Starboard Value®

Unlocking Value at Macy's

January 11, 2016

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I. Executive Summary

Executive summary

Macy's Inc. ("Macy's" or the "Company") has an opportunity to unlock value for the benefit of all shareholders.

- We believe Macy's owned real estate is extremely valuable and these real estate assets are underappreciated by the market.
  - We believe the market does not give Macy's credit for its valuable real estate in its share price.
- **We estimate the real estate assets are worth $21 billion (in excess of the Company's current enterprise value).**
  - With the real estate market near all-time highs, **now is the time to separate Macy's real estate assets and create value for shareholders.**
- Macy's can take immediate action to unlock this value while reducing risk:
  - **Maintain control of its properties**;
  - **Maintain almost all of its current cash flow** at the Macy's operating company ("OpCo") or parent level;
  - **Maintain its investment grade rating**; and
  - **Leave the OpCo net debt free**, if the Company so chooses.
- To supplement our own research, we retained the leading independent research firm specializing in real estate valuations, as well as experts in retail operations, corporate restructurings, and debt and transaction structuring.

This presentation outlines the plan that we believe Macy's should follow to create value for shareholders.

Source: Company filings and Starboard Value estimates.

Executive summary (cont'd)

We believe Macy's can unlock tremendous value and remain investment grade by pursuing a Joint Venture ("JV") transaction (or series of transactions) similar to the scenario outlined in this presentation.

- Macy's should split its real estate assets into two (or more) JVs in order to attract the appropriate partners who will pay the most for different types of assets.
  - We believe it is most logical for Macy's to immediately drop down Macy's iconic stores[1] and the substantial majority of its mall stores into two separate JVs (estimated combined value of $16.5 billion[2]). Macy's could partner with different parties for each JV, maximizing the value of each JV, as certain parties may be willing to pay more for iconic urban properties versus mall stores, or vice versa.
- In addition to unlocking real estate value, we believe there is an opportunity to **further improve margins in Macy's core retail business** and to highlight the highly valuable cash flow stream from Macy's credit card earnings.
- **We believe shareholders want Macy's to separate or monetize its highly valuable real estate portfolio, and this plan is an intelligent and prudent way to accomplish that goal.**
- This plan will allow Macy's to unlock value from the real estate while maintaining a highly conservative capital structure.

By following this plan, we believe Macy's has the opportunity to create significant value for shareholders and massively improve its share price to approximately $70 per share (before value creation from further improved operations and credit card earnings), while maintaining its cash flow and real estate flexibility and reducing risk.

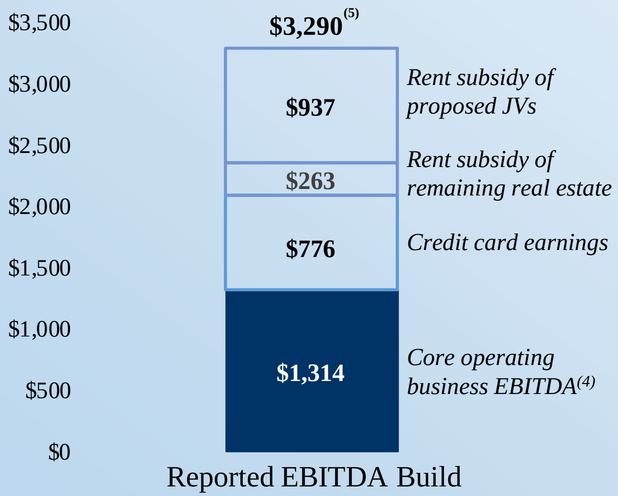
Source: Company filings and Starboard Value estimates.
(1) Includes Herald Square, Union Square, State Street, and Downtown Minneapolis.
(2) Does not include owned "C" mall based locations, distribution centers, ground leased mall locations, or highly valuable leases.

On a sum-of-the-parts basis, Macy’s represents a compelling value story

Adjusted for Macy’s real estate value, the core Macy’s operating business is currently trading for free. Adjusted for the credit card earnings, Macy’s core operating business is trading for ($10 billion).

We believe Macy’s has a great core business with long-term fundamentals that are in-line or better than peers

Macy’s 2016E adjusted EBITDA



Implied value for Macy’s core operating business

Current enterprise value	$18,873 [1]
(-) Real estate value	($20,742) [2]
Implied value for Macy's OpCo	**($1,869)**
(-) Credit card earnings value	($8,536) [3]
Implied value for Macy's core retail operating business	**($10,405)**

Macy’s has a tremendous opportunity to unlock value for the benefit of all shareholders.

Source: Company filings, Bloomberg, and Starboard Value estimates.
Note: Note that while a few peers do own some real estate and have credit card earnings, Macy’s has by far the largest real estate portfolio and credit card earnings as a percentage of its total enterprise value.
(1) As of January 8, 2016.
(2) Value ascribed to Macy’s real estate portfolio by a property by property valuation analysis.
(3) Assumes $776 million of annual credit card earnings valued at an 11x multiple.
(4) Adjusted for additional rent expense and credit card earnings, per the chart on the left.
(5) Consensus 2016E EBITDA based on estimate released subsequent to Macy’s January 6, 2016 press releases.

We believe Macy's real estate is highly valuable and this value can be unlocked through a separation

- Our extensive research indicates that:

1. Macy's real estate is worth approximately $21 billion, and possibly far more.

2. Separating the real estate portfolio could create $10 billion of shareholder value.

3. There are numerous ways to structure a real estate separation to allow Macy's to keep its investment grade rating and even eliminate all of its net debt on the operating company, if Macy's so chooses.

4. In the proposed JV structures, Macy's can retain approximately 95% of its current cash flow by distributing its proportion of cash flows from the JV(s) to Macy's OpCo for any period it feels it is necessary to do so.

5. A real estate separation can be structured to allow Macy's to maintain significant flexibility, including control over remodels and rebranding, while maintaining minimal risk of getting "stuck" in underperforming stores.

6. Separating the real estate could create two or more leading entities with highly attractive growth and investment opportunities for years to come.

7. A real estate separation will enable Macy's to maintain its current dividend, to buy back stock, and to pay down significant debt.

Although we believe there are a number of attractive alternatives for Macy's to create substantial value for shareholders and remain investment grade, we believe the most prudent first step is to create multiple JVs for the majority of Macy's real estate.

Source: Company filings and Starboard Value estimates.

Macy’s has the largest and most valuable real estate portfolio in the department store space

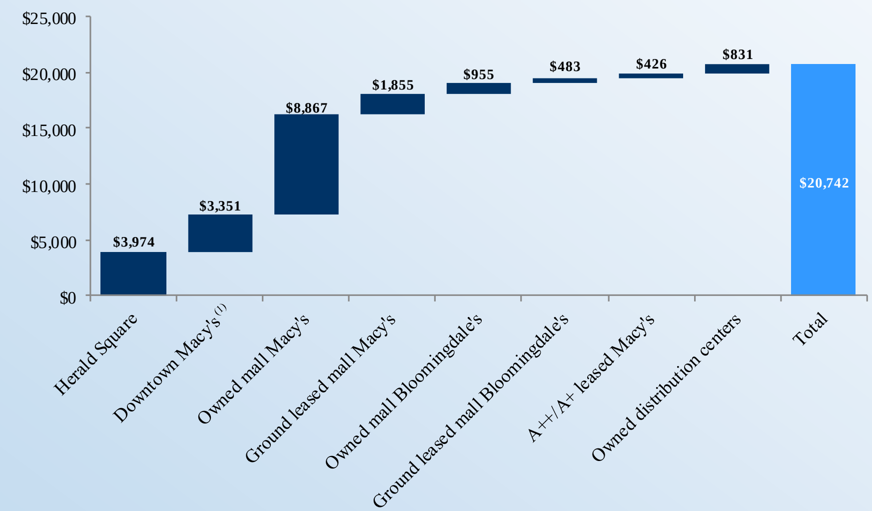
We believe Macy’s real estate is worth $21 billion. Along with a leading third party real estate valuation and advisory firm, we used a highly detailed property-by-property valuation methodology and conservative assumptions.

Properties	# of locations	Square feet	Net rent / square foot	Value	Value / square foot
Herald Square	1	2,172,000	$76	$3,973,807,895	$1,830
Downtown Macy's	7	6,341,500	$27	$3,351,010,105	$529
Owned mall Macy's	407	75,893,000	$8	$8,866,617,228	$117
Ground leased mall Macy's	95	17,534,000	$7	$1,854,737,438	$106
Owned mall Bloomingdale's	14	3,285,000	$17	$954,625,794	$291
Ground leased mall Bloomingdale's	10	2,051,000	$17	$483,082,310	$236
A++/A+ leased Macy's	14	3,551,000	$14	$426,301,916	$120
Owned distribution centers	17	14,144,000	$4	$831,357,000	$59
Total	**565**	**124,971,500**	**$10**	**$20,741,539,686**	**$166**

Macy's store summary	
Store count	730
Owned stores	415
Leased	220
Ground leased	95
Total square feet	134,544,000
Owned square feet	84,406,500
Ground leased square feet	17,534,000

Bloomingdale's store summary	
Store count	37
Owned stores	14
Leased	13
Ground leased	10
Total square feet	8,312,000
Owned square feet	3,285,000
Ground leased square feet	2,051,000

Real estate valuation build



Macy’s real estate portfolio represents more than 100% of Macy’s enterprise value.

Source: Company filings and Starboard Value estimates.
Note: Excludes store closures announced on January 6, 2016.
(1) Downtown Macy’s includes iconic Macy’s assets excluding Herald Square. Includes Starboard Value estimate for four floors of Brooklyn store and five floors of Seattle store that Macy’s still owns.

Macy's has the largest and most valuable real estate portfolio in the department store space (cont'd)

The total value of Macy's owned and ground leased stores is estimated to be $11 billion, with the owned stores estimated to be $8.9 billion and the ground leased stores $1.9 billion.

Owned Macy's Valuation Summary							
Asset quality	Owned stores	Owned square feet	Net rent / square foot estimate	NOI	Cap rate	Owned value	Value per square foot
A++	12	3,978,000	$15	$59,670,000	5.8%	$1,028,793,103	$259
A+	30	6,139,000	$14	$85,946,000	5.9%	$1,456,711,864	$237
A	60	12,565,000	$12	$150,780,000	6.2%	$2,426,498,361	$193
A-	47	9,080,000	$9	$81,720,000	6.5%	$1,258,571,429	$139
B+	63	10,868,000	$8	$88,248,000	7.2%	$1,232,897,209	$113
B	57	8,831,000	$6	$50,675,000	8.3%	$609,774,907	$69
B-	31	5,759,000	$4	$22,472,000	9.2%	$242,993,760	$42
C+	36	5,982,000	$2	$14,366,000	15.6%	$92,185,722	$15
C	18	3,107,000	$2	$5,488,000	17.6%	$31,215,873	$10
C-	9	1,631,000	$0	$0	0.0%	$0	$0
D	2	469,000	$0	$0	0.0%	$0	$0
Not rates	5	991,000	$0	$0	0.0%	$0	$0
Non-mall DB	37	6,493,000	$6	$39,618,567	8.1%	$486,975,000	$75
Total	**407**	**75,893,000**	**$8**	**$598,983,567**	**6.8%**	**$8,866,617,228**	**$117**

Ground Leased Macy's Valuation Summary							
Asset quality	Ground leased stores	Ground leased square feet	Net rent / square foot estimate	NOI	Cap rate	Ground leased value	Value per square foot
A++	13	2,826,000	$12	$33,912,000	6.0%	$560,528,926	$198
A+	7	1,933,000	$11	$21,828,000	6.2%	$354,297,967	$183
A	8	1,721,000	$10	$17,210,000	6.6%	$262,650,784	$153
A-	12	2,167,000	$7	$15,169,000	6.7%	$227,875,573	$105
B+	12	2,221,000	$6	$13,326,000	7.6%	$175,491,818	$79
B	12	2,227,000	$4	$8,908,000	8.3%	$107,785,366	$48
B-	6	935,000	$2	$1,870,000	10.3%	$18,090,722	$19
C+	2	350,000	$1	$350,000	12.9%	$2,713,178	$8
C	2	234,000	$0	$82,000	5.0%	$1,653,104	$7
C-	3	387,000	$0	$0	0.0%	$0	$0
Not rates	2	323,000	$0	$0	0.0%	$0	$0
Non-mall DB	16	2,210,000	$5	$11,872,059	8.3%	$143,650,000	$65
Total	**95**	**17,534,000**	**$7**	**$124,527,059**	**6.7%**	**$1,854,737,438**	**$106**

The vast majority of the value creation potential comes from the B or better mall stores; no value is attributed to C- or below malls.

Source: Company filings and Starboard Value estimates.
Note: Excludes store closures announced on January 6, 2016.

Macy's has the largest and most valuable real estate portfolio in the department store space (cont'd)

The total value of Bloomingdale's owned and ground leased stores was estimated to be $1.4 billion, with the owned stores estimated to be around $955 million and the ground leased stores $483 million.

Owned Bloomingdale's Valuation Summary

Asset quality	Owned stores	Owned square feet	Net rent / square foot estimate	NOI	Cap rate	Owned value	Value per square foot
A++	6	1,381,000	$18	$24,858,000	5.8%	$428,585,207	$310
A+	4	877,000	$17	$14,909,000	5.9%	$252,694,915	$288
A	2	468,000	$16	$7,488,000	6.3%	$119,619,672	$256
Non-mall DB	2	559,000	$16	$9,684,675	6.3%	$153,725,000	$275
Owned total	**14**	**3,285,000**	**$17**	**$56,939,675**	**6.0%**	**$954,624,794**	**$291**

Ground Leased Bloomingdale's Valuation Summary

Asset quality	Ground leased stores	Ground leased square feet	Net rent / square foot estimate	NOI	Cap rate	Ground leased value	Value per square foot
A++	5	1,020,000	$18	$15,300,000	6.0%	$255,000,000	$250
A+	3	695,000	$17	$9,730,000	6.1%	$159,135,514	$229
A	1	206,000	$16	$2,884,000	6.2%	$46,196,796	$224
Non-mall DB	1	130,000	$16	$2,275,000	10.0%	$22,750,000	$175
Owned total	**10**	**2,051,000**	**$17**	**$30,189,000**	**6.2%**	**$483,082,310**	**$236**

We believe Bloomingdale's owned real estate is worth approximately $1.4 billion.

Source: Company filings and Starboard Value estimates.

II. Potential structure for Macy's highly valuable real estate

JV(s) with reputable real estate firm(s)

Similar to the Hudson's Bay / Simon and RioCan transactions, we believe Macy's can use a JV structure to realize the embedded value of its real estate assets.

- Such a transaction, or series of transactions, will serve to:

1. **Highlight the value of Macy's real estate** by providing a valuation marker from a highly respected real estate firm that is willing to invest substantial capital at that valuation.

2. **Provide Macy's with cash at a highly attractive valuation** (akin to an equity raise at a massive premium[1]) that can be used to pay down debt, repurchase shares, or invest in a variety of growth initiatives.

3. **Reduce risk at the OpCo, as Macy's would have the ability to pay down ALL of its net debt at the parent or OpCo level, if it so chooses, and retain access to approximately 95% of the cash flow Macy's generated prior to the JV transaction(s)[2].**

4. **Retain control** over property decisions, including remodels, rebranding, etc.

5. Create **a leading real estate vehicle(s)** that is poised to grow and diversify over time.

6. Create flexibility for a full or potential separation in the future when Macy's is comfortable.

A JV structure will provide Macy's with significant financial and operational flexibility, future optionality, and substantial ongoing free cash flow for Macy's OpCo.

Source: Company filings and Starboard Value estimates.
(1) Macy's would effectively be selling cash flows at an estimated 15x EBITDA multiple, whereas that same earnings stream currently trades at approximately 5.75x under Macy's current corporate structure.
(2) Assumes the JV(s) distributes its cash flow up to Macy's and the JV partner(s).

We believe a separation of Macy's most valuable real estate into two separate JVs is most prudent

While the exact properties that are placed in the JVs will depend on what certain partners are willing to pay for each type of asset, we believe it makes sense for Macy's to initially create two separate JVs, one for its iconic stores and one for its mall locations.

- The majority of the potential value creation comes from Macy's highest quality locations – its iconic stores[1] and its best mall locations.
- We believe that separating Macy's iconic properties and mall store locations into two separate JVs will allow Macy's to attract the most motivated partners for each type of real estate asset.
- **Therefore, we recommend that as a first step Macy's immediately pursue plans to create two JVs: one for its iconic properties[1] and one for its mall locations.**
  - We believe Macy's will be worth approximately $70 per share after this initial step.
- As a second step, Macy's should begin exploring alternatives, including JVs, for its remaining $4 billion of real estate, which includes its owned mall stores in "C" locations, Portland, Brooklyn, Seattle, ground leased mall locations, and its owned distribution centers.
  - Brooklyn and Seattle are currently undergoing redevelopment that we believe will make them substantially more valuable over the next few years, and can be placed into a JV or otherwise monetized in the future.

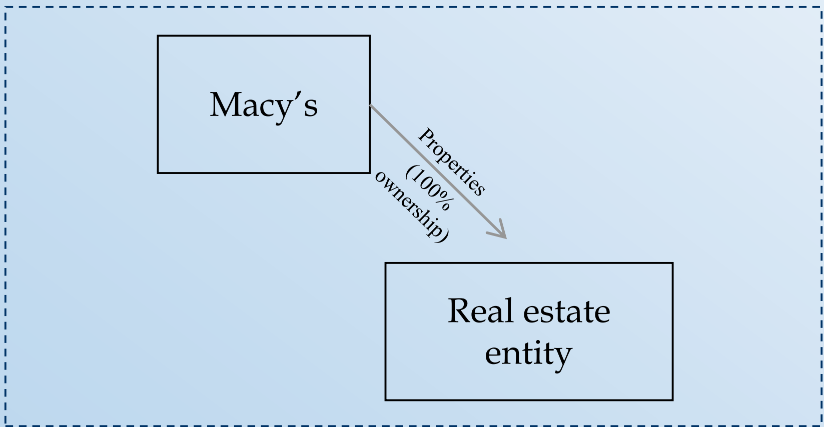
We believe Macy's will be worth approximately $70 per share following the creation of the two JVs (this is before value creation from additional real estate monetization, further improved operations, and credit card earnings).

Source: Company filings and Starboard Value estimates.
(1) Includes Herald Square, Union Square, State Street, and Downtown Minneapolis.

JV structure with the substantial majority of Macy's real estate assets

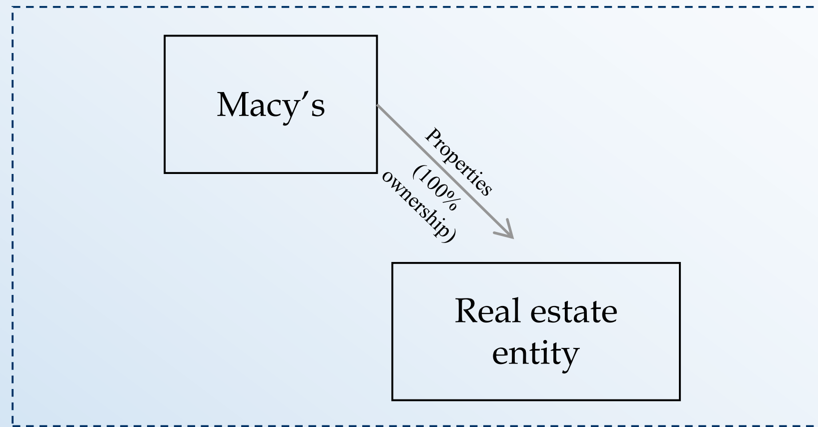
1 **Drop down Macy's iconic stores[1] and its mall store locations into two separate entities (estimated combined value of $16.5 billion[2]).**

Iconic properties JV[1]



Entity holds approximately $6.8 billion worth of real estate assets

Mall properties JV



Entity holds approximately $9.7 billion worth of real estate assets

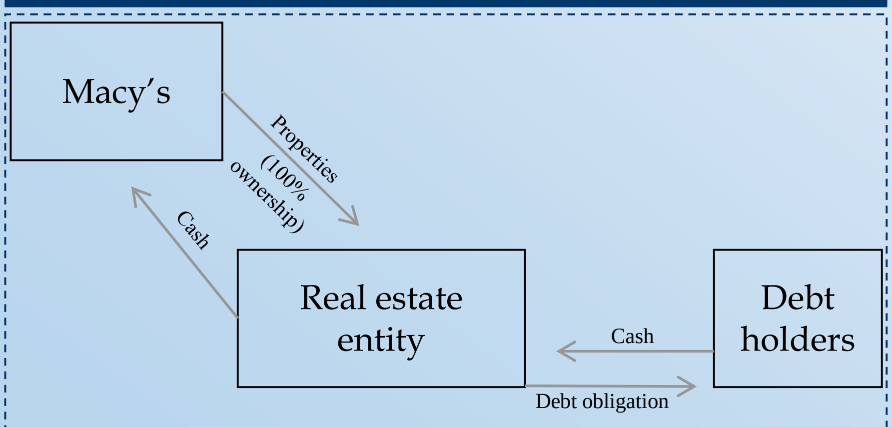
Source: Company filings and Starboard Value estimates.
(1) Includes Herald Square, Union Square, State Street, and Downtown Minneapolis.
(2) Does not include "C" mall based locations, distribution centers, ground leased mall locations, or highly valuable leases.

JV structure with the substantial majority of Macy's real estate assets (cont'd)

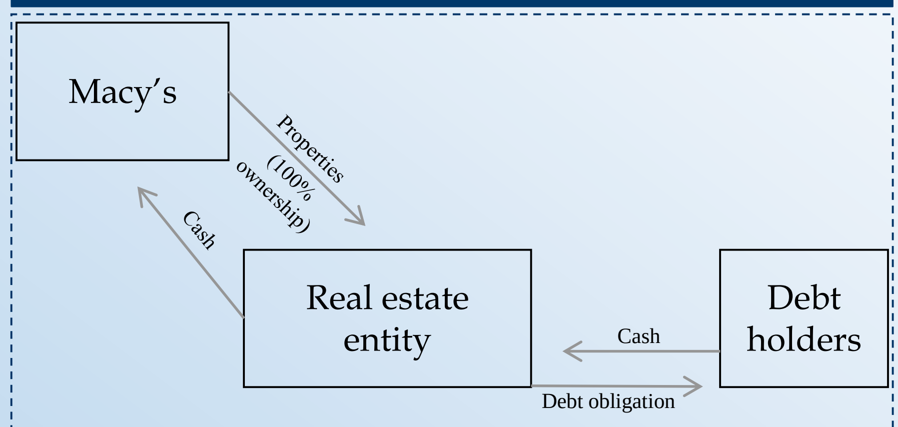
2 Raise debt at the entity or asset level and distribute the cash to Macy's.

- Real estate entities can generally support substantial leverage (peer REITs typically have 4.5x to 7.0x net debt / EBITDA).
  - This allows the real estate entities to raise up to approximately $8 billion in combined debt, which enables Macy's, if it so desires, to immediately pay down most or all of the debt at the Macy's parent or OpCo level.
  - Excess proceeds can be used to invest in higher growth opportunities for the OpCo or repurchase Macy's shares.
- In this illustration, we assume the JV takes on initial leverage of 5.8x net debt / EBITDA, or $6.9 billion(1), which enables Macy's to repay debt at the parent-level in order to achieve a target leverage ratio of 3.5x Adjusted Debt / EBITDAR at the OpCo as if it were a standalone entity (i.e., before the benefit of distributions from the JV up to the parent).
  - We target 3.5x because, based on Moody's criteria, we believe the OpCo will be able to remain investment grade. However, if Macy's chooses, it can easily attain its current publicly stated 2.8x target ratio over time by distributing the JVs cash flow back to Macy's OpCo, without impacting valuation.

Iconic properties JV(2)



Mall properties JV

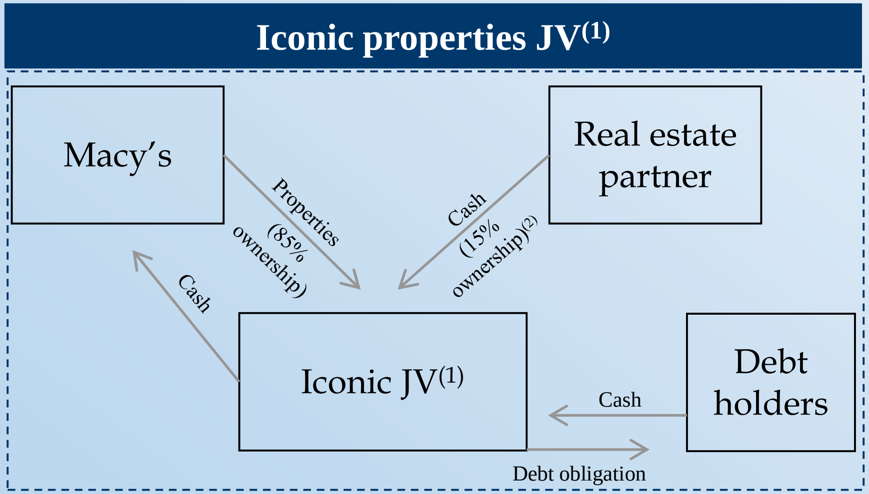


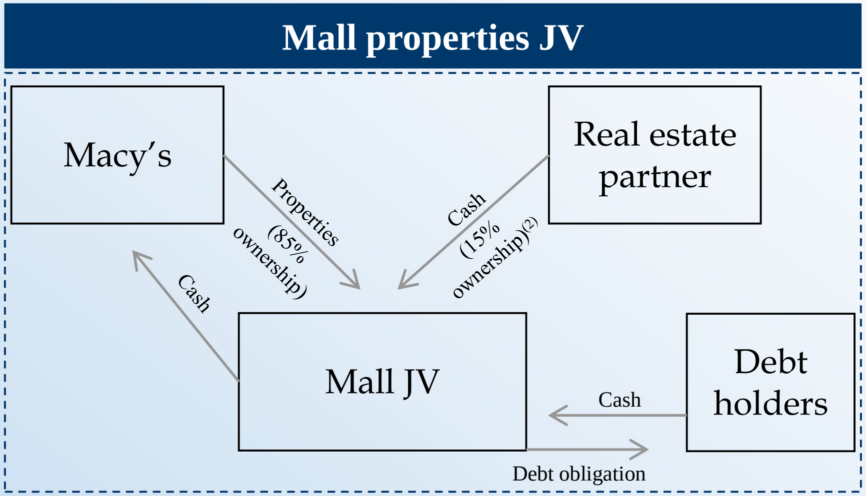
Source: Company filings and Starboard Value estimates.
(1) Net debt includes $691 million of cash raised from the partner's cash contributed at the iconic properties JV and $990 million of cash raised from the partner's cash contributed at the mall properties JV.
(2) Includes Herald Square, Union Square, State Street, and Downtown Minneapolis.

JV structure with the substantial majority of Macy's real estate assets (cont'd)

3 Sell a portion of each entity to real estate partners.

- A real estate partner contributes cash in exchange for a stake in each JV (a 15% stake in this illustration)(2).
  - Macy's could partner with different parties for each JV, therefore maximizing the value of each JV, as certain parties may be willing to pay more for the iconic properties versus the mall locations, or vice versa.
- We assume the cash contributed to the JV by the real estate partners stays at the JV level to fund growth.





Real estate partners contribute combined $1.7 billion for 15% stakes in each JV

Source: Company filings and Starboard Value estimates.
(1) Includes Herald Square, Union Square, State Street, and Downtown Minneapolis.
(2) We are assuming in our proposal that Macy's sells 15% of its JV ownership; in order to retain the option of eventually spinning off the JV in a tax-free nature, Macy's must retain over 80% ownership.

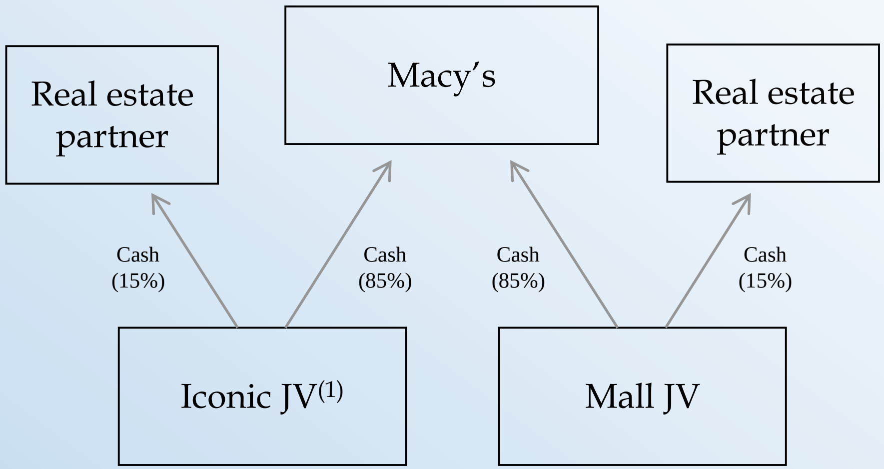
JV structure with the substantial majority of Macy's real estate assets (cont'd)

4 If desired, the JVs can distribute Macy's portion of the JVs' cash flow back to Macy's.

- This structure allows for the JVs to distribute their cash flow such that the percentage of the free cash flow associated with Macy's ownership would go back to the OpCo.
  - Although, in realistic scenarios, the cash flow from Macy's OpCo alone will be more than sufficient to fund Macy's cash needs, Macy's can feel extra safe knowing that it can receive distributions of 85% of the JV's cash flows, giving it access to virtually all of the cash outflows it has from the additional rent burden.
  - Therefore, as shown on the next slide, Macy's available cash flow profile is materially the same as it is today.

Real estate JVs	
Rent	$937
EBITDA margin	*97.5%*
EBITDA	$914
(-) Interest	($278)
FFO	$636
Macy's ownership	*85.0%*
Potential distributions to Macy's	$541
Taxes on Macy's share of JV earnings	($132)
Net cash flow to Macy's	**$409**

In this scenario, Macy's would receive approximately $409 million of cash flow through distributions from the JVs



Source: Company filings and Starboard Value estimates.

Macy's can maintain a healthy cash flow profile after the JV transactions

Pursuing these two JVs will allow Macy's to maintain 95% of its current cash flow through distributions from the JVs.

- Macy's can choose to have the JVs either (i) distribute its cash flow back to Macy's and its real estate partner, or (ii) retain the cash flow at the JV level to grow and diversify its real estate holdings (increasing future cash flow).

Cash flow profile of pro forma Macy's

	Before JVs	After JVs
Consensus 2016E free cash flow[1]	$1,264	$1,264
(-) Additional rent expense	–	($937)
(+) Reduced interest expense[2]	–	$346
(+/-) Changes in taxes at OpCo level[3]	–	$140
Pro forma OpCo free cash flow	$1,264	$813
(+) Potential distribution from JVs (net of taxes)	–	$409
Total free cash flow available to Macy's	**$1,264**	**$1,221**
(-) Dividends[4]	($453)	($453)
Free cash flow after dividends	$812	$769

Rent	$937
EBITDA margin	*97.5%*
EBITDA	$914
(-) Interest	($278)
FFO	$636
Macy's ownership	*85.0%*
Potential distributions to Macy's	$541
Taxes on Macy's share of JV earnings	($132)
Net cash flow to Macy's	**$409**

Macy's OpCo can maintain 95% of its free cash flow

Putting $937 million of rent and $16.5 billion of value into JVs results in a mere $43 million reduction in available cash flow to Macy's, while raising $1.7 billion[5] in growth capital from the JV partner and creating $10 billion in value.

Source: Company filings, Starboard Value estimates, and Bloomberg.
(1) Consensus 2016E free cash flow. Includes estimates released after Macy's January 6, 2016 press releases.
(2) Assumes Macy's pays down $6.5 billion of debt at Macy's OpCo.
(3) Results from additional $937 million in rent, partially offset by reduced interest expense and D&A.
(4) Based on current share count. As Macy's repurchases stock in connection with this transaction, or separately, this will reduce the total dollar amount of dividend payments or allow Macy's to raise the per share dividend while keeping the dollar amount constant.
(5) See page 22 for additional details.

Macy's is able to pay down its net debt balance at the operating company through the cash raised at the JV level

As shown below, Macy's can pay down most or all of its net debt to completely alleviate any leverage concerns at the OpCo.

- Under our proposed structure, Macy's would be able to repurchase approximately $370 million worth of stock. However, Macy's could, if it so chooses, use that cash to leave itself approximately net debt free at the OpCo level.

Illustrative leverage profile of pro forma Macy's

Pro forma debt

	Before JVs	After JVs
Macy's beginning debt [(1)]	$7,963	$7,963
Cash used to pay down debt	–	($6,530)
Pro forma debt	$7,963	$1,433

Macy's has an ability to pay down most of its debt and still maintain a $1 billion cash balance

Pro forma cash

	Before JVs	After JVs
Macy's cash, balance as of 1/31/2016 [(2)]	$1,343	$1,343
Cash generated from JV	–	$6,946 [(3)]
Cash used for share repurchases	–	($367)[(4)]
Cash used to pay down debt	–	($6,530)
Cash used for transaction costs and debt breakage	–	($392)
Pro forma cash	$1,343	$1,000

	Before JVs	After JVs
Net debt	**$6,620**	**$433**

Source: Company filings, Bloomberg, and Starboard Value estimates.
(1) Excludes $500 million from notes raised on December 10, 2015.
(2) Assumes current cash balance as of October 31, 2015 ($474 million), plus consensus cash flow generation from Q4 2015 of $813 million less a $0.34 dividend. Excludes $500 million from notes raised on December 10, 2015.
(3) Assumes JVs raise debt to target conservative net debt / EBITDA of 5.8x. If the JVs take on a more aggressive 7x net debt / EBITDA ratio, that would provide Macy's with an additional $1.7 billion of cash for additional share repurchases.
(4) Assumes average price of $45.00 for buybacks.

Macy’s is able to pay down its net debt balance at the operating company through the cash raised at the JV level (cont’d)

- Although Macy’s would still have access to approximately $409 million of additional annual cash flow from the JVs’ distributions, we feel it is prudent for Macy’s to structure the OpCo so that it could stand on its own. We believe this structure will ensure that shareholders give Macy’s credit for the transaction, and Macy’s is ready to go to step two[1] when it is comfortable.
- We assume that Macy’s pays down enough debt to achieve 3.5x Adjusted Debt / EBITDAR and maintains a $1 billion cash balance.

While rating agencies calculate synthetic “Adjusted Debt” from capitalizing rents, it is not funded debt with maturities, and therefore, we believe this capital structure has less real risk for Macy’s than the current capital structure.

Credit ratings depend on a number of qualitative and quantitative factors; however, in general Moody’s recommends retailers stay below 3.5x Adjusted Debt / EBITDAR to achieve an investment grade rating.

Adjusted Debt / EBITDAR	After JVs
Debt	$1,433
NTM Rent	$1,200
Multiplier	*9.3x*
Adjusted debt	$12,594
NTM EBITDA[2]	$2,403
NTM Rent	$1,200
EBITDAR	$3,603
Adjusted Debt / EBITDAR	***3.5x***
Total debt	$1,433
Cash	$1,367
(-) Share repurchases	($367)
Proforma cash	$1,000
Net debt	$433

Note: We target 3.5x Adjusted Debt / EBITDAR because, based on Moody’s criteria, we believe the OpCo will be able to remain investment grade. However, Macy’s can easily attain its current publicly stated 2.8x target ratio over time by distributing the JVs earnings back to Macy’s OpCo, without impacting valuation.

Source: Company filings and Starboard Value estimates.
Note: While “synthetic” debt attributed to Macy’s by applying a multiplier to leases does represent a real fixed cost, and it must be considered when thinking about the long-term risks to the business, the difference in legal status and financial risk between an operating lease and funded debt, with a large bullet payment required on a specific date, is substantial.
(1) Step two represents a transaction where, once the Company is comfortable with the retail environment and its recurring cash flow profile before distributions from the JV, Macy’s can pursue a further separation of its JV stake.
(2) Estimated 2017E EBITDA based on consensus 2016E EBITDA less additional rent from JV transactions, plus $50 million of additional SG&A savings in 2017.

Snapshot of the value of Macy's OpCo

Macy's is able to maintain healthy EBITDA while paying down most of its debt after the JV transactions.

Macy's OpCo	
Consensus 2016E EBITDA[1]	$3,290
(-) Additional rent expense	($937)
Pro forma EBITDA	**$2,353**
Multiple[2]	*5.75x*
Enterprise value	$13,530
(-) Net debt	($433)
Equity value	$13,097
Value per share of Macy's OpCo	**$42.77**

85% of the cash flow generated from the JVs' rent can be distributed back to Macy's OpCo, if desired or needed

Assumes Macy's credit card earnings are valued in-line with Macy's operating business, despite being a higher ROI, less volatile earnings stream

Pro forma cash

	Before JVs	After JVs
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Pro forma debt

	Before JVs	After JVs
Macy's beginning debt	$7,963	$7,963
Cash used to pay down debt	–	($6,530)
Pro forma debt	$7,963	$1,433

Because the JV transaction can generate such large cash proceeds, which significantly decreases Macy's current debt burden, the pro forma Macy's OpCo alone is worth more than Macy's current stock price, while Macy's still owns 85% of the JV and its cash flows.

Source: Company filings, Bloomberg, and Starboard Value estimates.
(1) Consensus 2016E EBITDA based on estimate released subsequent to Macy's January 6, 2016 press releases.
(2) 5.75x represents Macy's current EBITDA trading multiple.

Value of JVs expected to be reflected in Macy's share price

By forming JVs with its four iconic properties (including Herald Square, Union Square, State Street, and Minneapolis) and its mall store locations, Macy's can create vehicles to unlock its real estate value while keeping most of its current cash flow.

Real estate JVs	Iconic properties	Mall properties
Real estate value	$6,770	$9,698
(-) Debt raised at JV level	($2,855)	($4,090)
(+) Cash from minority interest sale	$691	$990
Equity value of JV	$4,605	$6,597
Macy's % Ownership	*85.0%*	*85.0%*
Value of Macy's JV stake	$3,914	$5,607
Assumed market discount	*20.0%*	*20.0%*
Value attributed to Macy's	**$3,131**	**$4,486**
Value per share of Macy's JVs	**$10.23**	**$14.65**

Total real estate value of approximately $16.5 billion

Assumes JV raises debt to target conservative net debt / EBITDA of 5.8x[(1)]

Contributed from partners, representing 15% of JV equity value

Assumes Macy's sells 15% of its real estate entities to a third party in a JV

Conservatively assumes market applies a 20% discount to the price paid by JV partner for 15% stake

The real estate JVs will start with best-in-class properties and have sufficient cash to fund growth and diversification over time.

Source: Company filings and Starboard Value estimates.
(1) Equates to 7.6x gross debt / EBITDA when excluding the cash received from the 3rd party's investment to fund future growth; however, if this cash is deployed to fund growth, that will increase EBITDA, reducing the gross leverage ratio.

Massive value creation while maintaining flexibility and reducing risk

VALUE CREATION

(before value creation from additional real estate monetization, further improved operations and credit card earnings)

Value creation from JV transactions			
	Enterprise value	Equity Value	Per share
Macy's operating business	$13,530	$13,097	$42.77
Real estate JVs[(1)]	$13,997	$7,617	$24.88
Total value[(2)]	**$27,527**	**$20,714**	**$67.64**
Current price			$35.89
% upside			*88.5%*

We believe the formation of these two JVs with a reputable real estate firm will allow Macy's to maintain control over its properties while realizing value from its real estate and reducing risk.

We believe there are willing partners that would be excited to own Macy's real estate.

Source: Company filings and Starboard Value estimates.
Note: As of January 8, 2016.
(1) Macy's ownership portion of JVs. Equity value assumes 20% discount.
(2) Pro forma share count of 306 million.

Permanent value creation for Macy's shareholders

The JV structure creates substantial immediate value, akin to raising equity at a massive premium[(1)] to the current market price, while highlighting the value of Macy's real estate ownership, and preserving the optionality for future value creation, financial flexibility, and reduced risk.

- Once the Company is comfortable with the retail environment and its recurring cash flow profile before distributions from the JV, Macy's can further separate or monetize its JV stakes through numerous alternatives, including:
  - IPO one or both JVs (similar to the recently announced MGM REIT IPO), either (i) bringing capital into the JVs (tax-free) through primary issuance to fund additional growth, diluting Macy's stake while establishing a highly visible public valuation marker, or (ii) selling part or all of its stake in a taxable transaction.
  - Sell additional equity stakes in the JVs through private market transactions similar to the sale announced by Hudson's Bay.
    - On November 17, 2015, Hudson's Bay announced that it sold a total of $533 million of its equity in the Hudson's Bay/Simon JV to three third party investors.
      - The transaction values the Hudson's Bay/Simon JV at approximately $4.5 billion based on a blended **cap rate of 5.9%**.
    - On November 25, 2015, Hudson's Bay announced a second tranche of its joint venture with RioCan, which values the HBC real estate contribution at cap rate of 5.26%.
    - Given the mix of the Hudson's Bay JVs (no iconic stores, mix of various mall classes, and 50% ground leased), we believe Macy's could realize even better cap rates.
      - Macy's also would have an investment grade rating (Hudson's Bay does not), so its properties would be expected to sell for, or trade at, better cap rates.

Source: Company filings and Starboard Value estimates.
(1) Macy's would effectively be selling cash flows at an estimated 15x EBITDA multiple, whereas that same earnings stream currently trades at approximately 5.75x under Macy's current corporate structure.

Permanent value creation for Macy's shareholders (cont'd)

- Following the completion of these transactions, Macy's can explore value creation options with the remainder of its real estate portfolio, which includes the rest of its mall properties (owned "C" mall locations and ground leased properties), its owned distribution centers, its Portland flagship, and its Brooklyn and Seattle flagships, which are currently undergoing redevelopment that will substantially increase their value over the next several years.
  - These properties can be monetized in the form of future JVs, sale leasebacks, redevelopment, and/or public market transactions.
  - We believe the remainder of Macy's real estate is worth approximately $4 billion.

- **We believe that, following the initial JV transactions, Macy's will be worth approximately $70 per share. This is before realizing value from the $4 billion of real estate not included in our initial JV transactions, additional steps to further separate the JVs, or value creation from further improved operations and credit card earnings.**

We believe Macy's has an opportunity to create massive value for the benefit of all shareholders by strategically monetizing its highly valuable real estate portfolio.

Source: Company filings and Starboard Value estimates.

Permanent value creation for Macy's shareholders (cont'd)

- Macy's can take immediate action to unlock value while:

  1. Maintaining control of its properties;
  2. **Maintaining almost all of its current cash flow** at the Macy's OpCo level;
  3. Maintaining its investment grade rating; and
  4. **Leaving the OpCo net debt free**, if the Company so chooses, or more likely, with substantially less funded debt.

We believe pursuing the JVs that we outline in this presentation will create significant value for all of Macy's shareholders AND actually improve the capital structure of the OpCo.

Source: Company filings and Starboard Value estimates.

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