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Macy's, Inc.
Form 10-K
March 30, 2016

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
January 30, 2016

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:

Title of Each Class
Common Stock, par value \$.01 per share

Name of Each Exchange on Which Registered
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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☒

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

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

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 1, 2015) was approximately

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\$22,857,680,000.

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

Class	Outstanding at February 26, 2016
Common Stock, \$0.01 par value per share	310,572,396 shares

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts Into Which Incorporated
Proxy Statement for the Annual Meeting of Stockholders to be held May 20, 2016 (Proxy Statement)	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 “2015,” “2014,” “2013,” “2012” and “2011” are references to the Company’s fiscal years ended January 30, 2016, January 31, 2015, February 1, 2014, February 2, 2013 and January 28, 2012, respectively. Fiscal years 2015, 2014, 2013 and 2011 included 52 weeks; fiscal year 2012 included 53 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,” “continue” or the negative or other variations thereof, and (ii) statements regarding matters that are not historical facts. Such forward-looking statements are subject to various risks and uncertainties, including risks and uncertainties relating to:

- the possible invalidity of the underlying beliefs and assumptions;
- competitive pressures from department and specialty stores, general merchandise stores, manufacturers’ outlets, off-price and discount stores, and all other retail channels, including the Internet, catalogs and television;
- general consumer-spending levels, including the impact of general economic conditions, consumer disposable income levels, consumer confidence levels, the availability, cost and level of consumer debt, the costs of basic necessities and other goods and the effects of the weather or natural disasters;
- conditions to, or changes in the timing of, proposed transactions and changes in expected synergies, cost savings and non-recurring charges;
- transactions involving our real estate portfolio;
- 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;
- severe or unseasonable weather, possible outbreaks of epidemic or pandemic diseases and natural disasters;
- unstable political conditions, civil unrest, terrorist activities and armed conflicts;
- the possible inability of the Company’s manufacturers or transporters to deliver products in a timely manner or meet the Company’s quality standards;
- the Company’s reliance on foreign sources of production, including risks related to the disruption of imports by labor disputes, regional health pandemics, and regional political and economic conditions;
- duties, taxes, other charges and quotas on imports; and
 - possible systems failures and/or security breaches, including, any security breach that results in the theft, transfer or unauthorized disclosure of customer, employee or company information, or the failure to comply with various laws applicable to the Company in the event of such a breach.

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

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. As of January 30, 2016, the operations of the Company included 870 Macy's, Macy's Backstage, Bloomingdale's, Bloomingdale's Outlet and Bluemercury stores in 45 states, the District of Columbia, Guam and Puerto Rico, as well as macys.com, bloomingdales.com and bluemercury.com. In addition, Bloomingdale's in Dubai, United Arab Emirates is operated under a license agreement 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 children's), 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.

For 2015, 2014 and 2013, the following merchandise constituted the following percentages of sales:

	2015		2014		2013	
Women's Accessories, Intimate Apparel, Shoes and Cosmetics	38	%	38	%	38	%
Women's Apparel	23		23		23	
Men's and Children's	23		23		23	
Home/Miscellaneous	16		16		16	
	100	%	100	%	100	%

In 2015, the Company's subsidiaries provided various support functions to the Company's retail operations on an integrated, company-wide basis.

The Company's bank subsidiary, FDS Bank, provides credit processing, 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 further 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.

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, Home Design, Hotel Collection, Hudson Park, Ideology, I-N-C, jenni, JM Collection, John Ashford, Karen Scott, Maison Jules, Martha Stewart Collection, Material Girl, Morgan Taylor, Studio Silver, Style & Co., Sutton Studio, Tasso Elba, Thalia Sodi, the cellar, and Tools of the Trade.

The trademarks associated with all of the foregoing 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 which have renewal rights that extend through 2050, 2020, 2027, 2030 and 2030, respectively.

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 7th 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 January 30, 2016, the Company had approximately 157,900 regular full-time and part-time employees. Because of the seasonal nature of the retail business, the number of employees peaks in the holiday season. Approximately 10% of the Company's employees as of January 30, 2016 were represented by unions. Management considers its relations with its employees to be satisfactory.

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 net purchases during 2015. 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 satisfactory.

Competition

The retailing industry is intensely competitive. The Company's operations compete with many retailing formats, including department stores, specialty stores, general merchandise stores, off-price and discount stores, manufacturers' outlets, online retailers, mail order catalogs and television shopping, among others. The retailers with which the Company competes include Amazon, Bed Bath & Beyond, Belk, Bon Ton, Burlington Coat Factory, Dillard's, Gap, J.C. Penney, Kohl's, L Brands, Lord & Taylor, Neiman Marcus, Nordstrom, Ross Stores, Saks, Sears, Target, TJ Maxx and Wal-Mart. The Company seeks to attract customers by offering superior 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 <http://www.macysinc.com> as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the SEC. The public also may read and copy any of these filings at the SEC's Public Reference Room, 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-732-0330. The SEC also maintains an Internet site that contains the Company's filings; the address of that site is <http://www.sec.gov>. In addition, the Company has made the following available free of charge through its website at <http://www.macysinc.com>:

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

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 7th Street, Cincinnati, OH 45202.

Executive Officers of the Registrant

The following table sets forth certain information as of March 24, 2016 regarding the executive officers of the Company:

Name	Age	Position with the Company
Terry J. Lundgren	64	Chairman of the Board; Chief Executive Officer; Director
William S. Allen	58	Chief Human Resources Officer
Jeffrey Gennette	54	President
Robert B. Harrison	52	Chief Omnichannel Officer
Karen M. Hoguet	59	Chief Financial Officer
Jeffrey A. Kantor	57	Chief Stores Officer
Molly Langenstein	52	Chief Private Brands Officer
Justin S. MacFarlane	43	Chief Strategy, Analytics and Innovation Officer
Peter Sachse	58	Chief Growth Officer
Joel A. Belsky	62	Executive Vice President and Controller
Dennis J. Broderick	67	Executive Vice President, General Counsel and Secretary

Terry J. Lundgren has been Chairman of the Board since January 2004 and Chief Executive Officer of the Company since February 2003.

William S. Allen has been Chief Human Resources Officer of the Company since January 2013; prior thereto he was the Senior Vice President - Group Human Resources of AP Moller-Maersk A/S from January 2008 to December 2012.

Jeffrey Gennette has been President of the Company since March 2014; prior thereto he was the Chief Merchandising Officer from February 2009 to March 2014.

Robert B. Harrison has been Chief Omnichannel Officer of the Company since January 2013; prior thereto he served as Executive Vice President - Omnichannel Strategy from July 2012 to January 2013; as Executive Vice President - Finance from 2011 to July 2012 and as President - Stores from 2009 to 2011.

Karen M. Hoguet has been Chief Financial Officer of the Company since October 1997.

Jeffrey A. Kantor has been Chief Stores Officer of the Company since February 2015; prior thereto he served as Chairman of macys.com from February 2012 to February 2015; as President - Merchandising for macys.com from August 2010 to February 2012; as President - Merchandising for Home from May 2009 to August 2010 and as President for furniture for Macy's Home Store from February 2006 to May 2009.

Molly Langenstein has been Chief Private Brand Officer of the Company since February 2015; prior thereto she served as Executive Vice President - Men's and Kids at Macy's Private Brands from April 2014 to February 2015; as Executive Vice President GMM - Millennial from March 2012 to March 2014; as Executive Vice President Fashion and New Business Development from July 2010 to March 2012 and as Group Vice President DMM Neo, Impulse and Bridge Sportswear from March 2009 to July 2010.

Justin MacFarlane has been Chief Strategy, Analytics and Innovation Officer since February 2016; prior thereto he served as Senior Vice President - Corporate Strategy for ANN, Inc., a women's multichannel fashion retailer, from July 2010 to August 2015 and as Director, Global Retail for AlixPartners, a global restructuring consulting and financial advisory firm, from August 2006 to June 2010.

Peter Sachse has been Chief Growth Officer of the Company since February 2016; prior thereto he served as Chief Innovation and Business Development Officer from February 2015 to January 2016; as Chief Stores Officer from February 2012 to February 2015; as Chief Marketing Officer from February 2009 to February 2012 and as Chairman of macys.com from April 2006 to February 2012.

Joel A. Belsky has been Executive Vice President and Controller of the Company since May 2009; prior thereto he served as Senior Vice President and Controller of the Company from October 1996 through April 2009.

Dennis J. Broderick has been Secretary of the Company since July 1993 and Executive Vice President and General Counsel of the Company since May 2009; prior thereto he served as Senior Vice President and General Counsel of the Company from January 1990 to April 2009.

Item 1A. Risk Factors.

In evaluating the Company, 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 the Company's business, prospects, financial condition, results of operations and cash flows, as well as on the attractiveness and value of an investment in the Company's securities.

The Company faces significant competition in the retail industry.

The Company conducts its retail merchandising business under highly competitive conditions. Although the Company is one of the nation's largest retailers, it has numerous and varied competitors at the national and local levels, including department stores, specialty stores, general merchandise stores, off-price and discount stores, manufacturers' outlets, online retailers, catalogs and television shopping, among others. Competition may intensify as the Company's competitors enter into business combinations or alliances. Competition is characterized by many factors, including assortment, advertising, price, quality, service, location, reputation and credit availability. Any failure by the Company to compete effectively could negatively affect the Company's business and results of operations.

The Company's 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. The Company's sales and operating results depend in part on its ability to predict or respond to changes in fashion trends and consumer preferences in a timely manner. The Company develops new retail concepts and continuously adjusts its industry position in certain major and private-label brands and product categories in an effort to satisfy customers. Any sustained failure to anticipate, identify and respond to emerging trends in lifestyle and consumer preferences could negatively affect the Company's business and results of operations. The Company's sales are significantly affected by discretionary spending by consumers. Consumer spending may be affected by many factors outside of the Company's control, including general economic conditions, consumer disposable income levels, consumer confidence levels, the availability, cost and level of consumer debt and consumer behaviors towards incurring and paying debt, the costs 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. Any decline in discretionary spending by consumers could negatively affect

the Company's business and results of operations.

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The Company's business is subject to unfavorable economic and political conditions and other developments and risks. Unfavorable global, domestic or regional economic or political conditions and other developments and risks could negatively affect the Company's 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 the Company's business and results of operations. In addition, unstable political conditions, civil unrest, terrorist activities and armed conflicts may disrupt commerce and could negatively affect the Company's business and results of operations.

The Company's revenues and cash requirements are affected by the seasonal nature of its business.

The Company's 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 the Company's revenues fall in the fourth quarter, which coincides with the holiday season. In addition, the Company incurs 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 for additional inventory, advertising and employees. The Company's business could be affected by extreme weather conditions, regional or global health pandemics or natural disasters.

Extreme weather conditions in the areas in which the Company's stores are located could negatively affect the Company's 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 the Company's customers to travel to its stores and thereby reduce the Company's sales and profitability. The Company's 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 the Company's inventory and thereby reduce the Company's sales and profitability. In addition, extreme weather conditions could result in disruption or delay of production and delivery of materials and products in the Company's supply chain and cause staffing shortages in the Company's stores.

The Company's 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. To halt or delay the spread of disease, local, regional or national governments might limit or ban public gatherings or customers might avoid public places, such as the Company's stores. A regional or global health pandemic might also result in disruption or delay of production and delivery of materials and products in the Company's supply chain and cause staffing shortages in the Company's stores.

In addition, natural disasters such as hurricanes, tornadoes and earthquakes, or a combination of these or other factors, could damage or destroy the Company's facilities or make it difficult for customers to travel to its stores, thereby negatively affecting the Company's business and results of operations.

The Company's defined benefit plan funding requirements or plan settlement expense could impact the Company's financial results and cash flow.

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

At January 30, 2016, the Company had unrecognized actuarial losses of \$1,451 million for the funded defined benefit pension plan (the "Pension Plan") and \$261 million for the unfunded defined benefit supplementary retirement plan (the "SERP"). 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, the Company 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 the Company's results of operations.

Increases in the cost of employee benefits could impact the Company's financial results and cash flow.

The Company's expenses relating to employee health benefits are significant. Unfavorable changes in the cost of such benefits could negatively affect the Company's 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 the breadth and complexity of the healthcare reform legislation, the lack of implementing regulations and interpretive guidance and the phased-in nature of the implementation of the legislation, the Company is not able at this time to fully determine the impact that healthcare reform will have on the Company-sponsored medical plans.

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

The Company depends on its ability to attract and retain quality employees.

The Company's business is dependent upon attracting and retaining quality employees. The Company has a large number of employees, many of whom are in entry level or part-time positions with historically high rates of turnover. The Company's ability to meet its labor needs while controlling the 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, the Company is highly dependent upon management personnel to develop and effectively execute successful business strategies and tactics. Any circumstances that adversely impact the Company's ability to attract, train, develop and retain quality employees throughout the organization could negatively affect the Company's business and results of operations.

The Company depends upon designers, vendors and other sources of merchandise, goods and services. The Company's business could be affected by disruptions in, or other legal, regulatory, political or economic issues associated with, our supply network.

The Company's relationships with established and emerging designers have been a significant contributor to the Company's past success. The Company's 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. The Company's procurement of goods and services from outside the United States 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, including costs and uncertainties associated with efforts to identify and disclose sources of "conflict minerals" used in products that the Company causes to be manufactured and potential sell-through difficulties and reputational damage that may be associated with the inability of the Company to determine that such products are "DRC conflict-free." In addition, the Company's procurement of all its goods and services is subject to the effects of price increases which the Company may or may not be able to pass through to its customers. All of these factors may affect the Company's ability to access suitable merchandise on acceptable terms, are beyond the Company's control and could negatively affect the Company's business and results of operations.

The Company's sales and operating results could be adversely affected by product safety concerns.

If the Company's merchandise offerings do not meet applicable safety standards or our consumers' expectations regarding safety, the Company could experience decreased sales, experience 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 the Company to government enforcement action and/or private litigation. Reputational damage caused by real or perceived product safety concerns could negatively affect the Company's business and results of operations.

The Company depends upon the success of its advertising and marketing programs.

The Company's business depends on effective marketing and high customer traffic. The Company has many initiatives in this area, and often changes its advertising and marketing programs. There can be no assurance as to the Company's continued ability to effectively execute its advertising and marketing programs, and any failure to do so could negatively affect the Company's business and results of operations.

Parties with whom the Company does business may be subject to insolvency risks or may otherwise become unable or unwilling to perform their obligations to the Company.

The Company 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 the Company. In some cases, the Company depends 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 in order to operate the Company's 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 the Company 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 of the Company in relation to its contracts, transactions and business relationships with such third parties could be terminated, modified in a manner adverse to the Company, or otherwise impaired. The Company cannot make any assurances that it would be able to arrange for alternate or replacement contracts, transactions or business relationships on terms as favorable as the Company's existing contracts, transactions or business relationships, if at all. Any inability on the part of the Company to do so could negatively affect the Company's cash flows, financial condition and results of operations.

A material disruption in the Company's computer systems could adversely affect the Company's business or results of operations.

The Company relies extensively on its computer systems to process transactions, summarize results and manage its business. The Company's 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 the Company's employees. If the Company's computer systems are damaged or cease to function properly, the Company may have to make a significant investment to fix or replace them, and the Company may suffer loss of critical data and interruptions or delays in its operations. Any material interruption in the Company's computer systems could negatively affect its business and results of operations.

A data breach could result in negative publicity and adversely affect the Company's business or results of operations.

The protection of customer, employee, and company data is critical to the Company. The regulatory environment surrounding information security and privacy is increasingly demanding, with the frequent imposition of new and constantly changing requirements across business units. In addition, customers have a high expectation that the Company will adequately protect their personal information from cyber-attack or other security breaches. A significant breach of customer, employee, or company data could attract a substantial amount of media attention, damage the Company's customer relationships and reputation and result in lost sales, fines or lawsuits.

Litigation, legislation or regulatory developments could adversely affect the Company's business and results of operations.

The Company is subject to various federal, state and local laws, rules, regulations, inquiries and initiatives in connection with both its core business operations and its 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 (the "Dodd-Frank Act")). Recent and future developments relating to such matters could increase the Company's compliance costs and adversely affect the profitability of its credit card and other operations. The Company is 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 the Company undertakes to monitor changes in these laws, if these laws change without the Company's knowledge, or are violated by importers, designers, manufacturers, distributors or agents, the Company 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 the Company's business and results of operations. In addition, the Company is regularly involved in various litigation matters that arise in the ordinary course of its business. Adverse outcomes in current or future litigation could negatively affect the Company's financial condition, results of operations and cash flows.

Factors beyond the Company's control could affect the Company's stock price.

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

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

In addition, the Company may fail to meet the expectations of its stockholders or of analysts at some time in the future. If the analysts that regularly follow the Company's stock lower their rating or lower their projections for future growth and financial performance, the Company's stock price could decline. Also, sales of a substantial number of shares of the Company's common stock in the public market or the appearance that these shares are available for sale could adversely affect the market price of the Company'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 January 30, 2016, the operations of the Company included 870 stores in 45 states, the District of Columbia, Puerto Rico and Guam, comprising a total of approximately 142 million square feet. Of such stores, 426 were owned, 318 were leased, 122 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 20 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. Additional information about the Company's stores as of January 30, 2016 is as follows:

Geographic Region	Total	Owned	Leased	Subject to a Ground Lease	Partly Owned and Partly Leased
North Central	163	102	41	20	—
Northeast	254	98	126	30	—
Northwest	137	47	64	23	3
South	188	128	34	26	—
Southwest	128	51	53	23	1
	870	426	318	122	4

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.

Store count activity was as follows:

	2015	2014	2013
Store count at beginning of fiscal year	823	840	841
Stores opened	26	5	6
Acquisition of Bluemercury stores	62	—	—
Stores closed or consolidated into existing centers	(41)) (22) (7
Store count at end of fiscal year	870	823	840

Additional information about the Company's logistics network as of January 30, 2016 is as follows:

Location	Primary Function	Owned or Leased	Square Footage (thousands)
Cheshire, CT	Direct to customer	Owned	565
Chicago, IL	Stores	Owned	861
Denver, CO	Stores	Leased	20
Goodyear, AZ	Direct to customer	Owned	960
Hayward, CA	Stores	Owned	386
Houston, TX	Stores	Owned	1,124
Joppa, MD	Stores	Owned	850
Kapolei, HI	Stores	Owned	260
Los Angeles, CA	Stores	Owned	1,178
Martinsburg, WV	Direct to customer	Owned	1,300
Miami, FL	Stores	Leased	535
Portland, TN	Direct to customer	Owned	950
Raritan, NJ	Stores	Owned	980
Sacramento, CA	Direct to customer	Leased	385
Secaucus, NJ	Stores	Leased	675
South Windsor, CT	Stores	Owned	668
St. Louis, MO	Stores	Owned	661
Stone Mountain, GA	Stores	Owned	1,000
Tampa, FL	Stores	Owned	670
Tulsa, OK	Direct to customer	Owned	1,300
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.

Item 4. Mine Safety Disclosures.

Not Applicable.

PART II

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

The Common Stock is listed on the NYSE under the trading symbol "M." As of January 30, 2016, the Company had approximately 16,800 stockholders of record. The following table sets forth for each quarter during 2015 and 2014 the high and low sales prices per share of Common Stock as reported on the NYSE and the dividends declared with respect to each quarter on each share of Common Stock.

	2015			2014		
	Low	High	Dividend	Low	High	Dividend
1st Quarter	61.10	69.98	0.3125	50.05	61.26	0.2500
2nd Quarter	62.80	73.61	0.3600	54.82	60.34	0.3125
3rd Quarter	47.10	70.12	0.3600	54.84	63.10	0.3125
4th Quarter	34.05	52.48	0.3600	55.64	68.30	0.3125

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 2015.

	Total Number of Shares Purchased (thousands)	Average Price per Share (\$)	Number of Shares Purchased under Program (1) (thousands)	Open Authorization Remaining (1)(\$) (millions)
November 1, 2015 – November 28, 2015	2,486	38.85	2,486	599
November 29, 2015 – January 2, 2016	1,709	38.93	1,709	532
January 3, 2016 – January 30, 2016	—	—	—	532
	4,195	38.88	4,195	

Commencing in January 2000, the Company's Board of Directors has from time to time approved authorizations to purchase, in the aggregate, up to \$16.5 billion of Common Stock. All authorizations are cumulative and do not have an expiration date. As of January 30, 2016, \$532 million of authorization remained unused. On February 26, 2016, the Company's board of directors approved an additional \$1,500 million in authorization to purchase (1) Common Stock, bringing the Company's remaining authorization under its share repurchase program including this increase to \$2,032 million. 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 Common Stock with the Standard & Poor's 500 Composite Index, the Company's prior peer group and the Company's new peer group for the period from January 29, 2011 through January 30, 2016, assuming an initial investment of \$100 and the reinvestment of all dividends, if any.

The companies included in the prior peer group were Macy's, Kohl's and Nordstrom.

The companies included in the new 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.

The change in peer group was made to be consistent with the peer group that the Compensation and Management Development Committee of the Board of Directors uses in benchmarking and assessing compensation for the Company's executive officers.

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.

	2015	2014	2013	2012*	2011
	(millions, except per share)				
Consolidated Statement of Income Data:					
Net sales	\$27,079	\$28,105	\$27,931	\$27,686	\$26,405
Cost of sales	(16,496)	(16,863)	(16,725)	(16,538)	(15,738)
Gross margin	10,583	11,242	11,206	11,148	10,667
Selling, general and administrative expenses	(8,256)	(8,355)	(8,440)	(8,482)	(8,281)
Impairments, store closing and other costs and gain on sale of leases	(288)	(87)	(88)	(5)	25
Operating income	2,039	2,800	2,678	2,661	2,411
Interest expense	(363)	(395)	(390)	(425)	(447)
Premium on early retirement of debt	—	(17)	—	(137)	—
Interest income	2	2	2	3	4
Income before income taxes	1,678	2,390	2,290	2,102	1,968
Federal, state and local income tax expense	(608)	(864)	(804)	(767)	(712)
Net income	1,070	1,526	1,486	1,335	1,256
Net loss attributable to noncontrolling interest	2	—	—	—	—
Net income attributable to Macy's, Inc. shareholders	\$1,072	\$1,526	\$1,486	\$1,335	\$1,256
Basic earnings per share attributable to Macy's, Inc. shareholders	\$3.26	\$4.30	\$3.93	\$3.29	\$2.96
Diluted earnings per share attributable to Macy's, Inc. shareholders	\$3.22	\$4.22	\$3.86	\$3.24	\$2.92
Average number of shares outstanding	328.4	355.2	378.3	405.5	424.5
Cash dividends paid per share	\$1.3925	\$1.1875	\$0.9500	\$0.8000	\$0.3500
Depreciation and amortization	\$1,061	\$1,036	\$1,020	\$1,049	\$1,085
Capital expenditures	\$1,113	\$1,068	\$863	\$942	\$764
Balance Sheet Data (at year end):					
Cash and cash equivalents	\$1,109	\$2,246	\$2,273	\$1,836	\$2,827
Total assets	20,576	21,330	21,499	20,858	21,985
Short-term debt	642	76	463	124	1,103
Long-term debt	6,995	7,233	6,688	6,768	6,622
Total Shareholders' equity	4,253	5,378	6,249	6,051	5,933

* 53 weeks

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 our 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."

Overview

The Company is an omnichannel retail organization operating stores, websites and mobile applications under three brands (Macy's, Bloomingdale's and Bluemercury) that sell a wide range of merchandise, including apparel and accessories (men's, women's and children's), cosmetics, home furnishings and other consumer goods. The Company has stores in 45 states, the District of Columbia, Guam and Puerto Rico. As of January 30, 2016, the Company's operations were conducted through Macy's, Bloomingdale's 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 Company continues to be focused on three key strategies for growth in sales, earnings and cash flow in the years ahead: (i) maximizing the My Macy's localization/personalization initiative; (ii) driving the omnichannel business; and (iii) embracing customer centricity, including engaging customers on the selling floor through the Magic Selling program. These strategies have evolved and the Company has developed specific initiatives to acquire new customers and strengthen loyalty, deliver distinctive merchandise, expand the digital frontier and new formats and to create signature customer experiences.

Through the My Macy's localization initiative, the Company has invested in talent, technology and marketing which ensures that core customers surrounding each Macy's store find merchandise assortments, size ranges, marketing programs and shopping experiences that are custom-tailored to their needs. My Macy's has provided for more local decision-making in every Macy's community, and involves tailoring merchandise assortments, space allocations, service levels, visual merchandising, marketing and special events on a store-by-store basis. The focus on localization is now evolving to one of personalization.

The Company's omnichannel strategy allows customers to shop seamlessly in stores and online, via desktops, laptops or mobile devices. A pivotal part of the omnichannel strategy is the Company's ability to allow associates in any store to sell a product that may be unavailable locally by shipping merchandise from other stores or customer fulfillment centers to the customer's door. Likewise, the Company's customer fulfillment centers can draw on store inventories nationwide to fill orders that originate online. Since May 2014, nearly all Macy's and Bloomingdale's stores have been fulfilling orders from other stores and/or online for shipment. Since August 2014, nearly all Macy's and Bloomingdale's stores have been fulfilling orders for store pick-up related to online purchases. Beginning on November 1, 2014, same-day delivery pilots were tested in eight Macy's markets and four Bloomingdale's markets. As of January 30, 2016, the Company operates same-day delivery in 17 markets.

Macy's Magic Selling program is an approach to customer engagement that helps Macy's to better understand the needs of customers, as well as to provide options and advice. This comprehensive ongoing training and coaching program is designed to improve the in-store shopping experience and all other customer interactions. Magic Selling is shifting focus in 2016 to new technologies for building Magic connections with shoppers.

In January 2016, the Company announced a series of cost-efficiency and process improvement measures to be implemented beginning in early 2016 that will reduce selling, general and administrative ("SG&A") expenses while still investing in growth strategies, particularly in omnichannel capabilities at Macy's and Bloomingdale's.

The Company is also focused on driving additional profitable sales growth through a series of organic and new business initiatives. The initiatives include a focus on fine jewelry and watches, expansion of Macy's Backstage (including freestanding locations and inside existing Macy's stores), "Last Act"- a simplified pricing approach to clearance merchandise in Macy's stores, a focus on key store locations (including product presentation, customer service and special events), a focus on the beauty business including the expansion of Bluemercury freestanding locations and inside existing Macy's stores and a focus on enhancements to mobile technology.

In March 2015, the Company completed its acquisition of Bluemercury, Inc., a luxury beauty products and spa retailer. The Company is focused on accelerating the growth of sales in freestanding Bluemercury stores in urban and suburban markets, enhancing its online capabilities and adding selected Bluemercury products and boutiques to Macy's stores nationwide. Since the March acquisition, the Company has opened 15 new freestanding Bluemercury store locations bringing the total freestanding store locations to 77 and has also opened four stores inside existing Macy's stores.

In May 2015, in conjunction with American Express, the Company helped launch Plenti, the innovative loyalty program that brings powerful brands together to give customers the chance to earn and redeem points where they choose. The loyalty program is free to join and members earn points on virtually all purchases at Macy's and other businesses that have joined as Plenti partners.

Additionally, in 2015, the Company opened the first six pilot stores in Macy's new off-price business, Macy's Backstage, in the New York City metro area. The Macy's Backstage locations average about 30,000 square feet and sell an assortment of women's, men's and children's apparel, shoes, fashion accessories, housewares, home textiles, intimate apparel and jewelry.

In August 2015, the Company established a joint venture, Macy's China Limited, of which the Company holds a sixty-five percent ownership interest and Hong Kong-based Fung Retailing Limited holds the remaining thirty-five percent ownership interest. Macy's China Limited began selling merchandise in China in the fourth quarter of 2015 through an e-commerce presence on Alibaba Group's Tmall Global. The Company's periodic reporting now includes the consolidated results of operations of Macy's China Limited, with the thirty-five percent ownership reported as a noncontrolling interest.

In October 2015, the Company announced a real estate transaction related to its downtown Seattle store location. The Company has sold the top four floors of underutilized space in this retail location for \$65 million in cash. As a result of this transaction, the Company recorded a gain of approximately \$57 million in the third quarter of 2015.

In January 2016, the Company completed a \$270 million real estate transaction that will enable a re-creation of Macy's Brooklyn store. The Company will continue to own and operate the first four floors and lower level of its existing nine-story retail store, which will be reconfigured and remodeled. Tishman Speyer purchased the remaining portion of the site, which it will develop into approximately ten floors of office space. In addition, Tishman Speyer purchased a nearby parking facility, which could be used for a future mixed-use development. As a result of this transaction, the Company will recognize a gain of approximately \$250 million of which, under the percentage of completion method of accounting, \$84 million was recognized in 2015 with the remaining gain anticipated to be recognized over the next two years.

Also in 2015, the Company launched the marketing of potential partnership and joint venture transactions for certain of its real estate. This includes the owned mall-based properties, as well as Macy's flagship real estate assets in Manhattan (Herald Square), San Francisco (Union Square), Chicago (State Street) and Minneapolis (downtown Nicollet Mall). In addition, the Company will also continue to pursue selected real estate dispositions and monetize assets in instances where the business is simultaneously enhanced or where the value of real estate significantly outweighs the value of the retail business.

During 2014, the Company opened three new Macy's stores in the Bronx, NY; Las Vegas, NV; and Sarasota, FL, one Bloomingdale's replacement store in Palo Alto, CA, and one new Bloomingdale's furniture clearance store in Wayne, NJ. During 2015, the Company opened 26 stores including a Macy's in Ponce, PR, a Bloomingdale's in Honolulu, HI, 15 Bluemercury, six Macy's Backstage and three Bloomingdale's Outlets. The Company has announced that in 2016 it intends to open one new Macy's store in Kapolei, HI, approximately 42 new Bluemercury locations (24 freestanding and 18 inside existing Macy's stores) and 16 new Macy's Backstage locations (one freestanding and 15 inside existing Macy's stores).

In 2017, the Company intends to open a new Macy's store in Murray, UT, a Macy's replacement store in Los Angeles, CA, and a new Bloomingdale's store in San Jose, CA. In 2018, the Company intends to open a new Bloomingdale's store in Norwalk, CT. In addition, a new Bloomingdale's store is expected to open in Kuwait in 2017 and new Macy's and Bloomingdale's stores are planned to open in Abu Dhabi, United Arab Emirates in 2018 under license agreements with Al Tayer Group, LLC.

The Company's operations are impacted by competitive pressures from department stores, specialty stores, mass merchandisers, online retailers and all other retail channels. The Company's operations are also impacted by general consumer spending levels, including the impact of general economic conditions, consumer disposable income levels, consumer confidence levels, the availability, cost and level of consumer debt, the costs of basic necessities and other goods and the effects of weather or natural disasters and other factors over which the Company has little or no control. In recent years, consumer spending levels have been affected to varying degrees by a number of factors, including modest economic growth, uncertainty regarding governmental spending and tax policies, unemployment levels, tightened consumer credit, an improving housing market and a fluctuating stock market. In addition, consumer spending levels of international customers are impacted by the strength of the U.S. dollar relative to foreign currencies. These factors have affected to varying degrees the amount of funds that consumers are willing and able to spend for discretionary purchases, including purchases of some of the merchandise offered by the Company. All economic conditions ultimately affect the Company's overall operations. However, the effects of economic conditions can be experienced differently and at different times, in the various geographic regions in which the Company operates, in relation to the different types of merchandise that the Company offers for sale, or in relation to each of the Company's branded operations.

2015 Overview

This was a challenging year, following six consecutive years of improved financial performance. However, against the backdrop of a challenging macroeconomic environment, unfavorable weather and weaker international tourist sales, the Company continued to see a benefit from the disciplined implementation of its strategies.

Selected results of 2015 include:

• Comparable sales on an owned basis decreased 3.0% and comparable sales on an owned plus licensed basis decreased 2.5%.

• Operating income for 2015 was \$2.327 billion or 8.6% of sales, excluding impairments, store closing and other costs, a decrease of 19% and 170 basis points as a percent of sales from 2014 on a comparable basis.

• Diluted earnings per share attributable to Macy's, Inc. shareholders, excluding certain items, declined 14% to \$3.77 in 2015 from \$4.40 in 2014.

• Adjusted EBITDA (earnings before interest, taxes, depreciation and amortization, impairments, store closing and other costs) as a percent to net sales was 12.5% in 2015, as compared to 14.0% in 2014.

• Return on invested capital ("ROIC"), a key measure of operating productivity, was 20.1%, a decrease from 22.4% in 2014.

The Company repurchased 34.8 million shares of its common stock for \$2,000 million in 2015, and increased its annualized dividend rate to \$1.44 per share. This annualized dividend rate represents an increase of 15% and is the fifth increase in the dividend in the past four years.

See pages 18 to 21 for reconciliations of the non-GAAP financial measures presented above to the most comparable GAAP financial measures and other important information.

Important Information Regarding Non-GAAP Financial Measures

The Company reports its financial results in accordance with generally accepted accounting principles ("GAAP"). However, management believes that certain non-GAAP financial measures provide users of the Company's financial information with additional useful information in evaluating operating performance. Management believes that providing changes in comparable sales on an owned plus licensed basis, which includes the impact of growth in comparable sales of departments licensed to third parties supplementally to its results of operations calculated in accordance with GAAP assists in evaluating the Company's ability to generate sales growth, whether through owned businesses or departments licensed to third parties, on a comparable basis, and in evaluating the impact of changes in the manner in which certain departments are operated. Management believes that excluding certain items that may vary substantially in frequency and magnitude from diluted earnings per share attributable to Macy's, Inc. shareholders and from operating income and EBITDA as percentages to sales are 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 EBITDA 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.

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 and cash flows and should therefore be considered in assessing the Company's actual 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.

Change in Comparable Sales

The following is a tabular reconciliation of the non-GAAP financial measure of changes in comparable sales on an owned plus licensed basis, to GAAP comparable sales (i.e., on an owned basis), which the Company believes to be the most directly comparable GAAP financial measure.

	2015	2014	2013	2012	2011
Increase (decrease) in comparable sales on an owned basis (note 1)	(3.0)%	0.7%	1.9%	3.7%	5.3%
Impact of growth in comparable sales of departments licensed to third parties (note 2)	0.5%	0.7%	0.9%	0.3%	0.4%
Increase (decrease) in comparable sales on an owned plus licensed basis	(2.5)%	1.4%	2.8%	4.0%	5.7%

Notes:

Represents the period-to-period percentage change in net sales from stores in operation throughout the year presented and the immediately preceding year and all online sales, adjusting for the 53rd week in 2012, excluding (1) commissions from departments licensed to third parties. Stores undergoing remodeling, expansion or relocation remain in the comparable sales calculation unless the store is closed for a significant period of time. Definitions and calculations of comparable sales differ among companies in the retail industry.

(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 2012, in the calculation. The Company licenses third parties to operate certain departments in its stores and online and receives commissions from these third parties based on a percentage of their net sales. In its financial

statements prepared in conformity with GAAP, the Company includes these commissions (rather than sales of the departments licensed to third parties) in its net sales. The Company does not, however, include any amounts in respect of licensed department sales (or any commissions earned on such sales) in its comparable sales in accordance with GAAP (i.e., on an owned basis). The Company believes that the amounts of commissions earned on sales of departments licensed to third parties are not material to its results of operations for the periods presented.

Operating Income, Excluding Certain Items, as a Percent to Net Sales

The following is a tabular reconciliation of the non-GAAP financial measure operating income, excluding certain items, as a percent to net sales to GAAP operating income as a percent to net sales, which the Company believes to be the most directly comparable GAAP financial measure.

	2015	2014	2013	2012	2011
	(millions, except percentages)				
Net sales	\$27,079	\$28,105	\$27,931	\$27,686	\$26,405
Operating income	\$2,039	\$2,800	\$2,678	\$2,661	\$2,411
Operating income as a percent to net sales	7.5	% 10.0	% 9.6	% 9.6	% 9.1
Operating income	\$2,039	\$2,800	\$2,678	\$2,661	\$2,411
Add back (deduct) impairments, store closing and other costs and gain on sale of leases	288	87	88	5	(25)
Operating income, excluding certain items	\$2,327	\$2,887	\$2,766	\$2,666	\$2,386
Operating income, excluding certain items, as a percent to net sales	8.6	% 10.3	% 9.9	% 9.6	% 9.0

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

The following is a tabular reconciliation of the non-GAAP financial measure 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.

	2015	2014	2013	2012	2011
Diluted earnings per share attributable to Macy's, Inc. shareholders	\$3.22	\$4.22	\$3.86	\$3.24	\$2.92
Add back the impact of impairments, store closing and other costs	0.55	0.15	0.14	0.01	0.04
Add back the impact of premium on early retirement of debt	—	0.03	—	0.21	—
Deduct the impact of gain on sale of leases	—	—	—	—	(0.08)
Diluted earnings per share attributable to Macy's, Inc. shareholders, excluding the impact of impairments, store closing and other costs, premium on early retirement of debt and gain on sale of leases	\$3.77	\$4.40	\$4.00	\$3.46	\$2.88

Adjusted EBITDA as a Percent to Net Sales

The following is a tabular reconciliation of the non-GAAP financial measure earnings before interest, taxes, depreciation and amortization ("EBITDA"), as adjusted to exclude premium on early retirement of debt, impairments, store closing and other costs and gain on sales of leases ("Adjusted EBITDA"), as a percent to net sales to GAAP net income as a percent to net sales, which the Company believes to be the most directly comparable GAAP financial measure.

	2015	2014	2013	2012	2011
	(millions, except percentages)				
Net sales	\$27,079	\$28,105	\$27,931	\$27,686	\$26,405
Net income	\$1,070	\$1,526	\$1,486	\$1,335	\$1,256
Net income as a percent to net sales	4.0	% 5.4	% 5.3	% 4.8	% 4.8
Net income	\$1,070	\$1,526	\$1,486	\$1,335	\$1,256
Add back interest expense - net	361	393	388	422	443
Add back premium on early retirement of debt	—	17	—	137	—
Add back federal, state and local income tax expense	608	864	804	767	712
Add back (deduct) impairments, store closing and other costs and gain on sale of leases	288	87	88	5	(25)
Add back depreciation and amortization	1,061	1,036	1,020	1,049	1,085
Adjusted EBITDA	\$3,388	\$3,923	\$3,786	\$3,715	\$3,471
Adjusted EBITDA as a percent to net sales	12.5	% 14.0	% 13.6	% 13.4	% 13.1

ROIC

The Company defines ROIC as adjusted operating income 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. Certain reclassifications have been made to 2015 amounts to conform to the balance sheet classifications of such amounts as of the end of 2015. Prior years have not been reclassified and are presented as previously reported.

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

	2015	2014	2013	2012	2011
	(millions, except percentages)				
Operating income	\$2,039	\$2,800	\$2,678	\$2,661	\$2,411
Property and equipment - net	\$7,708	\$7,865	\$8,063	\$8,308	\$8,617
Operating income as a percent to property and equipment - net	26.5	% 35.6	% 33.2	% 32.0	% 28.0
Operating income	\$2,039	\$2,800	\$2,678	\$2,661	\$2,411
Add back (deduct) impairments, store closing and other costs and gain on sale of leases	288	87	88	5	(25)
Add back depreciation and amortization	1,061	1,036	1,020	1,049	1,085
Add back rent expense, net					
Real estate	301	279	268	258	243
Personal property	12	12	11	11	10
Deferred rent amortization	8	7	8	7	8
Adjusted operating income	\$3,709	\$4,221	\$4,073	\$3,991	\$3,732
Property and equipment - net	\$7,708	\$7,865	\$8,063	\$8,308	\$8,617
Add back accumulated depreciation and amortization	5,457	5,830	6,007	5,967	6,018
Add capitalized value of non-capitalized leases	2,568	2,384	2,296	2,208	2,088
Add (deduct) other selected assets and liabilities:					
Receivables	338	336	339	322	294
Merchandise inventories	6,226	6,155	6,065	5,754	5,596
Prepaid expenses and other current assets	453	443	398	390	409
Other assets	775	784	659	579	528
Merchandise accounts payable	(2,366)	(2,472)	(2,520)	(2,362)	(2,314)
Accounts payable and accrued liabilities	(2,677)	(2,511)	(2,328)	(2,333)	(2,309)
Total average invested capital	\$18,482	\$18,814	\$18,979	\$18,833	\$18,927
ROIC	20.1	% 22.4	% 21.5	% 21.2	% 19.7

Results of Operations

	2015		2014		2013	
	Amount	% to Sales	Amount	% to Sales	Amount	% to Sales
	(dollars in millions, except per share figures)					
Net sales	\$27,079					