presentation and timing of certain revenue transactions. Specifically, the changes included gross presentation of the Company's estimates for future sales returns and related recoverable assets, presenting income from credit operations, gift card breakage income, and certain loyalty program income as separate components of revenue and recognizing gift card breakage revenue over the period of redemption for gift cards associated with certain returns. The Company's evaluation of the new standards included a review of certain vendor arrangements to determine whether the Company acts as principal or agent in such arrangements and such evaluation did not result in any material changes in gross versus net presentation as a result of the adoption of the new standards.

In March 2017, the FASB issued ASU No. 2017-07, Compensation-Retirement Benefits (ASC Topic 715), which requires employers to disaggregate the service cost component from other components of net periodic benefit costs and to disclose the amounts of net periodic benefit costs that are included in each income statement line item. The standard requires employers to report the service cost component in the same line item as other compensation costs and to report the other components of net periodic benefit costs (which include interest costs, expected return on plan assets, amortization of prior service cost or credits and actuarial gains and losses) separately and outside a subtotal of operating income. The Company adopted this standard effective February 4, 2018 on a retrospective basis to each prior period presented and has recognized its net periodic benefit costs, excluding service costs, in benefit plan income, net on its Consolidated Statements of Income.

In 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (ASC Topic 230): Restricted Cash, and ASU No. 2016-15, Statement of Cash Flows (ASC Topic 230): Classification of Certain Cash Receipts and Cash Payments. These standards were issued to resolve numerous diversities in practice with regard to the presentation and classification of certain cash receipts and payments in the statement of cash flows. The standards were effective for the Company on February 4, 2018, and were adopted using a retrospective transition method to each prior period presented. As of February 2, 2019 and February 3, 2018, restricted cash balances were primarily included within prepaid expenses and other current assets on the Consolidated Balance Sheets. The following summarizes the beginning-of-period and end-of-period restricted cash balances included for 2018, 2017 and 2016 when reconciling the Consolidated Statement of Cash Flows movement.

	<u>2018</u>		<u>2017</u>		<u>2016</u>
			(millions)		
Beginning-of-period restricted cash balances	\$ 58	\$	37	\$	93
End-of-period restricted cash balances	86		58		37

In addition to these changes, the Company changed the classification of \$34 million of cash payments for the prepayment of debt from an operating outflow to a financing outflow for 2017.

In February 2018, the FASB issued ASU No. 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which allows for stranded tax effects in accumulated other comprehensive income resulting from H.R. 1, originally known as the "Tax Cuts and Jobs Act," to be reclassified to retained earnings. The Company early adopted this standard during the first quarter of 2018 and, as a result, reclassified \$164 million of stranded tax effects to retained earnings.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires lessees to recognize substantially all leases on-balance sheet and disclose key information about leasing arrangements. The new standard establishes a right of use ("ROU") model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement. The new standard is effective for the Company on February 3, 2019 and will be adopted utilizing a modified retrospective approach that allows for transition in the period of adoption, with certain practical expedients available.

The Company estimates the adoption of the standard will result in total assets and liabilities increasing by approximately \$2.4 billion to \$3.0 billion as of February 3, 2019. The standard is not expected to materially affect consolidated net income, which is expected to be impacted by changes to the timing of recognition of certain real estate asset sale gains due to application of the new sale-leaseback guidance and ASU No. 2017-05, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

2. 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. For 2018, 2017 and 2016, Macy's accounted for approximately 89% of the Company's net sales. Disaggregation of the Company's net sales by family of business for 2018, 2017 and 2016 were as follows:

	2018	2017	2016
Women's Accessories, Intimate Apparel, Shoes, Cosmetics and Fragrances...	\$ 9,500	\$ 9,483	\$ 9,795
Women's Apparel.....	5,675	5,807	6,009
Men's and Kids'.....	5,712	5,629	5,844
Home/Other (a).....	4,084	4,020	4,260
Total	\$ 24,971	\$ 24,939	\$ 25,908

(a) Other primarily includes restaurant sales, certain loyalty program income and breakage income from unredeemed gift cards.

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.

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 \$269 million as of February 2, 2019 and \$291 million as of February 3, 2018. Included in prepaid expenses and other current assets is an asset totaling \$188 million as of February 2, 2019 and \$201 million as of February 3, 2018 for the recoverable cost of merchandise estimated to be returned by customers.

Gift Cards and Customer Loyalty Programs

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 \$856 million as of February 2, 2019 and \$906 million as of February 3, 2018. During 2018, the Company recognized approximately \$40 million in breakage income related to changes in breakage rate estimates. Changes in the liability for unredeemed gift cards and customer loyalty programs are as follows:

	2018	2017	2016
		(millions)	
Balance, beginning of year.....	\$ 906	\$ 911	\$ 874
Liabilities issued but not redeemed (a).....	570	551	635
Revenue recognized from beginning liability.....	(620)	(556)	(598)
Balance, end of year.....	\$ 856	\$ 906	\$ 911

(a) Net of estimated breakage income.

Credit Card Revenues, net

In connection with the sale of most of the Company's credit card accounts and related receivable balances to Citibank, the Company and Citibank entered into a long-term marketing and servicing alliance pursuant to the terms of an amended and restated Credit Card Program Agreement ("Credit Card Program"). The Program Agreement expires March 31, 2025, subject to an additional renewal term of three years. The Program Agreement provides for, among other things, (i) the ownership by Citibank of the accounts purchased by Citibank, (ii) the ownership by Citibank of new accounts opened by the Company's customers, (iii) the provision of credit by Citibank to the holders of the credit cards associated with the foregoing accounts, (iv) the servicing of the foregoing accounts, and (v) the allocation between Citibank and the Company of the economic benefits and burdens associated with the foregoing and other aspects of the alliance.

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.

Pursuant to the Program Agreement, the Company continues to provide certain servicing functions related to the accounts and related receivables owned by Citibank and receives compensation from Citibank for these services. The amounts earned under the Program Agreement related to the servicing functions are deemed adequate compensation and, accordingly, no servicing asset or liability has been recorded on the Consolidated Balance Sheets. Amounts received under the Program Agreement were \$966 million for 2018, \$929 million for 2017 and \$912 million for 2016, and are included within credit card revenues, net on the Consolidated Statements of Income.

The Company's credit card revenues, net were \$768 million for 2018, \$702 million for 2017, and \$656 million for 2016. This revenue was net of servicing and other credit related expenses, including new account originations and fraudulent transactions incurred on the Company's private label credit cards.

3. Restructuring, Impairment, Store Closing and Other Costs

Restructuring, impairment, store closing and other costs (income) consist of the following:

	2018	2017	2016
	(millions)		
Restructuring	\$ 80	\$ 142	\$ 168
Asset Impairments	64	53	265
Other	(8)	(9)	46
	\$ 136	\$ 186	\$ 479

During 2018, the Company closed or announced the closure of ten Macy's stores. Additionally as part the Company's commitment to increased productivity to fund investment in the business, in February 2019, the Company launched a comprehensive, multi-year program focused on growing its profitability rate by improving productivity across the enterprise. The program includes initiatives to improve margin through enhanced inventory planning and operations, supply chain efficiencies, pricing optimization, improved private brand sourcing and customer acquisition and retention strategies. As an initial step, the Company developed a plan in 2018 that reduces the complexity of the upper management structure to increase the speed of decision making, reduce costs and respond to changing customer expectations. Restructuring, impairment, store closing and other costs for 2018 included costs and expenses, including severance and other human-resource related costs, primarily associated with the organizational changes and store closings announced in January 2019. For 2018, the Company recorded expense of approximately \$80 million of severance and other human resource-related costs associated with these restructuring activities.

During 2017, the Company closed or announced the closure of sixteen Macy's stores, part of the approximately 100 planned closings announced in August 2016. During January 2018 and August 2017, the Company announced restructuring efforts, including the consolidation of three functions (merchandising, planning and private brands) into a single merchandising function as well as organizational changes for certain store and non-store functions. Restructuring, impairment, store closing and other costs for 2017 included costs and expenses, including severance and other human-resource related costs, primarily associated with the organizational changes and store closings announced in January 2018 and August 2017.

During January 2017, the Company announced a series of actions to streamline its store portfolio, intensify cost efficiency efforts and execute its real estate strategy. These actions are intended to support the Company's strategy to further invest in omnichannel capabilities, improve customer experience and create shareholder value. These actions included the announced closure of sixty-eight Macy's stores, part of the approximately 100 planned closings announced in August 2016, and the reorganization of the field structure that supports the remaining stores and a significant restructuring of the Company's operations to focus resources on strategic priorities, improve organizational agility and reduce expense. Restructuring, impairment, store closing and other costs for 2016 included costs and expenses, including severance and other human-resource related costs, primarily associated with the organizational changes and store closings announced in January 2017 and August 2016.

As a result of the Company's projected undiscounted future cash flows related to certain store locations and other assets being less than their carrying value, the Company recorded impairment charges, including properties that were the subject of announced store closings. The fair values of these assets were calculated based on the projected cash flows and an estimated risk-adjusted rate of return that would be used by market participants in valuing these assets or based on prices of similar assets.

The Company expects to pay out the majority of the 2018 accrued severance costs, which are included in accounts payable and accrued liabilities on the Consolidated Balance Sheets, prior to the end of the second quarter of 2019. The 2017 and 2016 accrued severance costs, which were included in accounts payable and accrued liabilities on the Consolidated Balance Sheets, were paid out in the year subsequent to incurring such severance costs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

4. Properties and Leases

The major classes of property and equipment, net as of February 2, 2019 and February 3, 2018 are as follows:

	February 2, 2019	February 3, 2018
	(millions)	
Land	\$ 1,454	\$ 1,494
Buildings on owned land	4,019	4,106
Buildings on leased land and leasehold improvements	1,404	1,444
Fixtures and equipment.....	4,230	4,204
Leased properties under capitalized leases	25	34
	<u>11,132</u>	<u>11,282</u>
Less accumulated depreciation and amortization	4,495	4,610
	<u>\$ 6,637</u>	<u>\$ 6,672</u>

In connection with various shopping center agreements, the Company is obligated to operate certain stores within the centers for periods of up to fifteen years. Some of these agreements require that the stores be operated under a particular name.

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 and other executory 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 significant numbers of years and provide for rental rates that increase or decrease over time. In addition, certain of these 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.

As of February 2, 2019, minimum rental commitments (excluding executory costs) for noncancellable leases, including executed leases not yet commenced, are as follows:

	Capitalized Leases	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.....	<u>46</u>	<u>\$ 4,254</u>	<u>\$ 4,300</u>
Less amount representing interest	20		
Present value of net minimum capitalized lease payments	<u>\$ 26</u>		

Capitalized leases are included in the Consolidated Balance Sheets as property and equipment while the related obligation is included in short-term (\$1 million) and long-term (\$25 million) debt. Amortization of assets subject to capitalized leases is included in depreciation and amortization expense. Total minimum lease payments shown above have not been reduced by minimum sublease rentals of \$1 million on operating leases.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company is a guarantor with respect to certain lease obligations associated with The May Department Stores Company and previously disposed subsidiaries or businesses. The leases, one of which includes potential extensions to 2070, have future minimum lease payments aggregating \$240 million and are offset by payments from existing tenants and subtenants. In addition, the Company is contingently liable for other expenses related to the above leases, such as property taxes and common area maintenance, which are also payable by existing tenants and subtenants. Potential liabilities related to these guarantees are subject to certain defenses by the Company. The Company believes that the risk of significant loss from the guarantees of these lease obligations is remote.

Rental expense consists of:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
	<u>(millions)</u>		
Real estate (excluding executory costs)			
Operating leases –			
Minimum rentals	\$ 317	\$ 317	\$ 312
Contingent rentals	11	11	12
	<u>328</u>	<u>328</u>	<u>324</u>
Less income from subleases –			
Operating leases	(1)	(3)	(5)
	<u>\$ 327</u>	<u>\$ 325</u>	<u>\$ 319</u>
Personal property – Operating leases	<u>\$ 9</u>	<u>\$ 10</u>	<u>\$ 11</u>

Included as a reduction to the expense above is deferred rent amortization of \$14 million for 2018 and 2017, and \$9 million for 2016 related to contributions received from landlords.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

5. Goodwill and Other Intangible Assets

The following summarizes the Company's goodwill and other intangible assets:

	February 2, 2019	February 3, 2018
	(millions)	
Non-amortizing intangible assets		
Goodwill	\$ 9,290	\$ 9,279
Accumulated impairment losses	(5,382)	(5,382)
	<u>3,908</u>	<u>3,897</u>
Tradenames	403	403
	<u>\$ 4,311</u>	<u>\$ 4,300</u>
Amortizing intangible assets		
Favorable leases and other contractual assets	\$ 136	\$ 136
Tradenames	43	43
	<u>179</u>	<u>179</u>
Accumulated amortization		
Favorable leases and other contractual assets	(95)	(87)
Tradenames	(9)	(7)
	<u>(104)</u>	<u>(94)</u>
	<u>\$ 75</u>	<u>\$ 85</u>
Capitalized software		
Gross balance	\$ 1,316	\$ 1,364
Accumulated amortization	(646)	(663)
	<u>\$ 670</u>	<u>\$ 701</u>

Finite lived tradenames are being amortized over their respective useful lives of 20 years. Favorable lease intangible assets are being amortized over their respective lease terms (weighted average remaining life of approximately six years).

Favorable leases, other contractual assets, and tradenames amortization expense amounted to \$10 million for 2018, 2017 and 2016. Capitalized software amortization expense amounted to \$296 million for 2018, \$301 million for 2017 and \$293 million for 2016.

Future estimated amortization expense for assets, excluding in-process capitalized software of \$58 million not yet placed in service as of February 2, 2019, is shown below:

Fiscal year	Amortizing intangible assets	Capitalized Software
	(millions)	
2019	\$ 9	\$ 254
2020	8	192
2021	6	123
2022	6	41
2023	6	2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

6. Financing

The Company's debt is as follows:

	February 2, 2019	February 3, 2018
	(millions)	
Short-term debt:		
8.5% Senior debentures due 2019	\$ 36	\$ —
Capital lease and current portion of other long-term obligations.....	7	22
	<u>\$ 43</u>	<u>\$ 22</u>
Long-term debt:		
2.875% Senior notes due 2023	\$ 750	\$ 750
3.875% Senior notes due 2022	550	550
4.5% Senior notes due 2034	367	550
3.45% Senior notes due 2021	500	500
3.625% Senior notes due 2024	500	500
4.375% Senior notes due 2023	400	400
5.125% Senior debentures due 2042	250	250
4.3% Senior notes due 2043	250	250
6.7% Senior debentures due 2034	201	264
6.9% Senior debentures due 2029	192	397
6.375% Senior notes due 2037	192	269
6.65% Senior debentures due 2024	122	296
7.0% Senior debentures due 2028	117	298
6.7% Senior debentures due 2028	103	197
6.79% Senior debentures due 2027	71	165
6.9% Senior debentures due 2032	17	31
8.5% Senior debentures due 2019	—	36
10.25% Senior debentures due 2021	33	33
7.6% Senior debentures due 2025	24	24
8.75% Senior debentures due 2029	13	18
7.875% Senior debentures due 2030	10	12
9.5% amortizing debentures due 2021	6	10
9.75% amortizing debentures due 2021	3	6
Unamortized debt issue costs	(18)	(25)
Unamortized debt discount.....	(9)	(13)
Premium on acquired debt, using an effective interest yield of 5.542% to 7.144%	39	67
Capital lease and other long-term obligations.....	25	26
	<u>\$ 4,708</u>	<u>\$ 5,861</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Interest expense and losses (gains) on early retirement of debt are as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
		(millions)	
Interest on debt	\$ 269	\$ 332	\$ 392
Amortization of debt premium	(7)	(9)	(22)
Amortization of financing costs and debt discount	7	7	5
Interest on capitalized leases	2	2	2
	<u>271</u>	<u>332</u>	<u>377</u>
Less interest capitalized on construction	10	11	10
Interest expense	<u>\$ 261</u>	<u>\$ 321</u>	<u>\$ 367</u>
Losses (gains) on early retirement of debt	<u>\$ 33</u>	<u>\$ (10)</u>	<u>\$ —</u>

During 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 and other fees related to the transactions. Such repurchases resulted in the recognition of expense of \$5 million during 2018 presented as losses on early retirement of debt on the Consolidated Statements of Income.

During December 2018, the Company completed a tender offer and purchased \$750 million in aggregate principal amount of certain senior unsecured notes and debentures. The purchased senior unsecured notes and debentures included \$164 million of 6.65% senior debentures due 2024, \$155 million of 7.0% senior debentures due 2028, \$114 million of 6.9% senior debentures due 2029, \$103 million of 4.5% senior notes due 2034, \$94 million of 6.79% senior debentures due 2027, \$35 million of 6.7% senior debentures due 2034, \$34 million of 6.375% senior notes due 2037, \$34 million of 6.7% senior debentures due 2028, \$10 million of 6.9% senior debentures due 2032, \$5 million of 8.75% senior debentures due 2029, and \$2 million of 7.875% senior debentures due 2030. The total cash cost for the tender offer was \$789 million. The Company recognized \$28 million of expense related to the recognition of the tender premium and other costs partially offset by the unamortized debt premium associated with this debt. This expense is presented as losses on early retirement of debt on the Consolidated Statements of Income during 2018.

During 2017, the Company completed a tender offer and purchased \$400 million in aggregate principal amount of certain senior unsecured notes and debentures. The purchased senior unsecured notes and debentures included \$147 million of 6.9% senior debentures due 2032, \$108 million of 6.7% senior debentures due 2034, \$96 million of 6.375% senior notes due 2037, \$43 million of 8.75% senior debentures due 2029, and \$6 million of 7.875% senior debentures due 2030. The total cash cost for the tender offer was \$423 million. The Company recognized \$11 million of income related to the recognition of the unamortized debt premium partially offset by the tender premium and other costs associated with this debt as gains on early retirement of debt. This income is presented as gains on early retirement of debt on the Consolidated Statements of Income during 2017.

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

During August 2016, the Company redeemed at par the principal amount of \$108 million of 7.875% senior debentures due 2036, pursuant to the terms of the debentures. Interest expense in 2016 benefited from the recognition of unamortized debt premium associated with this debt.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Future maturities of long-term debt, other than capitalized leases, are shown below:

	(millions)
Fiscal year	
2020	\$ 539
2021	553
2022	—
2023	1,150
2024	622
After 2024	1,807

During 2017 and 2016, the Company repaid \$300 million and \$636 million, respectively, of indebtedness at maturity.

The following table shows the detail of debt repayments:

	2018	2017	2016
	(millions)		
6.9% Senior debentures due 2029	\$ 204	\$ 3	\$ —
4.5% Senior notes due 2034	183	—	—
7.0% Senior debentures due 2028	182	2	—
6.65% Senior debentures due 2024	175	4	—
7.45% Senior debentures due 2017	—	300	—
6.7% Senior debentures due 2028	94	3	—
6.79% Senior debentures due 2027	94	—	—
6.375% Senior notes due 2037	77	231	—
6.7% Senior debentures due 2034	63	136	—
6.9% Senior debentures due 2032	15	219	—
8.75% Senior debentures due 2029	5	43	—
7.875% Senior debentures due 2030	2	6	—
5.9% Senior notes due 2016	—	—	577
7.875% Senior notes due 2036	—	—	108
7.45% Senior debentures due 2016	—	—	59
9.5% amortizing debentures due 2021	4	4	4
9.75% amortizing debentures due 2021	2	2	2
Capital leases and other obligations	1	1	1
	<u>\$ 1,101</u>	<u>\$ 954</u>	<u>\$ 751</u>

The following summarizes certain components of the Company's debt:

Bank Credit Agreement

The Company entered into a credit agreement with certain financial institutions as of May 6, 2016 providing for revolving credit borrowings and letters of credit in an aggregate amount not to exceed \$1,500 million (which may be increased to \$1,750 million at the option of the Company, subject to the willingness of existing or new lenders to provide commitments for such additional financing) outstanding at any particular time. The agreement is set to expire May 6, 2021 and replaced the prior agreement which was set to expire May 10, 2018.

As of February 2, 2019, and February 3, 2018, there were no revolving credit loans outstanding under this credit agreement, and there were no borrowings under the agreement during 2018 and 2017. In addition, there were no standby letters of credit outstanding at February 2, 2019 and February 3, 2018. Revolving loans under the credit agreement bear interest based on various published rates.

The Company's credit agreement, which is an obligation of a 100%-owned subsidiary of Macy's, Inc. ("Parent"), is not secured. However, Parent has fully and unconditionally guaranteed this obligation. The credit agreement requires the Company 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 2018 was 11.22 and its leverage ratio at February 2, 2019 was 1.74, in each case as calculated in accordance with the credit agreement. The interest coverage ratio is defined as EBITDA divided by net interest expense and the leverage ratio is defined as debt divided by EBITDA. For purposes of these calculations EBITDA is calculated as net income plus interest expense, taxes, depreciation, amortization, non-cash impairment of goodwill, intangibles and real estate, non-recurring cash charges not to exceed in the aggregate \$300 million and extraordinary losses less interest income and non-recurring or extraordinary gains. Debt is adjusted to exclude the premium on acquired debt and net interest is adjusted to exclude the amortization of premium on acquired debt and premium on early retirement of debt.

A breach of a restrictive covenant in the Company's credit agreement or the inability of the Company to maintain the financial ratios described above could result in an event of default under the credit agreement. In addition, an event of default would occur under the credit agreement if any indebtedness of the Company in excess of an aggregate principal amount of \$150 million becomes due prior to its stated maturity or the holders of such indebtedness become able to cause it to become due prior to its stated maturity. Upon the occurrence of an event of default, the lenders could, subject to the terms and conditions of the credit agreement, elect to declare the outstanding principal, together with accrued interest, to be immediately due and payable. Moreover, most of the Company's senior notes and debentures contain cross-default provisions based on the non-payment at maturity, or other default after an applicable grace period, of any other debt, the unpaid principal amount of which is not less than \$100 million that could be triggered by an event of default under the credit agreement. In such an event, the Company's senior notes and debentures that contain cross-default provisions would also be subject to acceleration.

Commercial Paper

The Company is a 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 the bank credit agreement described above. The issuance of commercial paper will have the effect, while such commercial paper is outstanding, of reducing the Company's borrowing capacity under the bank credit agreement by an amount equal to the principal amount of such commercial paper. During 2016, the Company utilized seasonal borrowings available under this commercial paper program. There were no borrowings under the program during 2018 and 2017. As of February 2, 2019 and February 3, 2018, there were no remaining borrowings outstanding under the commercial paper program.

This program, which is an obligation of a 100%-owned subsidiary of Macy's, Inc., is not secured. However, Parent has fully and unconditionally guaranteed the obligations.

Senior Notes and Debentures

The senior notes and the senior debentures are unsecured obligations of a 100%-owned subsidiary of Macy's, Inc. and Parent has fully and unconditionally guaranteed these obligations (see Note 16, "Condensed Consolidating Financial Information").

Other Financing Arrangements

At February 2, 2019 and February 3, 2018, the Company had dedicated \$37 million of cash, included in prepaid expenses and other current assets, which is used to collateralize the Company's issuances of standby letters of credit. There were \$28 million of other standby letters of credit outstanding at February 2, 2019 and February 3, 2018.

7. Accounts Payable and Accrued Liabilities

	February 2, 2019	February 3, 2018
	(millions)	
Accounts payable.....	\$ 983	\$ 735
Gift cards and customer rewards	856	906
Accrued wages and vacation	268	229
Allowance for future sales returns.....	269	291
Current portion of post employment and postretirement benefits.....	194	194
Taxes other than income taxes.....	134	157
Lease related liabilities	180	189
Current portion of workers' compensation and general liability reserves.....	112	108
Restructuring accruals, including severance.....	67	93
Accrued interest.....	51	70
Deferred real estate gains.....	24	65
Other	228	234
	<u>\$ 3,366</u>	<u>\$ 3,271</u>

Changes in workers' compensation and general liability reserves, including the current portion, are as follows:

	2018	2017	2016
	(millions)		
Balance, beginning of year.....	\$ 497	\$ 503	\$ 508
Charged to costs and expenses	130	144	145
Payments, net of recoveries.....	(140)	(150)	(150)
Balance, end of year	<u>\$ 487</u>	<u>\$ 497</u>	<u>\$ 503</u>

The non-current portion of workers' compensation and general liability reserves is included in other liabilities on the Consolidated Balance Sheets. At February 2, 2019 and February 3, 2018, workers' compensation and general liability reserves included \$112 million which are covered by deposits and receivables included in current assets on the Consolidated Balance Sheets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

8. Taxes

Income tax expense (benefit) is as follows:

	2018			2017			2016		
	Current	Deferred	Total	Current	Deferred	Total	Current	Deferred	Total
	(millions)								
Federal	\$ 156	\$ 79	\$ 235	\$ 367	\$ (462)	\$ (95)	\$ 433	\$ (121)	\$ 312
State and local.....	53	34	87	16	40	56	37	(3)	34
	<u>\$ 209</u>	<u>\$ 113</u>	<u>\$ 322</u>	<u>\$ 383</u>	<u>\$ (422)</u>	<u>\$ (39)</u>	<u>\$ 470</u>	<u>\$ (124)</u>	<u>\$ 346</u>

On December 22, 2017, H.R. 1 was enacted into law. This new tax legislation, among other things, reduced the U.S. federal corporate tax rate from 35% to 21% effective January 1, 2018.

In applying the impacts of the new tax legislation to its 2017 income tax provision, the Company remeasured its deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally a 21% federal tax rate and its related impact on the state tax rates. The resulting impact was the recognition of an income tax benefit of \$584 million in the fourth quarter of 2017. In addition, applying the new U.S. federal corporate tax rate of 21% on January 1, 2018, resulted in a federal income tax statutory rate of 33.7% in 2017. Combining the impacts on the Company's current income tax provision and the remeasurement of its deferred tax balances, the Company's effective income tax rate was a benefit of 2.6% in 2017.

The income tax expense (benefit) reported differs from the expected tax computed by applying the federal income tax statutory rate of 21% for 2018, 33.7% for 2017, and 35% for 2016 to income before income taxes net of noncontrolling interest. The reasons for this difference and their tax effects are as follows:

	2018	2017	2016
	(millions)		
Expected tax	\$ 300	\$ 515	\$ 341
State and local income taxes, net of federal income tax benefit (a)	59	19	12
Federal tax reform deferred tax remeasurement	(17)	(584)	—
Tax impact of equity awards (a).....	—	14	—
Federal tax credits	(16)	(16)	(12)
Change in valuation allowance	10	18	9
Other.....	(14)	(5)	(4)
	<u>\$ 322</u>	<u>\$ (39)</u>	<u>\$ 346</u>

(a) 2017 included the recognition of approximately \$15 million of net tax shortfalls associated with share-based payment awards due to the adoption of Accounting Standards Update 2016-09, Improvements to Employee Share-Based Payment Accounting. Historically, the Company had recognized such amounts as an offset to accumulated excess tax benefits previously recognized in additional paid-in capital.

The Company participates in the Internal Revenue Service ("IRS") Compliance Assurance Program ("CAP"). As part of the CAP, tax years are audited on a contemporaneous basis so that all or most issues are resolved prior to the filing of the tax return. The IRS has completed examinations of 2016 and all prior tax years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

	February 2, 2019	February 3, 2018
	(millions)	
Deferred tax assets		
Post employment and postretirement benefits	\$ 208	\$ 188
Accrued liabilities accounted for on a cash basis for tax purposes	222	218
Long-term debt	18	25
Unrecognized state tax benefits and accrued interest	39	39
State operating loss and credit carryforwards	103	101
Other	154	158
Valuation allowance	(75)	(65)
Total deferred tax assets	669	664
Deferred tax liabilities		
Excess of book basis over tax basis of property and equipment	(987)	(923)
Merchandise inventories	(398)	(389)
Intangible assets	(308)	(276)
Other	(214)	(224)
Total deferred tax liabilities	(1,907)	(1,812)
Net deferred tax liability	\$ (1,238)	\$ (1,148)

The valuation allowance at February 2, 2019 and February 3, 2018 relates to net deferred tax assets for state net operating loss and credit carryforwards. The net change in the valuation allowance amounted to an increase of \$10 million for 2018. In 2017, the net change in the valuation allowance amounted to an increase of \$29 million, which includes \$11 million due to the impact of the deferred tax remeasurement associated with the U.S. federal tax reform.

As of February 2, 2019, the Company had no federal net operating loss carryforwards, state net operating loss carryforwards, net of valuation allowances, of \$374 million, and state credit carryforwards, net of valuation allowances, of \$11 million, which will expire between 2019 and 2038.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	February 2, 2019	February 3, 2018	January 28, 2017
	(millions)		
Balance, beginning of year	\$ 140	\$ 167	\$ 178
Additions based on tax positions related to the current year	17	7	16
Additions for tax positions of prior years	13	—	—
Reductions for tax positions of prior years	(12)	(23)	(12)
Settlements	—	(2)	(4)
Statute expirations	(9)	(9)	(11)
Balance, end of year	\$ 149	\$ 140	\$ 167
Amounts recognized in the Consolidated Balance Sheets			
Current income taxes	\$ 28	\$ 11	\$ 6
Deferred income taxes	4	4	4
Other liabilities (a)	117	125	157
	\$ 149	\$ 140	\$ 167

(a) Unrecognized tax benefits not expected to be settled within one year are included within other liabilities on the Consolidated Balance Sheets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Additional information regarding unrecognized benefits and related interest and penalties is as follow:

	February 2, 2019	February 3, 2018
	(millions)	
Amount of unrecognized tax benefits, net of deferred tax assets, that if recognized would affect the effective tax rate.....	\$ 120	\$ 111
Accrued federal, state and local interest and penalties.....	56	51
Amounts recognized in the Consolidated Balance Sheets		
Current income taxes	28	27
Other liabilities.....	28	24

The Company classifies federal, state and local interest and penalties not expected to be settled within one year as other liabilities on the Consolidated Balance Sheets and follows a policy of recognizing all interest and penalties related to unrecognized tax benefits in income tax expense. The accrued federal, state and local interest and penalties primarily relate to state tax issues and the amount of penalties paid in prior periods, and the amount of penalties accrued at February 2, 2019 and February 3, 2018, are insignificant. Federal, state and local interest and penalties amounted to expense of \$5 million for 2018, a credit of \$3 million for 2017, and an expense of \$2 million for 2016.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various state and local jurisdictions. The Company is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2015. With respect to state and local jurisdictions, with limited exceptions, the Company and its subsidiaries are no longer subject to income tax audits for years before 2009. Although the outcome of tax audits is always uncertain, the Company believes that adequate amounts of tax, interest and penalties have been accrued for any adjustments that are expected to result from the years still subject to examination.

As of February 2, 2019, the Company believes it is reasonably possible that certain unrecognized tax benefits ranging from zero to \$55 million may be recognized by the end of 2019. It is reasonably possible that there could be other material changes to the amount of uncertain tax positions due to activities of the taxing authorities, settlement of audit issues or the reassessment of existing uncertain tax positions; however, the Company is not able to estimate the impact of these items at this time.

9. Retirement 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.

Retirement expenses, excluding settlement charges, included the following components:

	2018	2017	2016
	(millions)		
401(k) Qualified Defined Contribution Plan.....	\$ 96	\$ 93	\$ 94
Non-Qualified Defined Contribution Plan	1	1	2
Pension Plan	(64)	(82)	(83)
Supplementary Retirement Plan.....	31	31	31
	\$ 64	\$ 43	\$ 44

The Company estimates the service and interest cost components of net periodic benefit costs for the Pension Plan and SERP. This method uses a full yield curve approach in the estimation of these components of net periodic benefit costs. Under this approach, the Company applies discounting using individual spot rates from the yield curve composed of the rates of return from a portfolio of high quality corporate debt securities available at the measurement date. These spot rates align to each of the projected benefit obligation and service cost cash flows.

Defined Contribution Plans

The Company has a qualified plan that permits participating associates to defer eligible compensation up to the maximum limits allowable under the Internal Revenue Code. Beginning January 1, 2014, the Company has a non-qualified plan which permits participating associates to defer eligible compensation above the limits of the qualified plan. The Company contributes a matching percentage of employee contributions under both the qualified and non-qualified plans. Effective January 1, 2014, the Company's matching contribution to the qualified plan was enhanced for all participating employees, with limited exceptions. Prior to January 1, 2014, the matching contribution rate under the qualified plan was higher for those employees not eligible for the Pension Plan than for employees eligible for the Pension Plan.

The liability related to the qualified plan matching contribution, which is reflected in accounts payable and accrued liabilities on the Consolidated Balance Sheets, was \$103 million at February 2, 2019 and \$101 million at February 3, 2018. Expense related to matching contributions for the qualified plan amounted to \$96 million for 2018, \$93 million for 2017 and \$94 million for 2016.

At February 2, 2019 and February 3, 2018, the liability under the non-qualified plan, which is reflected in other liabilities on the Consolidated Balance Sheets, was \$27 million and \$25 million, respectively. The liability related to the non-qualified plan matching contribution, which is reflected in accounts payable and accrued liabilities on the Consolidated Balance Sheets, was \$2 million at February 2, 2019 and \$1 million at February 3, 2018. Expense related to matching contributions for the non-qualified plan amounted to \$1 million for 2018 and 2017, and \$2 million for 2016. In connection with the non-qualified plan, the Company had mutual fund investments at February 2, 2019 and February 3, 2018 of \$27 million and \$25 million, respectively, which are included in prepaid expenses and other current assets on the Consolidated Balance Sheets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Pension Plan

The following provides a reconciliation of benefit obligations, plan assets, and funded status of the Pension Plan as of February 2, 2019 and February 3, 2018:

	2018	2017
	(millions)	
Change in projected benefit obligation		
Projected benefit obligation, beginning of year	\$ 3,271	\$ 3,469
Service cost	5	6
Interest cost	109	104
Actuarial (gain) loss	(27)	82
Benefits paid.....	(347)	(390)
Projected benefit obligation, end of year	3,011	3,271
Changes in plan assets		
Fair value of plan assets, beginning of year	3,409	3,374
Actual return on plan assets	(44)	425
Company contributions	—	—
Benefits paid.....	(347)	(390)
Fair value of plan assets, end of year	3,018	3,409
Funded status at end of year	\$ 7	\$ 138
Amounts recognized in the Consolidated Balance Sheets at February 2, 2019 and February 3, 2018		
Other assets	\$ 7	\$ 138
Amounts recognized in accumulated other comprehensive loss at February 2, 2019 and February 3, 2018		
Net actuarial loss	\$ 1,109	\$ 992

The accumulated benefit obligation for the Pension Plan was \$3,010 million as of February 2, 2019 and \$3,268 million as of February 3, 2018.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Net pension costs, settlement charges and other amounts recognized in other comprehensive loss for the Pension Plan included the following actuarially determined components:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
		(millions)	
Net Periodic Pension Cost			
Service cost	\$ 5	\$ 6	\$ 5
Interest cost	109	104	108
Expected return on assets	(206)	(223)	(227)
Amortization of net actuarial loss	28	31	31
Amortization of prior service credit	—	—	—
	<u>(64)</u>	<u>(82)</u>	<u>(83)</u>
Settlement charges.....	78	89	68
Other Changes in Plan Assets and Projected Benefit Obligation Recognized in Other Comprehensive Loss			
Net actuarial (gain) loss	223	(120)	(120)
Amortization of net actuarial loss	(28)	(31)	(31)
Settlement charges	(78)	(89)	(68)
	<u>117</u>	<u>(240)</u>	<u>(219)</u>
Total recognized	<u>\$ 131</u>	<u>\$ (233)</u>	<u>\$ (234)</u>

The estimated net actuarial loss for the Pension Plan that will be amortized from accumulated other comprehensive loss into net periodic benefit cost during 2019 is \$30 million.

The following weighted average assumptions were used to determine the projected benefit obligations for the Pension Plan at February 2, 2019 and February 3, 2018:

	<u>2018</u>	<u>2017</u>
Discount rate	4.03%	3.74%
Rate of compensation increases	4.00%	4.00%

The following weighted average assumptions were used to determine the net periodic pension cost for the Pension Plan:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Discount rate used to measure service cost.....	3.77% - 4.46%	3.75% - 4.06%	3.79% - 4.26%
Discount rate used to measure interest cost	3.39% - 4.06%	3.12% - 3.31%	2.96% - 3.30%
Expected long-term return on plan assets	6.75%	7.00%	7.00%
Rate of compensation increases	4.00%	4.10%	4.10%

The Pension Plan's assumptions are evaluated annually, and at interim re-measurements if required, and updated as necessary. Due to settlement accounting and re-measurements during 2018, 2017 and 2016, the discount rate used to measure service cost and the discount rate used to measure interest cost varied between periods. The table above shows the range of rates used to determine net periodic expense for the Pension Plan.

The discount rate used to determine the present value of the projected benefit obligation for the Pension Plan is based on a yield curve constructed from a portfolio of high quality corporate debt securities with various maturities. Each year's expected future benefit payments are discounted to their present value at the appropriate yield curve rate, thereby generating the overall discount rate for the projected benefit obligation.

The Company develops its expected long-term rate of return on plan asset assumption by evaluating input from several professional advisors taking into account the asset allocation of the portfolio and long-term asset class return expectations, as well as long-term inflation assumptions. Expected returns for each major asset class are considered along with their volatility and the expected correlations among them. These expectations are based upon historical relationships as well as forecasts of how future returns may vary from historical returns. Returns by asset class and correlations among asset classes are combined using the target asset allocation to derive an expected return for the portfolio as a whole. Long-term historical returns of the portfolio are also considered. Portfolio returns are calculated net of all expenses, therefore, the Company also analyzes expected costs and expenses, including investment management fees, administrative expenses, Pension Benefit Guaranty Corporation premiums and other costs and expenses. As of February 2, 2019, the Company lowered the assumed annual long-term rate of return for the Pension Plan's assets from 6.75% to 6.50% based on expected future returns on the portfolio of assets.

The assets of the Pension Plan are managed by investment specialists with the primary objectives of payment of benefit obligations to Plan participants and an ultimate realization of investment returns over longer periods in excess of inflation. The Company employs a total return investment approach whereby a mix of domestic and foreign equity securities, fixed income securities and other investments is used to maximize the long-term return on the assets of the Pension Plan for a prudent level of risk. Risks are mitigated through asset diversification and the use of multiple investment managers. The target allocation for plan assets is currently 30% equity securities, 63% debt securities, 2% real estate and 5% private equities.

The Company generally employs investment managers to specialize in a specific asset class. These managers are chosen and monitored with the assistance of professional advisors, using criteria that include organizational structure, investment philosophy, investment process, performance compared to market benchmarks and peer groups.

The Company periodically conducts an analysis of the behavior of the Pension Plan's assets and liabilities under various economic and interest rate scenarios to ensure that the long-term target asset allocation is appropriate given the liabilities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The fair values of the Pension Plan assets as of February 2, 2019, excluding interest and dividend receivables and pending investment purchases and sales, by asset category are as follows:

	Fair Value Measurements			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(millions)			
Short term investments.....	\$ 1	\$ —	\$ 1	\$ —
Money market funds.....	33	33	—	—
Equity securities:				
U.S. stocks.....	117	117	—	—
U.S. pooled funds.....	398	398	—	—
International pooled funds (a).....	347	78	—	—
Fixed income securities:				
U.S. Treasury bonds.....	52	—	52	—
Other Government bonds.....	53	—	53	—
Agency backed bonds.....	11	—	11	—
Corporate bonds.....	513	—	513	—
Mortgage-backed securities.....	15	—	15	—
Asset-backed securities.....	11	—	11	—
Pooled funds.....	1,270	1,270	—	—
Other types of investments:				
Real estate (a).....	56	—	—	—
Private equity (a).....	185	—	—	—
Derivatives in a positive position.....	6	—	6	—
Derivatives in a negative position.....	(2)	—	(2)	—
Total.....	<u>\$ 3,066</u>	<u>\$ 1,896</u>	<u>\$ 660</u>	<u>\$ —</u>

(a) Certain investments that are measured at fair value using the net asset value per share as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in these tables are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the fair value of plan assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The fair values of the Pension Plan assets as of February 3, 2018, excluding interest and dividend receivables and pending investment purchases and sales, by asset category are as follows:

	Fair Value Measurements			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(millions)			
Short term investments.....	\$ 5	\$ —	\$ 5	\$ —
Money market funds.....	35	35	—	—
Equity securities:				
U.S. stocks.....	157	157	—	—
U.S. pooled funds.....	481	481	—	—
International pooled funds (a).....	447	114	—	—
Fixed income securities:				
U.S. Treasury bonds.....	44	—	44	—
Other Government bonds.....	59	—	59	—
Agency backed bonds.....	13	—	13	—
Corporate bonds.....	538	—	538	—
Mortgage-backed securities.....	15	—	15	—
Asset-backed securities.....	6	—	6	—
Pooled funds.....	1,310	1,310	—	—
Other types of investments:				
Real estate (a).....	148	—	—	—
Private equity (a).....	183	—	—	—
Derivatives in a positive position.....	9	—	9	—
Derivatives in a negative position.....	(3)	—	(3)	—
Total.....	<u>\$ 3,447</u>	<u>\$ 2,097</u>	<u>\$ 686</u>	<u>\$ —</u>

(a) Certain investments that are measured at fair value using the net asset value per share as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in these tables are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the fair value of plan assets.

Corporate bonds consist primarily of investment grade bonds of U.S. issuers from diverse industries.

The fair value of certain pooled funds including equity securities, real estate, hedge funds and private equity investments represents the reported net asset value of shares or underlying assets of the investment as a practical expedient to estimate fair value. International equity pooled funds seek to provide long-term capital growth and income by investing in equity securities of non-U.S. companies located both in developed and emerging markets. There are generally no redemption restrictions or unfunded commitments related to these equity securities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Real estate investments include several funds which seek risk-adjusted return by providing a stable, income-driven rate of return over the long term with high potential for growth of net investment income and appreciation of value. The real estate investments are diversified across property types and geographical areas primarily in the United States of America. Private equity investments have an objective of realizing aggregate long-term returns in excess of those available from investments in the public equity markets. Private equity investments generally consist of limited partnerships in the United States of America, Europe and Asia. Private equity and real estate investments are valued using fair values per the most recent financial reports provided by the investment sponsor, adjusted as appropriate for any lag between the date of the financial reports and the Company’s reporting date.

Due to the nature of the underlying assets of the real estate and private equity investments, changes in market conditions and the economic environment may significantly impact the net asset value of these investments and, consequently, the fair value of the Pension Plan’s investments. These investments are redeemable at net asset value to the extent provided in the documentation governing the investments. However, these redemption rights may be restricted in accordance with the governing documents. Redemption of these investments is subject to restrictions including lock-up periods where no redemptions are allowed, restrictions on redemption frequency and advance notice periods for redemptions. As of February 2, 2019 and February 3, 2018, certain of these investments are generally subject to lock-up periods, ranging from one to nine years, certain of these investments are subject to restrictions on redemption frequency, ranging from daily to four times per year, and certain of these investments are subject to advance notice requirements. As of February 2, 2019 and February 3, 2018, the Pension Plan had unfunded commitments related to certain of these investments totaling \$49 million and \$64 million, respectively.

The Company does not anticipate making funding contributions to the Pension Plan in 2019.

The following benefit payments are estimated to be paid from the Pension Plan:

Fiscal year	(millions)
2019	\$ 325
2020	287
2021	269
2022	260
2023	235
2024-2028.....	1,018

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Supplementary Retirement Plan

The following provides a reconciliation of benefit obligations, plan assets and funded status of the supplementary retirement plan as of February 2, 2019 and February 3, 2018:

	2018	2017
	(millions)	
Change in projected benefit obligation		
Projected benefit obligation, beginning of year	\$ 703	\$ 747
Service cost	—	—
Interest cost	23	22
Actuarial (gain) loss	(9)	20
Benefits paid	(73)	(86)
Projected benefit obligation, end of year	644	703
Change in plan assets		
Fair value of plan assets, beginning of year	—	—
Company contributions	73	86
Benefits paid	(73)	(86)
Fair value of plan assets, end of year	—	—
Funded status at end of year	\$ (644)	\$ (703)
Amounts recognized in the Consolidated Balance Sheets at February 2, 2019 and February 3, 2018		
Accounts payable and accrued liabilities	\$ (68)	\$ (69)
Other liabilities	(576)	(634)
	\$ (644)	\$ (703)
Amounts recognized in accumulated other comprehensive loss at February 2, 2019 and February 3, 2018		
Net actuarial loss	\$ 218	\$ 244
Prior service cost	6	7
	\$ 224	\$ 251

The accumulated benefit obligation for the supplementary retirement plan was \$644 million as of February 2, 2019 and \$703 million as of February 3, 2018.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Net pension costs, settlement charges and other amounts recognized in other comprehensive loss for the supplementary retirement plan included the following actuarially determined components:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
		(millions)	
Net Periodic Pension Cost			
Service cost	\$ —	\$ —	\$ —
Interest cost	23	22	22
Amortization of net actuarial loss	7	8	9
Amortization of prior service cost	1	1	—
	<u>31</u>	<u>31</u>	<u>31</u>
Settlement charges.....	10	16	30
Other Changes in Plan Assets and Projected Benefit Obligation Recognized in Other Comprehensive Loss			
Net actuarial (gain) loss	(9)	20	26
Amortization of net actuarial loss	(7)	(8)	(9)
Amortization of prior service cost	(1)	(1)	—
Settlement charges	(10)	(16)	(30)
	<u>(27)</u>	<u>(5)</u>	<u>(13)</u>
Total recognized	<u>\$ 14</u>	<u>\$ 42</u>	<u>\$ 48</u>

The estimated net actuarial loss and prior service cost for the supplementary retirement plan that will be amortized from accumulated other comprehensive loss into net periodic benefit cost during 2019 is \$8 million.

The following weighted average assumption was used to determine the projected benefit obligations for the supplementary retirement plan at February 2, 2019 and February 3, 2018:

	<u>2018</u>	<u>2017</u>
Discount rate	4.10%	3.78%

The following weighted average assumption was used to determine net pension costs for the supplementary retirement plan:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Discount rate used to measure interest cost.....	3.39% - 4.09%	3.10% - 3.26%	2.65% - 3.16%

The supplementary retirement plan's assumptions are evaluated annually, and at interim re-measurements if required, and updated as necessary. Due to settlement accounting and re-measurements during 2018, 2017 and 2016, the discount rate used to measure interest cost varied between periods. The table above shows the range of rates used to determine net periodic expense for the supplementary retirement plan.

The discount rate used to determine the present value of the projected benefit obligation for the supplementary retirement plan is based on a yield curve constructed from a portfolio of high quality corporate debt securities with various maturities. Each year's expected future benefit payments are discounted to their present value at the appropriate yield curve rate, thereby generating the overall discount rate for the projected benefit obligation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following benefit payments are estimated to be funded by the Company and paid from the supplementary retirement plan:

Fiscal year	(millions)
2019.....	\$ 68
2020.....	48
2021.....	47
2022.....	46
2023.....	46
2024-2028.....	211

10. Postretirement Health Care and Life Insurance Benefits

In addition to pension and other supplemental benefits, certain retired employees currently are provided with specified health care and life insurance benefits. Eligibility requirements for such benefits vary by division and subsidiary, 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 following provides a reconciliation of benefit obligations, plan assets, and funded status of the postretirement obligations as of February 2, 2019 and February 3, 2018:

	2018	2017
	(millions)	
Change in accumulated postretirement benefit obligation		
Accumulated postretirement benefit obligation, beginning of year	\$ 156	\$ 186
Service cost	—	—
Interest cost	5	5
Plan amendment	—	(10)
Actuarial gain	(11)	(9)
Medicare Part D subsidy	—	1
Benefits paid.....	(13)	(17)
Accumulated postretirement benefit obligation, end of year	137	156
Change in plan assets		
Fair value of plan assets, beginning of year	—	—
Company contributions	13	17
Benefits paid.....	(13)	(17)
Fair value of plan assets, end of year	—	—
Funded status at end of year	\$ (137)	\$ (156)
Amounts recognized in the Consolidated Balance Sheets at February 2, 2019 and February 3, 2018		
Accounts payable and accrued liabilities	\$ (15)	\$ (17)
Other liabilities	(122)	(139)
	\$ (137)	\$ (156)
Amounts recognized in accumulated other comprehensive loss at February 2, 2019 and February 3, 2018		
Net actuarial gain	\$ (41)	\$ (35)
Prior service credit	(9)	(10)
	\$ (50)	\$ (45)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Net postretirement benefit costs and other amounts recognized in other comprehensive loss included the following actuarially determined components:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
	(millions)		
Net Periodic Postretirement Benefit Cost			
Service cost	\$ —	\$ —	\$ —
Interest cost	5	5	6
Amortization of net actuarial gain	(5)	(5)	(4)
Amortization of prior service credit	(1)	—	—
	<u>(1)</u>	<u>—</u>	<u>2</u>
Other Changes in Plan Assets and Projected Benefit Obligation Recognized in Other Comprehensive Loss			
Net actuarial gain	(11)	(9)	(13)
Amortization of net actuarial gain	5	5	4
Amortization of prior service credit	1	—	—
Prior service credit	—	(10)	—
	<u>(5)</u>	<u>(14)</u>	<u>(9)</u>
Total recognized	<u>\$ (6)</u>	<u>\$ (14)</u>	<u>\$ (7)</u>

The estimated net actuarial gain and prior service credit that will be amortized from accumulated other comprehensive loss into net periodic postretirement benefit cost during 2019 is \$7 million.

The following weighted average assumption was used to determine the accumulated postretirement benefit obligations at February 2, 2019 and February 3, 2018:

	<u>2018</u>	<u>2017</u>
Discount rate	4.02%	3.71%

The following weighted average assumption was used to determine the net postretirement benefit costs for the postretirement obligations:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Discount rate used to measure interest cost	3.28%	3.17%	3.14%

The accumulated postretirement benefit obligation assumptions are evaluated annually, and at interim re-measurements if required, and updated as necessary.

The discount rate used to determine the present value of the Company's accumulated postretirement benefit obligations is based on a yield curve constructed from a portfolio of high quality corporate debt securities with various maturities. Each year's expected future benefit payments are discounted to their present value at the appropriate yield curve rate, thereby generating the overall discount rate for the accumulated postretirement benefit obligations.

The Company estimates the interest cost component of net periodic benefit costs using a full yield curve approach in the estimation of these components of net periodic benefit costs. Under this approach, the Company applies discounting using individual spot rates from the yield curve composed of the rates of return from a portfolio of high quality corporate debt securities available at the measurement date. These spot rates align to each of the projected benefit obligation and service cost cash flows.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The future medical benefits provided by the Company for certain employees are based on a fixed amount per year of service, and the accumulated postretirement benefit obligation is not affected by increases in health care costs. However, the future medical benefits provided by the Company for certain other employees are affected by increases in health care costs.

The following provides the assumed health care cost trend rates related to the Company's accumulated postretirement benefit obligations at February 2, 2019 and February 3, 2018:

	2018	2017
Health care cost trend rates assumed for next year	5.38% - 9.31%	5.50% - 10.50%
Rates to which the cost trend rate is assumed to decline (the ultimate trend rate).....	4.5%	4.5%
Year that the rate reaches the ultimate trend rate.....	2027	2027

The assumed health care cost trend rates have an impact on the amounts reported for the accumulated postretirement benefit obligations. A one-percentage-point change in the assumed health care cost trend rates would have the following effects:

	1 – Percentage Point Increase	1 – Percentage Point Decrease
	(millions)	
Effect on total of service and interest cost.....	\$ —	\$ —
Effect on accumulated postretirement benefit obligations	\$ 7	\$ (6)

The following table reflects the benefit payments estimated to be funded by the Company and paid from the accumulated postretirement benefit obligations and estimated federal subsidies expected to be received under the Medicare Prescription Drug Improvement and Modernization Act of 2003:

	Expected Benefit Payments	Expected Federal Subsidy
	(millions)	
Fiscal Year		
2019.....	\$ 15	\$ —
2020.....	14	—
2021.....	13	—
2022.....	13	—
2023.....	12	—
2024-2028.....	47	1

11. Stock-Based Compensation

The following disclosures present the Company's equity plans on a combined basis. The equity plans are administered by the Compensation and Management Development Committee of the Board of Directors (the "CMD Committee"). The CMD Committee is authorized to grant options, stock appreciation rights, restricted stock and restricted stock units to officers and key employees of the Company and its subsidiaries and to non-employee directors. The equity plans are intended to help the Company attract and retain directors, officers, other key executives and employees and is also intended to provide incentives and rewards relating to the Company's business plans to encourage such persons to devote themselves to the business of the Company. There have been no grants of stock appreciation rights under the equity plans.

Stock option grants have an exercise price at least equal to the market value of the underlying common stock on the date of grant, have ten-year terms and typically vest ratably over four years of continued employment. Restricted stock and time-based restricted stock unit awards generally vest one to four years from the date of grant. Performance-based restricted stock units generally are earned based on the attainment of specified goals achieved over the performance period.

As of February 2, 2019, approximately 20 million shares of common stock were available for additional grants pursuant to the Company's equity plans. Shares awarded are generally issued from the Company's treasury stock.

Stock-based compensation expense included the following components:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
	(millions)		
Stock options	\$ 24	\$ 34	\$ 43
Restricted stock units	39	24	18
	<u>\$ 63</u>	<u>\$ 58</u>	<u>\$ 61</u>

All stock-based compensation expense is recorded in SG&A expense in the Consolidated Statements of Income.

Stock Options

The fair value of stock options granted during 2018, 2017 and 2016 and the weighted average assumptions used to estimate the fair value are as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Weighted average grant date fair value of stock options granted during the period	\$ 7.43	\$ 5.84	\$ 12.14
Dividend yield	5.2%	6.2%	3.8%
Expected volatility	41.1%	41.8%	42.7%
Risk-free interest rate	2.7%	1.9%	1.4%
Expected life	5.6 years	5.7 years	5.7 years

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The Company estimates the expected volatility and expected option life assumption consistent with ASC Topic 718, Compensation – Stock Compensation. The expected volatility of the Company's common stock at the date of grant is estimated based on a historic volatility rate and the expected option life is calculated based on historical stock option experience as the best estimate of future exercise patterns. The dividend yield assumption is based on historical and anticipated dividend payouts. The risk-free interest rate assumption is based on observed interest rates consistent with the expected life of each stock option grant. The Company uses historical data to estimate pre-vesting option forfeitures and records stock-based compensation expense only for those awards that are expected to vest. Compensation expense is recorded for all stock options expected to vest based on the amortization of the fair value at the date of grant on a straight-line basis primarily over the vesting period of the options.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Activity related to stock options for 2018 is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
	(thousands)		(years)	(millions)
Outstanding, beginning of period	20,376	\$ 38.80		
Granted	1,495	29.53		
Canceled or forfeited	(794)	47.93		
Exercised.....	(2,184)	21.02		
Outstanding, end of period	<u>18,893</u>	<u>\$ 39.73</u>		
Exercisable, end of period	<u>12,960</u>	<u>\$ 41.93</u>	4.5	\$ 18
Options expected to vest.....	<u>4,937</u>	<u>\$ 34.37</u>	8.0	\$ 3

Additional information relating to stock options is as follows:

	2018	2017	2016
	(millions)		
Intrinsic value of options exercised.....	\$ 27	\$ 3	\$ 12
Cash received from stock options exercised	45	6	35

As of February 2, 2019, the Company had \$25 million of unrecognized compensation costs related to nonvested stock options, which is expected to be recognized over a weighted average period of approximately 2.0 years.

Restricted Stock Units

The weighted average grant date fair values of performance-based and time-based restricted stock units granted during 2018, 2017 and 2016 are as follows:

	2018	2017	2016
Restricted stock units (performance-based)	\$ 30.64	\$ 27.16	\$ 43.72
Restricted stock units (time-based)	25.57	20.75	35.61

During 2018, 2017 and 2016, the CMD Committee approved awards of performance-based restricted stock units to certain senior executives of the Company. Each award reflects a target number of shares (“Target Shares”) that may be issued to the award recipient. These awards may be earned upon the completion of three-year performance periods ending January 30, 2021, February 1, 2020, and February 2, 2019, respectively. Whether units are earned at the end of the performance period will be determined based on the achievement of certain performance objectives over the performance period. The performance objectives include achieving an EBITDA as a percent to sales ratio, owned plus licensed comparable sales growth and a return on invested capital ratio. The performance-based restricted stock units also include a performance objective relating to relative total shareholder return (“TSR”). Relative TSR reflects the change in the value of the Company’s common stock over the performance period in relation to the change in the value of the common stock of a twelve-company executive compensation peer group over the performance period, assuming the reinvestment of dividends. Depending on the results achieved during the three-year performance periods, the actual number of shares that a grant recipient receives at the end of the period may range from 0% to 150% of the Target Shares granted.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The fair value of the Target Shares and restricted stock awards are based on the fair value of the underlying shares on the date of grant. The fair value of the portion of the Target Shares that relate to a relative TSR performance objective was determined using a Monte Carlo simulation analysis to estimate the total shareholder return ranking of the Company among a twelve-company executive compensation peer group over the remaining performance periods. The expected volatility of the Company's common stock at the date of grant was estimated based on a historical average volatility rate for the approximate three-year performance period. The dividend yield assumption was based on historical and anticipated dividend payouts. The risk-free interest rate assumption was based on observed interest rates consistent with the approximate three-year performance measurement period.

The fair value of a restricted stock unit award at the grant date is equal to the market price of the Company's common stock on the grant date. Compensation expense is recorded for all restricted stock unit awards based on the amortization of the fair market value at the date of grant over the period the restrictions lapse or over the performance period of the performance-based restricted stock units. As of February 2, 2019, the Company had \$48 million of unrecognized compensation costs related to nonvested restricted stock units, which is expected to be recognized over a weighted average period of approximately 2.5 years.

Activity related to restricted stock units for 2018 is as follows:

	Shares	Weighted Average Grant Date Fair Value
	(thousands)	
Nonvested, beginning of period	3,157	\$ 30.51
Granted – performance-based	749	30.64
Performance adjustment	(455)	43.72
Granted – time-based	1,427	25.57
Forfeited	(203)	25.94
Vested	(532)	40.43
Nonvested, end of period	<u>4,143</u>	<u>\$ 26.33</u>

12. Shareholders' Equity

The authorized shares of the Company consist of 125 million shares of preferred stock ("Preferred Stock"), par value of \$.01 per share, with no shares issued, and 1,000 million shares of common stock, par value of \$.01 per share, with 333.6 million shares of common stock issued and 307.5 million shares of common stock outstanding at February 2, 2019, and with 333.6 million shares of common stock issued and 304.8 million shares of common stock outstanding at February 3, 2018 (with shares held in the Company's treasury being treated as issued, but not outstanding).

The Company retired 8.0 million shares of common stock during 2016. No shares of common stock were retired during 2018 and 2017.

Commencing in January 2000, the Company's board of directors has from time to time approved authorizations to purchase, in the aggregate, up to \$18,000 million of common stock, which includes the Company's board of directors approval of an additional authorization to purchase common stock of \$1,500 million on February 26, 2016. All authorizations are cumulative and do not have an expiration date. During 2016, the Company purchased approximately 7.9 million shares of common stock under its share repurchase program for a total of \$316 million. As of February 2, 2019, \$1,716 million of authorization remained unused. The Company may continue or, from time to time, suspend repurchases of its shares under its share repurchase program, depending on prevailing market conditions, alternative uses of capital and other factors.

Common Stock

The holders of the common stock are entitled to one vote for each share held of record on all matters submitted to a vote of shareholders. Subject to preferential rights that may be applicable to any Preferred Stock, holders of common stock are entitled to receive ratably such dividends as may be declared by the Board of Directors in its discretion, out of funds legally available.

Treasury Stock

Treasury stock contains shares repurchased under the share repurchase program, shares repurchased to cover employee tax liabilities related to stock plan activity and shares maintained in a trust related to deferred compensation plans. Under the deferred compensation plans, shares are maintained in a trust to cover the number estimated to be needed for distribution on account of stock credits currently outstanding.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Changes in the Company's common stock issued and outstanding, including shares held by the Company's treasury, are as follows:

	Common Stock Issued	Treasury Stock			Common Stock Outstanding
		Deferred Compensation Plans	Other (thousands)	Total	
Balance at January 30, 2016.....	341,606	(1,170)	(30,180)	(31,350)	310,256
Stock issued under stock plans.....		(87)	1,612	1,525	1,525
Stock repurchases					
Repurchase program			(7,874)	(7,874)	(7,874)
Other.....			(5)	(5)	(5)
Deferred compensation plan distributions		161		161	161
Retirement of common stock	(8,000)		8,000	8,000	—
Balance at January 28, 2017.....	333,606	(1,096)	(28,447)	(29,543)	304,063
Stock issued under stock plans.....		(119)	590	471	471
Stock repurchases					
Other.....			(38)	(38)	(38)
Deferred compensation plan distributions		269		269	269
Balance at February 3, 2018.....	333,606	(946)	(27,895)	(28,841)	304,765
Stock issued under stock plans.....		(106)	2,756	2,650	2,650
Stock repurchases					
Other.....			(6)	(6)	(6)
Deferred compensation plan distributions		111		111	111
Balance at February 2, 2019.....	333,606	(941)	(25,145)	(26,086)	307,520

Accumulated Other Comprehensive Loss

For the Company, the only component of accumulated other comprehensive loss for 2018, 2017 and 2016 relates to post employment and postretirement plan items. The net actuarial gains and losses and prior service costs and credits related to post employment and postretirement benefit plans are reclassified out of accumulated other comprehensive loss and included in the computation of net periodic benefit cost (income) and are included in benefit plan income, net in the Consolidated Statements of Income. In addition, the Company incurred the pro-rata recognition of net actuarial losses associated with an increase in lump sum distributions associated with store closings, organizational restructuring, and periodic distribution activity as settlement charges in the Consolidated Statements of Income. See Note 9, "Retirement Plans," and Note 10, "Postretirement Health Care and Life Insurance Benefits," for further information.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

13. Fair Value Measurements and Concentrations of Credit Risk

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:

	February 2, 2019				February 3, 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.....	\$101	\$ 27	\$ 74	\$ —	\$117	\$ 25	\$ 92	\$ —

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 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:

	February 2, 2019			February 3, 2018		
	Notional Amount	Carrying Amount	Fair Value	Notional Amount	Carrying Amount	Fair Value
		(millions)				
Long-term debt	\$ 4,671	\$ 4,683	\$ 4,407	\$ 5,806	\$ 5,835	\$ 5,751

The following table shows certain of the Company's long-lived assets, which includes tangible and intangible assets, that were measured at fair value on a nonrecurring basis during 2018 and 2017:

	February 2, 2019				February 3, 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)							
Long-lived assets	\$ 24	\$ —	\$ —	\$ 24	\$ 24	\$ —	\$ —	\$ 24

During 2018, long-lived assets with a carrying value of \$84 million were written down to their fair value of \$24 million, resulting in asset impairment charges of \$60 million. During 2017, long-lived assets with a carrying value of \$77 million were written down to their fair value of \$24 million, resulting in asset impairment charges of \$53 million. The fair values of these assets were calculated based on the projected cash flows and an estimated risk-adjusted rate of return that would be used by market participants in valuing these assets or prices of similar assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments. The Company places its temporary cash investments in what it believes to be high credit quality financial instruments.

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

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

	2018		2017		2016	
	Net Income	Shares	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	\$ 1,108	306.8	\$ 1,566	304.5	\$ 627	307.6
Shares to be issued under deferred compensation and other plans.....		0.9		0.9		0.9
	\$ 1,108	307.7	\$ 1,566	305.4	\$ 627	308.5
Basic earnings per share attributable to Macy's, Inc. shareholders	<u>\$ 3.60</u>		<u>\$ 5.13</u>		<u>\$ 2.03</u>	
Effect of dilutive securities:						
Stock options, restricted stock and restricted stock units		3.7		1.4		2.3
	\$ 1,108	311.4	\$ 1,566	306.8	\$ 627	310.8
Diluted earnings per share attributable to Macy's, Inc. shareholders.....	<u>\$ 3.56</u>		<u>\$ 5.10</u>		<u>\$ 2.02</u>	

In addition to the stock options and restricted stock units reflected in the foregoing table, stock options to purchase 15.3 million shares of common stock and restricted stock units relating to 0.9 million shares of common stock were outstanding at February 2, 2019, stock options to purchase 16.6 million of shares of common stock and restricted stock units relating to 0.9 million shares of common stock were outstanding at February 3, 2018, and stock options to purchase 15.5 million of shares of common stock and restricted stock units relating to 1.1 million shares of common stock were outstanding at January 28, 2017, but were not included in the computation of diluted earnings per share attributable to Macy's, Inc. shareholders for 2018, 2017 and 2016, respectively, because their inclusion would have been antidilutive or they were subject to performance conditions that had not been met.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

15. Quarterly Results (unaudited)

Unaudited quarterly results for the last two years were as follows:

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
	(millions, except per share data)			
2018:				
Net sales.....	\$ 5,541	\$ 5,572	\$ 5,404	\$ 8,455
Credit card revenues, net	157	186	185	240
Cost of sales.....	(3,382)	(3,320)	(3,226)	(5,288)
Selling, general and administrative expenses.....	(2,083)	(2,164)	(2,255)	(2,538)
Gains on sale of real estate	24	46	42	278
Restructuring, impairment, store closing and other costs	(19)	(17)	(3)	(97)
Benefit plan income, net.....	11	11	9	8
Settlement charges.....	—	(50)	(23)	(15)
Net income attributable to Macy's, Inc. shareholders	139	166	62	740
Basic earnings per share attributable to Macy's, Inc. shareholders	0.45	0.54	0.20	2.40
Diluted earnings per share attributable to Macy's, Inc. shareholders	0.45	0.53	0.20	2.37
2017:				
Net sales.....	\$ 5,350	\$ 5,636	\$ 5,281	\$ 8,672
Credit card revenues, net	161	167	145	229
Cost of sales.....	(3,303)	(3,403)	(3,152)	(5,323)
Selling, general and administrative expenses.....	(2,057)	(2,161)	(2,188)	(2,548)
Gains on sale of real estate	68	43	65	368
Restructuring, impairment, store closing and other costs	—	—	(33)	(152)
Benefit plan income, net.....	13	14	15	15
Settlement charges.....	—	(51)	(22)	(32)
Net income attributable to Macy's, Inc. shareholders	78	111	30	1,347
Basic earnings per share attributable to Macy's, Inc. shareholders	0.26	0.36	0.10	4.41
Diluted earnings per share attributable to Macy's, Inc. shareholders	0.26	0.36	0.10	4.38

Note: Annual results may not equal the sum of the quarterly results for the respective periods due to rounding conventions.

16. Condensed Consolidating Financial Information

Certain debt obligations of the Company described in Note 6, "Financing," which constitute debt obligations of Parent's 100%-owned subsidiary, Macy's Retail Holdings, Inc. ("Subsidiary Issuer"), 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 2018, 2017 and 2016, Consolidating Balance Sheets as of February 2, 2019 and February 3, 2018, and the related Condensed Consolidating Statements of Cash Flows for 2018, 2017, and 2016 are presented on the following pages.

MACY'S, INC.

Condensed Consolidating Statement of Comprehensive Income
For 2018
(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
Net sales.....	\$ —	\$ 9,051	\$ 23,720	\$ (7,800)	\$ 24,971
Credit card revenues (expense), net.....	—	(3)	771	—	768
Cost of sales.....	—	(5,786)	(17,229)	7,800	(15,215)
Selling, general and administrative expenses.....	—	(3,509)	(5,530)	—	(9,039)
Gains on sale of real estate.....	—	141	248	—	389
Restructuring, impairment, store closing and other costs.....	—	(33)	(103)	—	(136)
Operating income (loss).....	—	(139)	1,877	—	1,738
Benefit plan income, net.....	—	15	24	—	39
Settlement charges.....	(5)	(30)	(53)	—	(88)
Interest (expense) income, net:					
External.....	20	(260)	4	—	(236)
Intercompany.....	—	(72)	72	—	—
Losses on early retirement of debt.....	—	(33)	—	—	(33)
Equity in earnings of subsidiaries.....	1,104	345	—	(1,449)	—
Income (loss) before income taxes.....	1,119	(174)	1,924	(1,449)	1,420
Federal, state and local income tax benefit (expense).....	(11)	219	(530)	—	(322)
Net income.....	1,108	45	1,394	(1,449)	1,098
Net loss attributable to noncontrolling interest.....	—	—	10	—	10
Net income attributable to Macy's, Inc. shareholders.....	\$ 1,108	\$ 45	\$ 1,404	\$ (1,449)	\$ 1,108
Comprehensive income (loss).....	\$ 1,045	\$ (15)	\$ 1,353	\$ (1,348)	\$ 1,035
Comprehensive loss attributable to noncontrolling interest.....	—	—	10	—	10
Comprehensive income (loss) attributable to Macy's, Inc. shareholders.....	\$ 1,045	\$ (15)	\$ 1,363	\$ (1,348)	\$ 1,045

MACY'S, INC.

Condensed Consolidating Statement of Comprehensive Income
For 2017
(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
Net sales.....	\$ —	\$ 9,490	\$ 23,317	\$ (7,868)	\$ 24,939
Credit card revenues (expense), net.....	—	(2)	704	—	702
Cost of sales.....	—	(6,122)	(16,927)	7,868	(15,181)
Selling, general and administrative expenses.....	—	(3,426)	(5,528)	—	(8,954)
Gains on sale of real estate.....	—	201	343	—	544
Restructuring, impairment, store closing and other costs.....	—	(40)	(146)	—	(186)
Operating income.....	—	101	1,763	—	1,864
Benefit plan income, net.....	—	22	35	—	57
Settlement charges.....	—	(35)	(70)	—	(105)
Interest (expense) income, net:					
External.....	—	(313)	3	—	(310)
Intercompany.....	—	(139)	139	—	—
Gains on early retirement of debt.....	—	10	—	—	10
Equity in earnings of subsidiaries.....	1,574	773	—	(2,347)	—
Income before income taxes.....	1,574	419	1,870	(2,347)	1,516
Federal, state and local income tax benefit (expense).....	(8)	356	(309)	—	39
Net income.....	1,566	775	1,561	(2,347)	1,555
Net loss attributable to noncontrolling interest.....	—	—	11	—	11
Net income attributable to Macy's, Inc. shareholders.....	\$ 1,566	\$ 775	\$ 1,572	\$ (2,347)	\$ 1,566
Comprehensive income.....	\$ 1,738	\$ 935	\$ 1,673	\$ (2,619)	\$ 1,727
Comprehensive loss attributable to noncontrolling interest.....	—	—	11	—	11
Comprehensive income attributable to Macy's, Inc. shareholders.....	\$ 1,738	\$ 935	\$ 1,684	\$ (2,619)	\$ 1,738

MACY'S, INC.

Condensed Consolidating Statement of Comprehensive Income
For 2016
(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
Net sales.....	\$ —	\$ 10,735	\$ 23,508	\$ (8,335)	\$ 25,908
Credit card revenues (expense), net.....	—	17	639	—	656
Cost of sales.....	—	(6,818)	(17,183)	8,335	(15,666)
Selling, general and administrative expenses.....	(2)	(3,899)	(5,356)	—	(9,257)
Gains on sale of real estate.....	—	95	114	—	209
Restructuring, impairment, store closing and other costs.....	—	(295)	(184)	—	(479)
Operating income (loss).....	(2)	(165)	1,538	—	1,371
Benefit plan income, net.....	—	21	34	—	55
Settlement charges.....	—	(34)	(64)	—	(98)
Interest (expense) income, net:					
External.....	2	(366)	1	—	(363)
Intercompany.....	—	(200)	200	—	—
Equity in earnings of subsidiaries.....	627	267	—	(894)	—
Income (loss) before income taxes.....	627	(477)	1,709	(894)	965
Federal, state and local income tax benefit (expense).....	—	278	(624)	—	(346)
Net income (loss).....	627	(199)	1,085	(894)	619
Net loss attributable to noncontrolling interest.....	—	—	8	—	8
Net income (loss) attributable to Macy's, Inc. shareholders.....	\$ 627	\$ (199)	\$ 1,093	\$ (894)	\$ 627
Comprehensive income (loss).....	\$ 774	\$ (52)	\$ 1,164	\$ (1,120)	\$ 766
Comprehensive loss attributable to noncontrolling interest.....	—	—	8	—	8
Comprehensive income (loss) attributable to Macy's, Inc. shareholders.....	\$ 774	\$ (52)	\$ 1,172	\$ (1,120)	\$ 774

MACY'S, INC.
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.....	<u>\$ 6,644</u>	<u>\$ 12,423</u>	<u>\$ 10,391</u>	<u>\$ (10,264)</u>	<u>\$ 19,194</u>
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	<u>\$ 6,644</u>	<u>\$ 12,423</u>	<u>\$ 10,391</u>	<u>\$ (10,264)</u>	<u>\$ 19,194</u>

MACY'S, INC.
Condensed Consolidating Balance Sheet
As of February 3, 2018
(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS:					
Current Assets:					
Cash and cash equivalents.....	\$ 1,109	\$ 58	\$ 288	\$ —	\$ 1,455
Receivables.....	—	85	278	—	363
Merchandise inventories	—	2,344	2,834	—	5,178
Prepaid expenses and other current assets.....	—	165	485	—	650
Total Current Assets.....	1,109	2,652	3,885	—	7,646
Property and Equipment – net	—	3,349	3,323	—	6,672
Goodwill.....	—	3,315	582	—	3,897
Other Intangible Assets – net.....	—	44	444	—	488
Other Assets.....	1	89	790	—	880
Deferred Income Taxes.....	11	—	—	(11)	—
Intercompany Receivable	884	—	2,381	(3,265)	—
Investment in Subsidiaries.....	4,032	4,119	—	(8,151)	—
Total Assets.....	<u>\$ 6,037</u>	<u>\$ 13,568</u>	<u>\$ 11,405</u>	<u>\$ (11,427)</u>	<u>\$ 19,583</u>
LIABILITIES AND SHAREHOLDERS' EQUITY:					
Current Liabilities:					
Short-term debt.....	\$ —	\$ 6	\$ 16	\$ —	\$ 22
Merchandise accounts payable.....	—	653	937	—	1,590
Accounts payable and accrued liabilities	159	980	2,132	—	3,271
Income taxes.....	113	30	153	—	296
Total Current Liabilities.....	272	1,669	3,238	—	5,179
Long-Term Debt.....	—	5,844	17	—	5,861
Intercompany Payable	—	3,265	—	(3,265)	—
Deferred Income Taxes.....	—	559	600	(11)	1,148
Other Liabilities.....	20	430	1,212	—	1,662
Shareholders' Equity:					
Macy's, Inc.	5,745	1,801	6,350	(8,151)	5,745
Noncontrolling Interest	—	—	(12)	—	(12)
Total Shareholders' Equity	5,745	1,801	6,338	(8,151)	5,733
Total Liabilities and Shareholders' Equity	<u>\$ 6,037</u>	<u>\$ 13,568</u>	<u>\$ 11,405</u>	<u>\$ (11,427)</u>	<u>\$ 19,583</u>

MACY'S, INC.

**Condensed Consolidating Statement of Cash Flows
For 2018
(millions)**

	<u>Parent</u>	<u>Subsidiary Issuer</u>	<u>Other Subsidiaries</u>	<u>Consolidating Adjustments</u>	<u>Consolidated</u>
Cash flows from operating activities:					
Net income	\$ 1,108	\$ 45	\$ 1,394	\$ (1,449)	\$ 1,098
Restructuring, impairment, store closing and other costs	—	33	103	—	136
Settlement charges	5	30	53	—	88
Gains on sale of real estate	—	(141)	(248)	—	(389)
Equity in earnings of subsidiaries	(1,104)	(345)	—	1,449	—
Dividends received from subsidiaries	1,040	200	—	(1,240)	—
Depreciation and amortization	—	334	628	—	962
Changes in assets, liabilities and other items not separately identified	(91)	198	(266)	(1)	(160)
Net cash provided by operating activities	<u>958</u>	<u>354</u>	<u>1,664</u>	<u>(1,241)</u>	<u>1,735</u>
Cash flows from investing activities:					
Purchase of property and equipment and capitalized software, net	—	(135)	(323)	—	(458)
Other, net	—	(16)	(33)	51	2
Net cash used by investing activities	<u>—</u>	<u>(151)</u>	<u>(356)</u>	<u>51</u>	<u>(456)</u>
Cash flows from financing activities:					
Debt repaid	—	(1,098)	(1)	(50)	(1,149)
Dividends paid	(463)	—	(1,240)	1,240	(463)
Issuance of common stock, net of common stock acquired	45	—	—	—	45
Proceeds from noncontrolling interest	—	—	7	—	7
Intercompany activity, net	(767)	875	(108)	—	—
Other, net	7	5	4	—	16
Net cash used by financing activities	<u>(1,178)</u>	<u>(218)</u>	<u>(1,338)</u>	<u>1,190</u>	<u>(1,544)</u>
Net decrease in cash, cash equivalents and restricted cash	(220)	(15)	(30)	—	(265)
Cash, cash equivalents and restricted cash at beginning of period	<u>1,109</u>	<u>79</u>	<u>325</u>	<u>—</u>	<u>1,513</u>
Cash, cash equivalents and restricted cash at end of period	<u>\$ 889</u>	<u>\$ 64</u>	<u>\$ 295</u>	<u>\$ —</u>	<u>\$ 1,248</u>

MACY'S, INC.

Condensed Consolidating Statement of Cash Flows
For 2017
(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
Cash flows from operating activities:					
Net income	\$ 1,566	\$ 775	\$ 1,561	\$ (2,347)	\$ 1,555
Restructuring, impairment, store closing and other costs	—	40	146	—	186
Settlement charges	—	35	70	—	105
Gains on sale of real estate	—	(201)	(343)	—	(544)
Equity in earnings of subsidiaries	(1,574)	(773)	—	2,347	—
Dividends received from subsidiaries	903	450	—	(1,353)	—
Depreciation and amortization	—	354	637	—	991
Changes in assets, liabilities and other items not separately identified	14	79	(410)	—	(317)
Net cash provided by operating activities	909	759	1,661	(1,353)	1,976
Cash flows from investing activities:					
Disposition (purchase) of property and equipment and capitalized software, net	—	68	(417)	—	(349)
Other, net	—	7	(9)	—	(2)
Net cash provided (used) by investing activities	—	75	(426)	—	(351)
Cash flows from financing activities:					
Debt repaid	—	(987)	(1)	—	(988)
Dividends paid	(461)	—	(1,353)	1,353	(461)
Common stock acquired, net of issuance of common stock	5	—	—	—	5
Proceeds from noncontrolling interest	—	—	13	—	13
Intercompany activity, net	(427)	249	178	—	—
Other, net	145	(98)	(62)	—	(15)
Net cash used by financing activities	(738)	(836)	(1,225)	1,353	(1,446)
Net increase (decrease) in cash, cash equivalents and restricted cash	171	(2)	10	—	179
Cash, cash equivalents and restricted cash at beginning of period	938	81	315	—	1,334
Cash, cash equivalents and restricted cash at end of period	\$ 1,109	\$ 79	\$ 325	\$ —	\$ 1,513

MACY'S, INC.

Condensed Consolidating Statement of Cash Flows
For 2016
(millions)

	Parent	Subsidiary Issuer	Other Subsidiaries	Consolidating Adjustments	Consolidated
Cash flows from operating activities:					
Net income (loss)	\$ 627	\$ (199)	\$ 1,085	\$ (894)	\$ 619
Restructuring, impairment, store closing and other costs	—	295	184	—	479
Settlement charges	—	34	64	—	98
Gains on sale of real estate	—	(95)	(114)	—	(209)
Equity in earnings of subsidiaries	(627)	(267)	—	894	—
Dividends received from subsidiaries	957	575	—	(1,532)	—
Depreciation and amortization	—	407	651	—	1,058
Changes in assets, liabilities and other items not separately identified	138	(312)	(70)	—	(244)
Net cash provided by operating activities	1,095	438	1,800	(1,532)	1,801
Cash flows from investing activities:					
Disposition (purchase) of property and equipment and capitalized software, net	—	13	(252)	—	(239)
Other, net	—	(18)	14	—	(4)
Net cash used by investing activities	—	(5)	(238)	—	(243)
Cash flows from financing activities:					
Debt repaid	—	(753)	(1)	—	(754)
Dividends paid	(459)	—	(1,532)	1,532	(459)
Common stock acquired, net of issuance of common stock	(280)	—	—	—	(280)
Proceeds from noncontrolling interest	—	—	6	—	6
Intercompany activity, net	(144)	233	(89)	—	—
Other, net	(15)	27	49	—	61
Net cash used by financing activities	(898)	(493)	(1,567)	1,532	(1,426)
Net increase (decrease) in cash, cash equivalents and restricted cash	197	(60)	(5)	—	132
Cash, cash equivalents and restricted cash at beginning of period	741	141	320	—	1,202
Cash, cash equivalents and restricted cash at end of period	\$ 938	\$ 81	\$ 315	\$ —	\$ 1,334