
macys inc

★macy's

bloomingdale's

BLUEMERCURY



Macy's stock represents its best investment

December 9, 2024

BARINGTON
BARINGTON CAPITAL GROUP, L.P.

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About Barington Capital Group, L.P.

History

Barington Capital Group, L.P. (“Barington” or “we”) is a value-oriented activist investment firm that was founded by James Mitarotonda in January 2000. Barington seeks to invest in undervalued publicly traded companies that the fund believes can appreciate in value, as a result of changes in corporate strategy, capital allocation, and corporate governance.

Management team

As a veteran activist investor, Mr. Mitarotonda leads a team of experienced investment professionals and advisors with extensive strategic, operating and boardroom expertise.

Experience

Barington has a twenty-three-year record of cumulative outperformance versus the Russell 2000 Index and S&P 500 Total Return Indices.¹ Barington was named as one of the top ten most influential activist investors in 2018 and 2021 by Activist Insight. It has also received accolades from Capital Finance International for having a strong corporate governance team.²

Invested companies³



(1) Past performance is not a guarantee of future results.

(2) The rankings were published in Activist Insight Annual Review 2018 and 2021 but relate to the 12-month period prior to the election date. Each year in the ordinary course of its business, Activist Insight creates a ranking of the most influential activists over the past year, based on the number, size, and performance of the activist investments, comprehensively derived from the Activist Insight Online database. Activist Insight is not a client of Barington Capital and was not compensated by Barington in connection with obtaining or using this rating.

(3) Barington has neither sought nor obtained the consent of any such company for the reference herein.

History

In 1986, Joseph Sitt founded Thor Equities LLC (“Thor” or “we”), a private equity firm that specializes in consumer private equity and real estate. Thor completed its first consumer brand transaction, the Children’s Place Acquisition Company, in 1989. In 1991, Mr. Sitt founded Ashley Stewart, which grew to be 380+ stores across the U.S. Thor shifted its focus to retail real estate in 2001, and luxury retail real estate in 2009, acquiring London’s Burlington Arcade in 2010. Thor launched lifestyle apparel brand, Madhappy, in 2017, and was part of the investment group that acquired Hurley from Nike in 2019. In 2020, Thor launched its second lifestyle brand, the footwear company, Brunch.

Management team

Thor is founded and led by Joseph Sitt, and Melissa Gliatta, the Chief Operating Officer. Both have more than three decades of extensive investment experience.

Experience

Thor has a track record of building consumer brands and investing in real estate that spans over three decades. Thor provides strategic value through its operational capabilities and licensing relationships across industries.

Selected retail investments¹

Hurley

Madhappy.

ASHLEY  STEWART

brunch

THE CHILDREN'S
PLACE



1 Dover Street
London, UK



26 Via Della Spiga
Milan, Italy



115 Mercer Street
New York, NY



693 Fifth Avenue
New York, NY



2 Beekman Street
New York, NY



Burlington Arcade
London, UK

(1) Thor has neither sought nor obtained the consent of any such company for the reference herein.

Executive summary and market data

- Macy's, Inc. ("Macy's" or the "Company") has an opportunity to significantly improve shareholder value by changing its capital allocation plan and taking other structural actions.
 - Valuation currently near 10-year trough multiples due to sector challenges and ineffective execution.
 - Shares do not reflect the upside potential on a reinvigoration in the Macy's nameplate or the intrinsic values imbedded in the Company's luxury operations and owned real estate.
- Macy's new strategic plan has the potential to deliver substantially higher profitability.
 - Macy's nameplate will see improved store-level productivity from the closure of underperforming stores (~1/3 of total) and new merchandising initiatives.
 - Growth opportunities from the rollout of Macy's new small-format stores and expansion of the luxury Bloomingdale's and Bluemercury brands.
 - Cash from operations and asset sales over the next three years could total ~\$4bn+.
- We are concerned that Macy's cash flows will be spent on ineffective capex projects.
 - **Nearly \$10bn has been spent in capex over the past decade, yielding no value creation.**
 - Retail peer, Dillard's, has generated a total return of 788% since the end of 2017 by improving operating margins and prioritizing capital returns to shareholders over capex.
- We propose that Macy's implement the following recommendations to drive value creation:
 1. Significantly reduce capex to 1.5%-2% of total sales from ~4% currently;
 2. Aggressively repurchase a minimum of \$2-\$3bn in stock over the next three years;
 3. Create a separate internal real estate subsidiary to optimize asset optionality;
 4. Evaluate strategic alternatives for the Company's luxury operations; and
 5. Add Barington and Thor representatives to the Macy's board to assist with value creation actions.
- **We believe our recommendations can deliver a 150% to 200% total return in Macy's shares over the next three years.**

macys inc

(in mm, except per unit)

Ticker	NYSE: M
Share price (12/4/24)	\$16.74
52-week high / low	\$22.10 / \$14.06
DPS / Dividend yield	\$0.68 / 4.1%
Avg. daily volume (3 mos)	5.1
Total basic shares	277.4
Market capitalization	\$4,643
Total debt (excl leases)	2,865
Total cash and equivalents	(315)
Enterprise value	\$7,193
NTM total sales ¹	\$22,151
NTM EBITDA	\$1,970
% Margin	8.9%
NTM diluted EPS	\$2.61
NTM free cash flow	\$637
EV / NTM total sales	0.32x
EV / NTM EBITDA	3.7x
Price / NTM diluted EPS	6.4x
NTM free cash flow yield	13.7%
Net debt / NTM EBITDA	1.2x

Source: S&P Capital IQ as of 12/4/24. Company Forms 10-K and 10-Q and earnings presentations. Company press release on preliminary third quarter results dated 11/25/24.
 Note: All results exclude special items. NTM results based on next twelve months consensus mean estimate.

(1) Calculated as net sales based on NTM consensus mean estimate of \$21,463mm plus Company FY:24E midpoint guidance for other revenue of \$688mm.

Macy's is one of the nation's leading retailers with a portfolio of iconic brands

- Macy's operates 720 locations, including department stores, outlets and specialty stores in 43 states, D.C., Puerto Rico and Guam.
- The Company goes to market through three nameplates:



- Sells apparel, accessories, beauty and home in mid-tier and aspirational brands.
- 506 locations (86% department stores).
- Owns valuable real estate, such as NYC Herald Square and Chicago State Street.



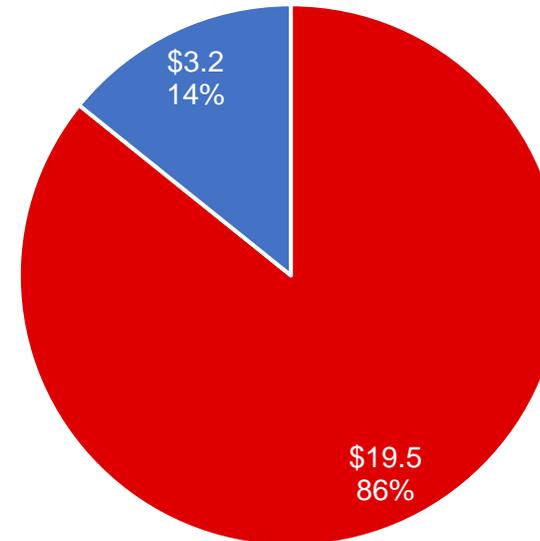
- Sells apparel, accessories, beauty and home in aspirational and luxury brands.
- 57 locations (56% department stores).



- Sells beauty products, including skin care and cosmetics in aspirational and luxury brands.
- 157 locations (excludes ~20 stores inside Macy's locations).

Net sales by nameplate¹

LTM:24 – \$22.8bn



- Macy's
- Bloomingdale's & Bluemercury

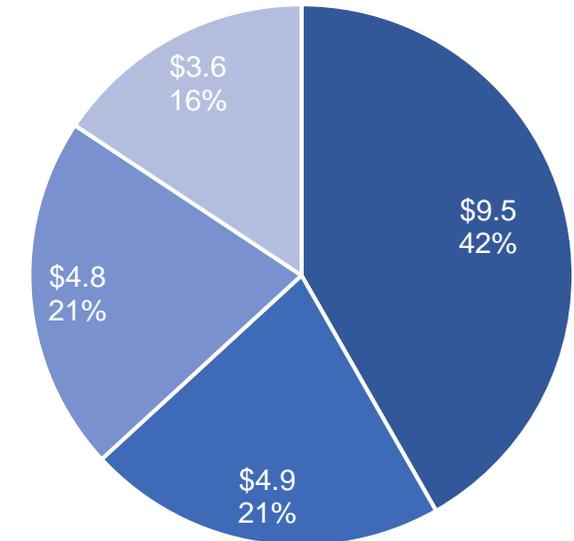
Other revenue (LTM:24)

Credit card operations	\$0.6bn
Media	0.2
Total other revenue	\$0.7

Total sales \$23.5bn

Net sales by category¹

LTM:24 – \$22.8bn



- Women's accessories, shoes & beauty
- Women's apparel
- Men's & kid's
- Home & other

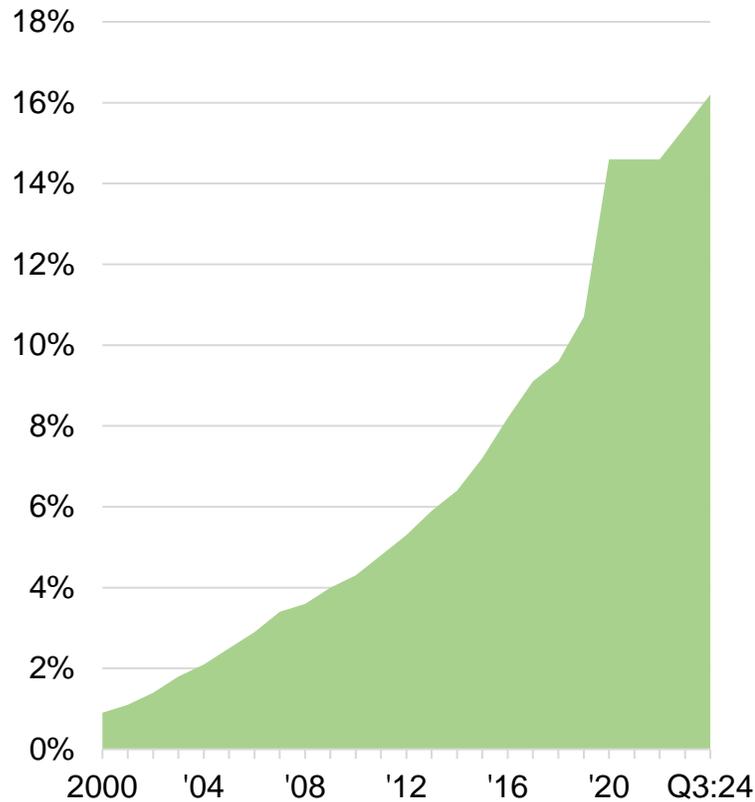
Source: Company Forms 10-K and 10-Q and earnings presentations.

(1) Net sales exclude other revenue, which includes credit card operations and marketing. Macy's does not provide a breakout of net sales for Bloomingdale's and Bluemercury.

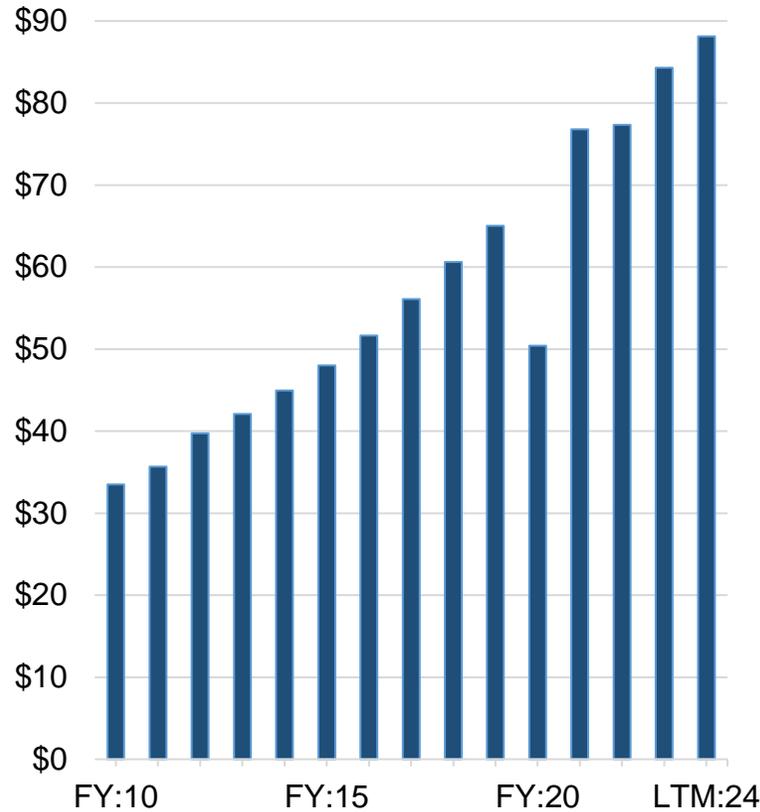
The rise in e-commerce and growth in off-price competition have led to significant loss of retail market share for the department store sector

- E-commerce has seen growing penetration largely due to its convenience and more-targeted selling model.
- Off-price has built a “treasure hunt” model that delivers value on an ever-changing selection of high-quality brands.

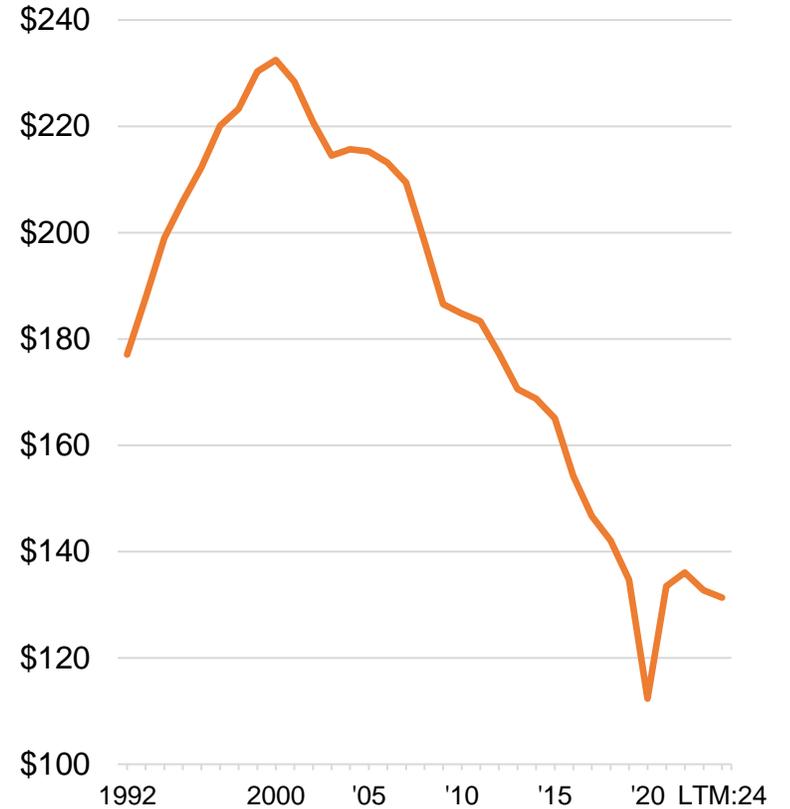
U.S. e-commerce sales as a % of total retail sales¹



Annual sales for selected off-price retailers²



U.S. department store sales³ (in bn)



(1) Source: U.S. Commerce Department. Data not seasonally adjusted.

(2) Source: S&P Capital IQ as of 12/4/24. Reflects combined sales for Burlington Stores, Ross Stores and TJX Companies

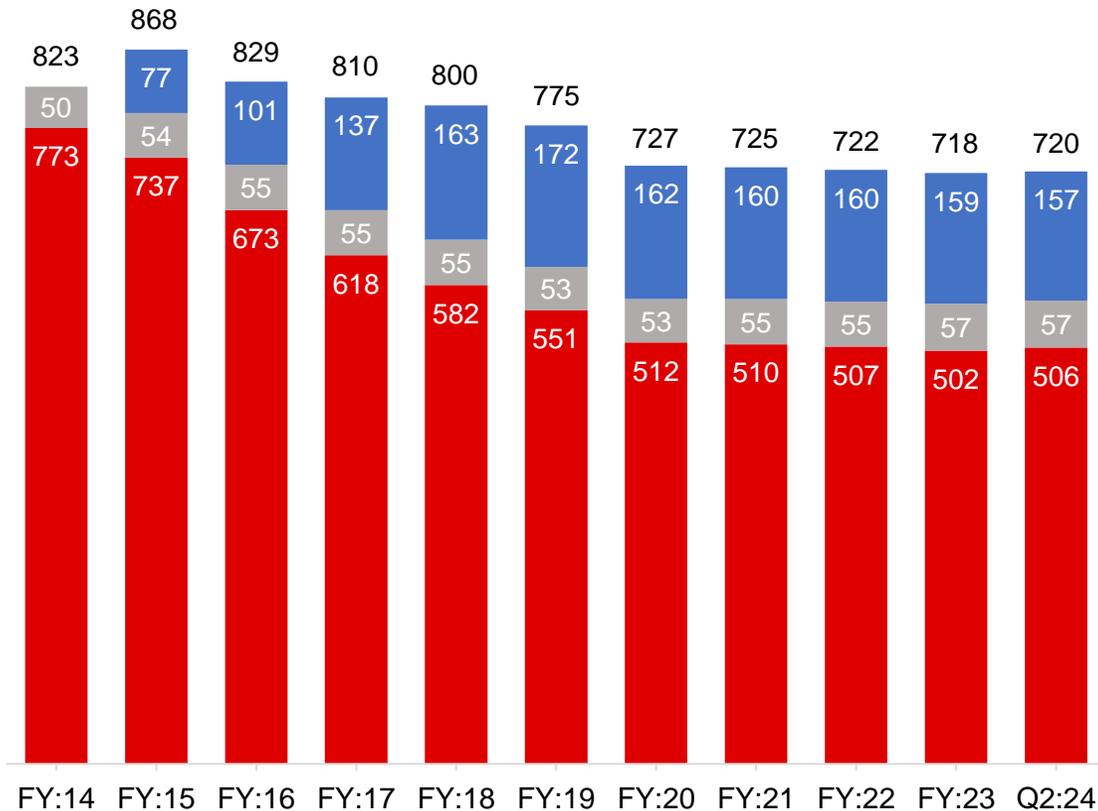
(3) Source: U.S. Census Bureau. Data not seasonally adjusted. LTM as of 9/30/24.

Macy's has responded to the challenging environment largely by closing underperforming flagship Macy's nameplate locations

- Since FY:14, Macy's has reduced its flagship nameplate locations by ~35%, eliminating \$3bn+ in net sales.
- Macy's has added slowly to its healthier Bloomingdale's and Bluemercury franchises.

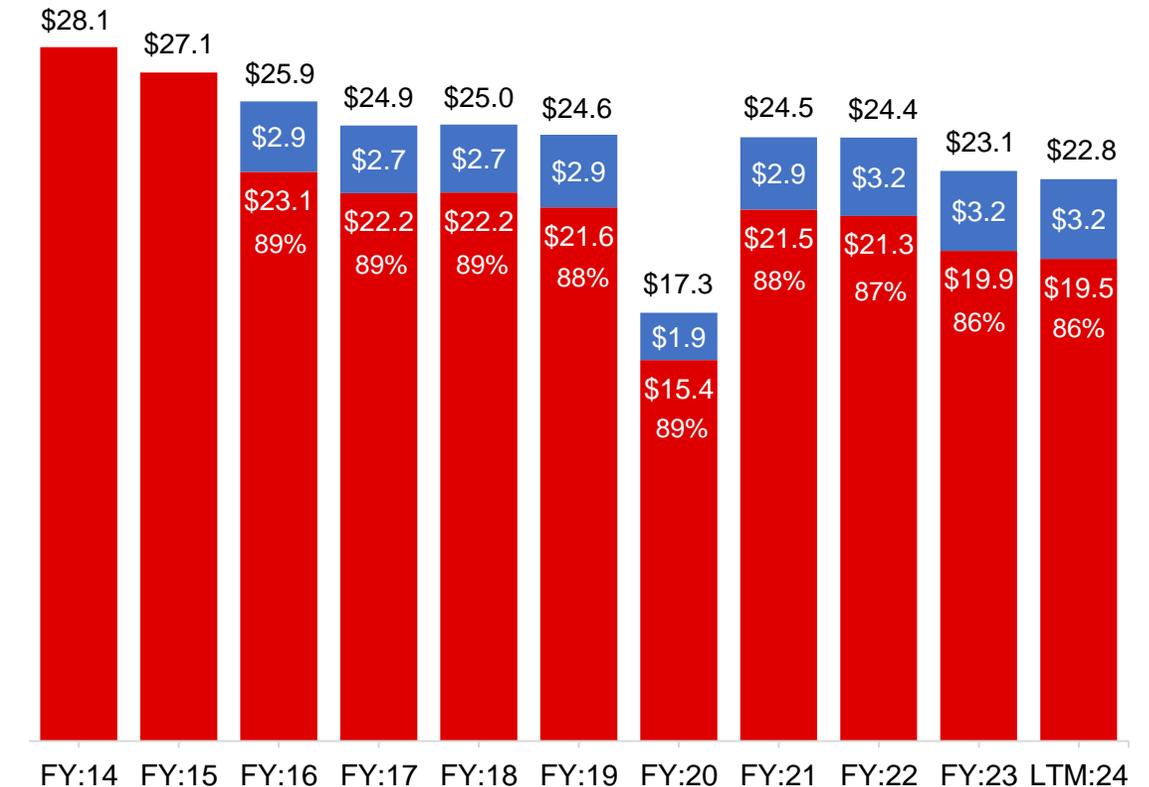
Total locations¹

■ Macy's ■ Bloomingdale's ■ Bluemercury²



Net sales (in bn)³

■ Macy's ■ Bloomingdales & Bluemercury



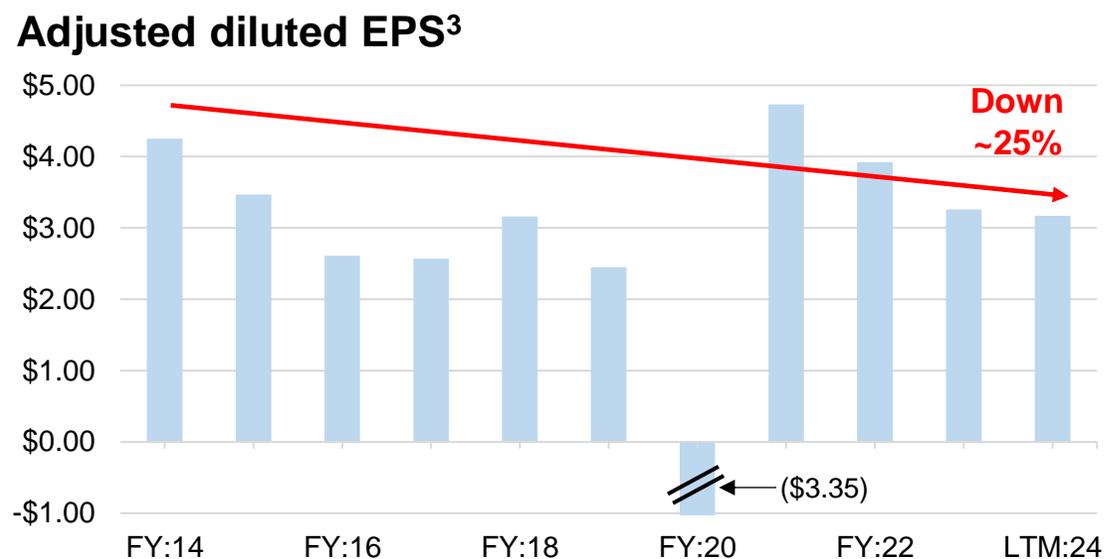
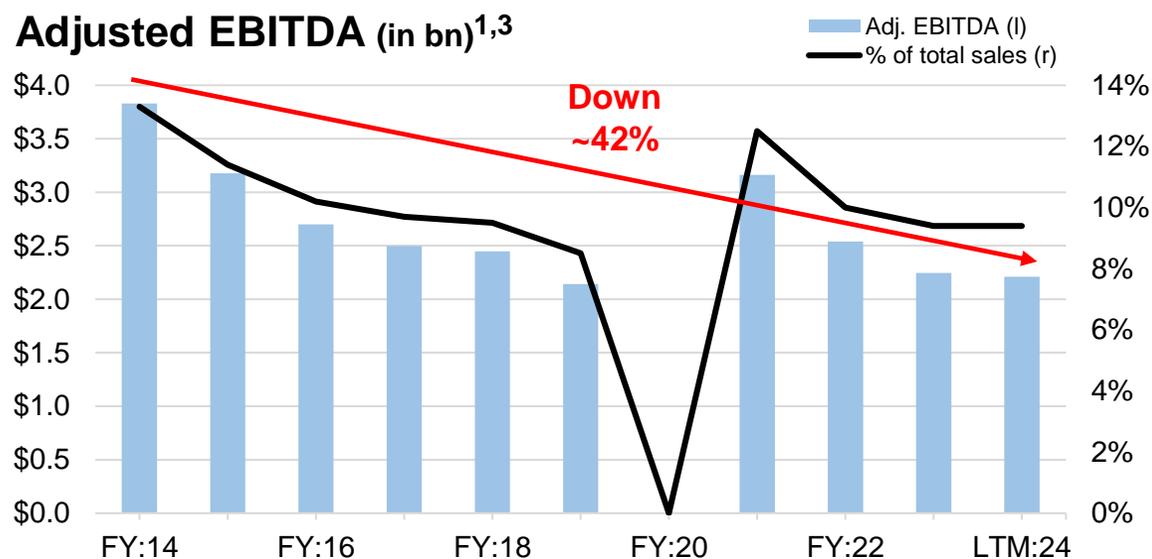
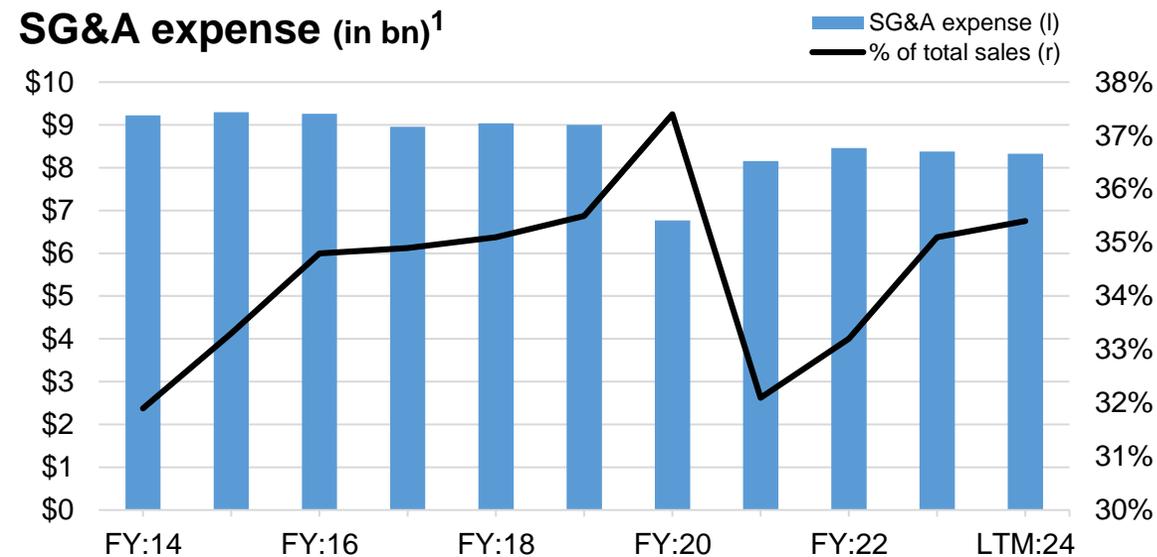
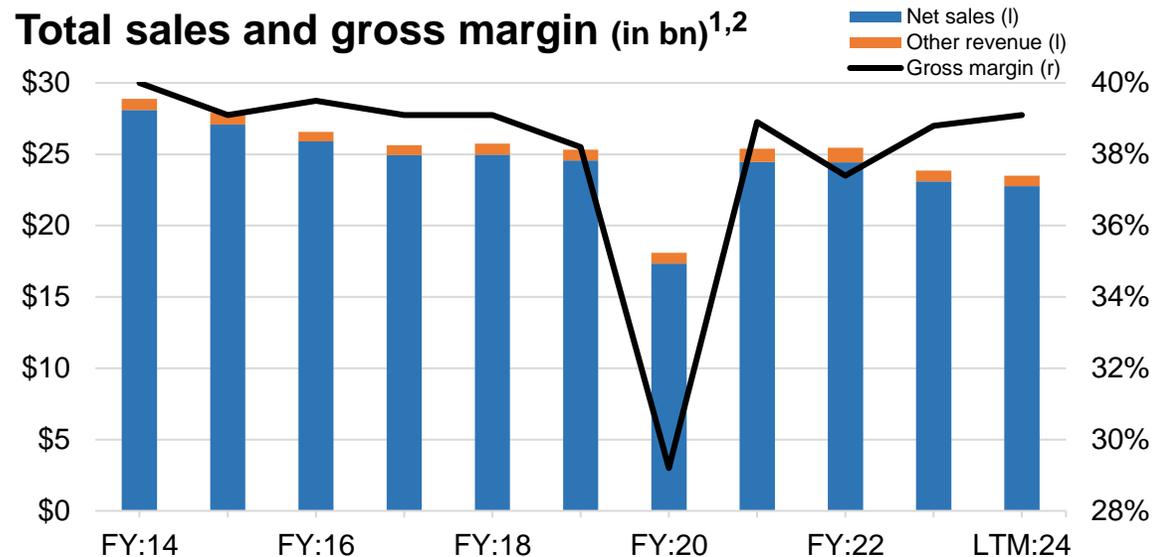
Source: Company Forms 10-K and 10-Q and earnings presentations.

(1) Locations for FY:17 and FY:18 extrapolated from reported boxes data.

(2) Macy's completed the acquisition of Bluemercury on 3/9/15 for \$210mm.

(3) Net sales exclude other revenue. Macy's does not provide a breakout of nameplate sales for FY:14 and FY:15. Macy's does not provide a breakout of net sales for Bloomingdale's and Bluemercury.

In the face of declining sales, Macy's has managed inventory effectively and lowered SG&A expenses, but not enough to stabilize profitability



Source: Company Forms 10-K and 10-Q and earnings presentations.

(1) Other revenue includes credit card operations and marketing. For FY:14 and FY:15, other revenue is removed from SG&A and added to total sales to conform with future disclosure.

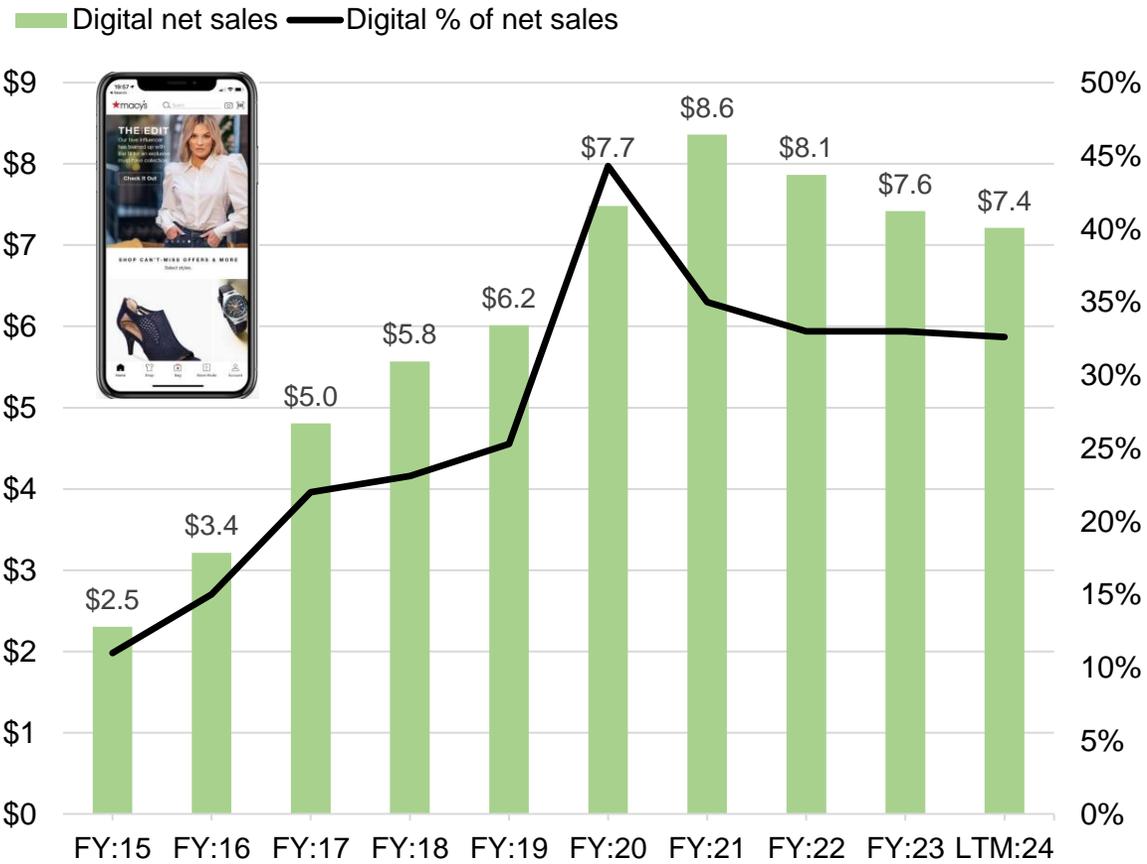
(2) Gross margin excludes other revenue.

(3) Excludes gains and losses on real estate, special charges and other non-operating income and expenses. Includes other revenue.

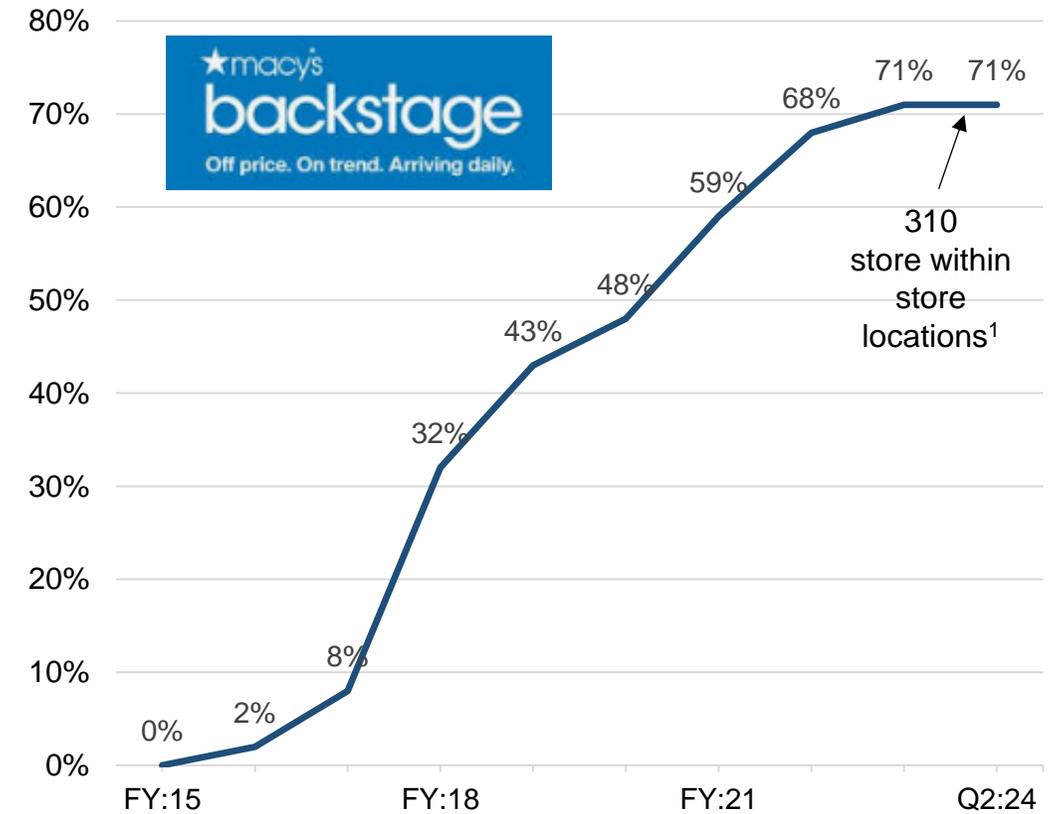
Macy's has built a healthy \$7bn+ digital business and expanded into the off-price channel to improve its value proposition

- Macy's has invested heavily in technology and logistics to expand its digital presence and is now building out its "Marketplace" concept to allow its customers to purchase curated products directly from third-party sellers.
- In FY:15 Macy's launched its off-price concept, "Backstage," which has provided an uplift to comp store sales.

Digital net sales (in bn)



% Backstage store within store sections in Macy's nameplate department stores



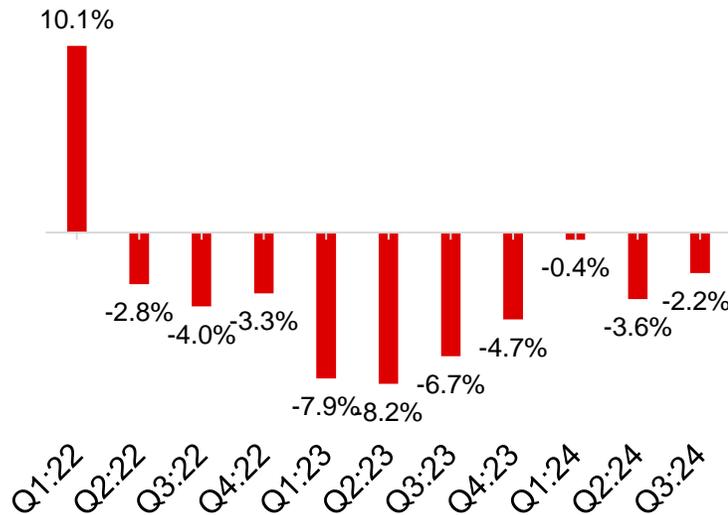
Source: Company Forms 10-K and 10-Q and earnings presentations.

(1) Q2:24 excludes 9 freestanding Backstage locations.

Macy's initiatives have not yielded much improvement in comp sales for the flagship nameplate, but the luxury brands have proved more resilient



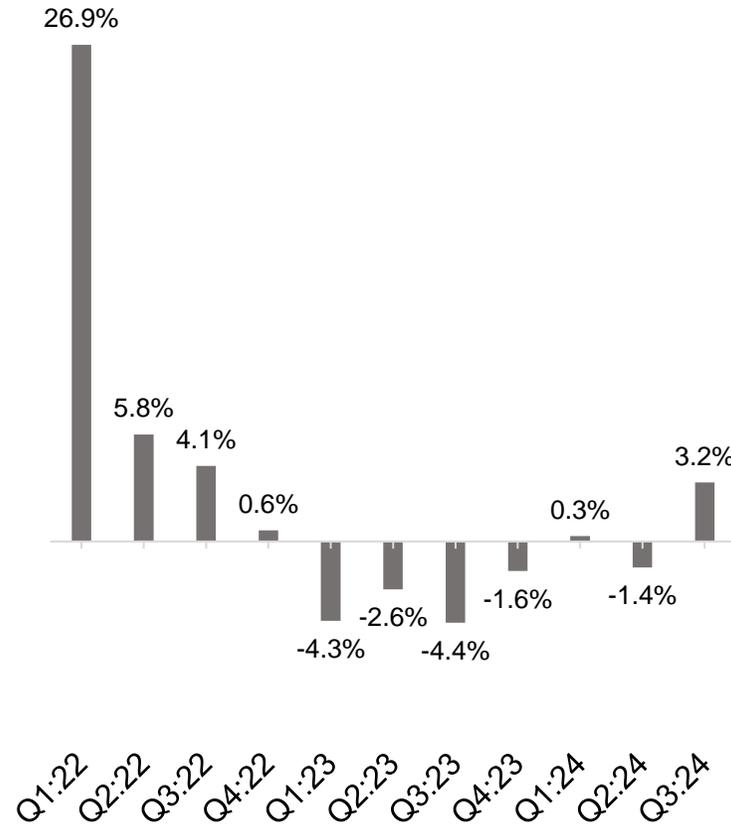
Nameplate comp store sales



- Mid-tier positioning, which has more competition, and underperforming locations continue to weigh on comps.



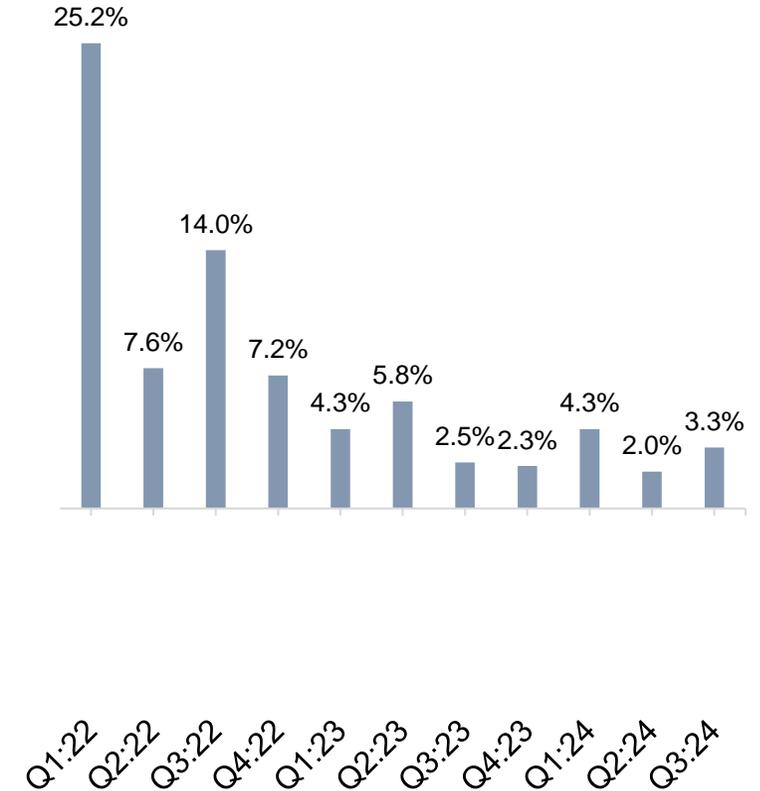
Nameplate comp store sales



- Recent comp improvements driven by merchandising repositioning more towards the luxury end.



Nameplate comp store sales

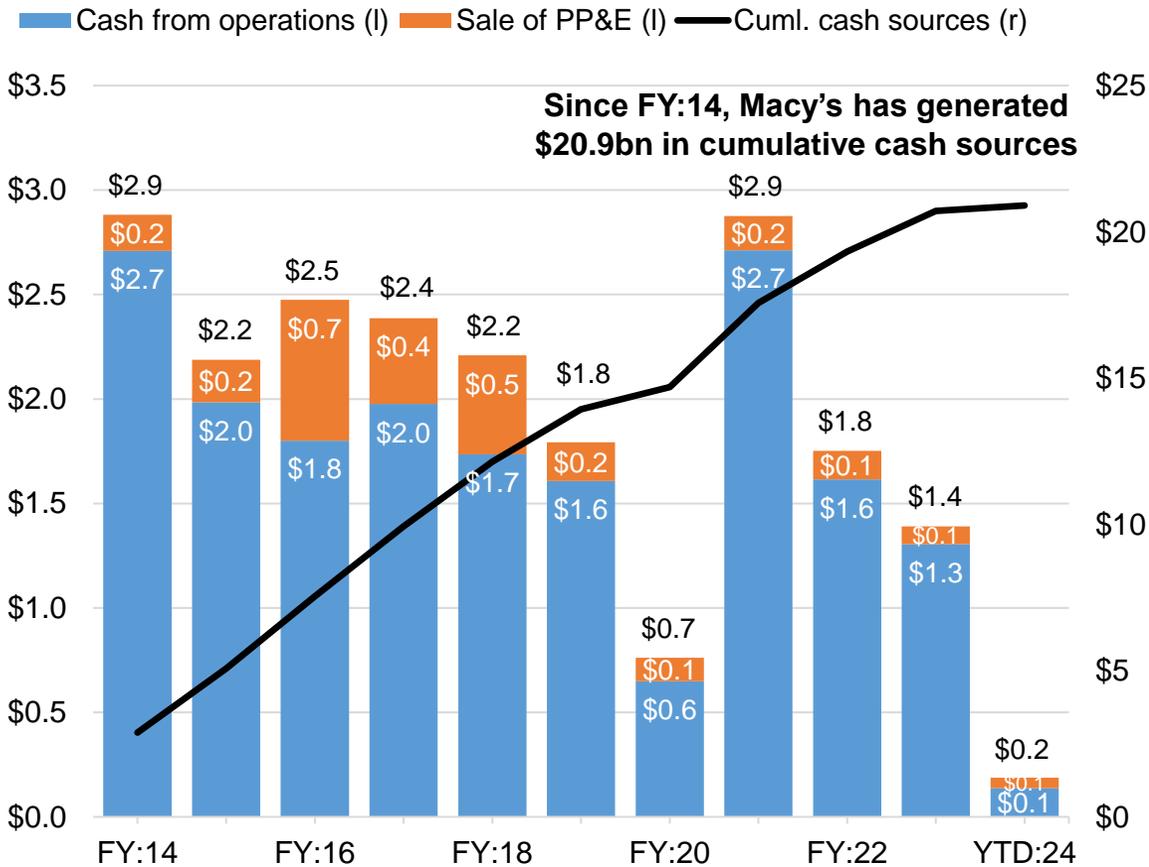


- Concept has been very healthy with strong positioning in luxury beauty and the addition of new spa services.

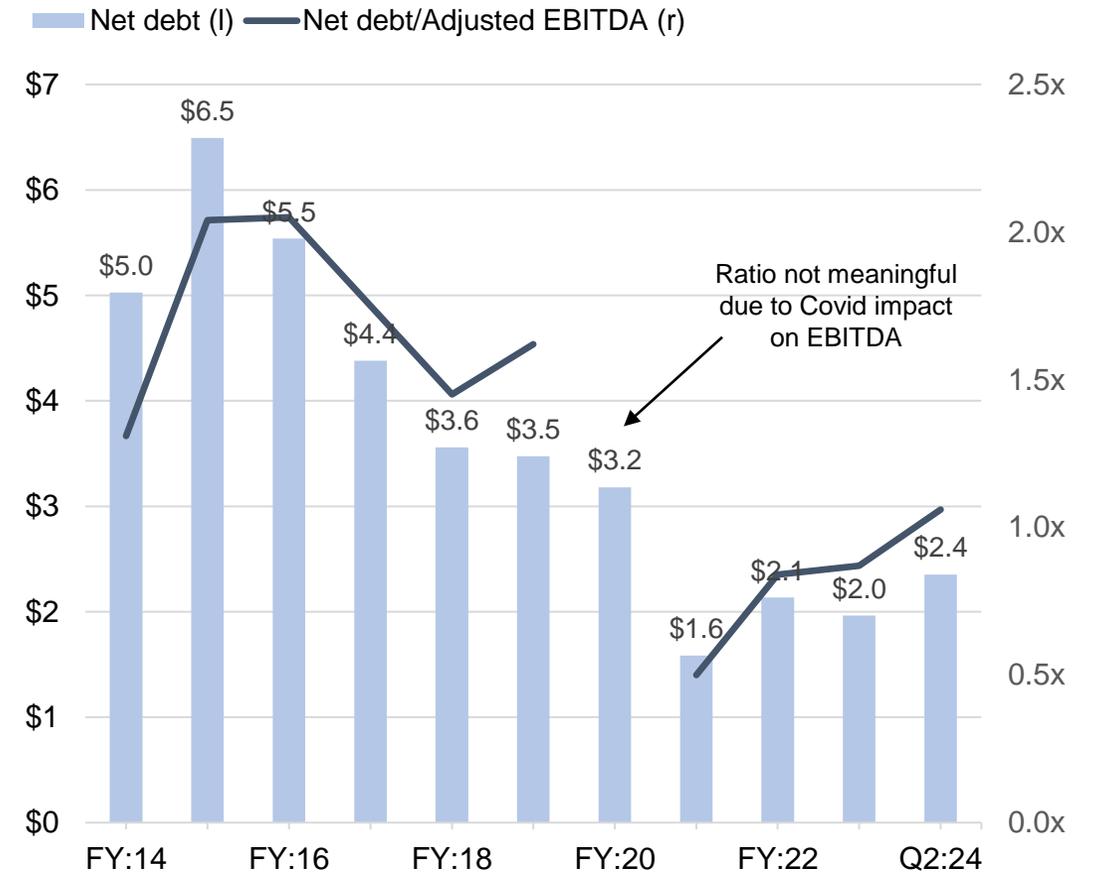
Despite its operating challenges, Macy's remains highly cash generative with a balance sheet that has been sufficiently de-risked

- Since FY:14, Macy's has generated over nearly \$21bn in cash sources, comprised of \$18.2bn in cash from operations and \$2.7bn in real estate sale proceeds.
- Macy's does not have any significant debt maturities until 2029.

Cash sources (in bn)



Net debt and leverage ratios¹



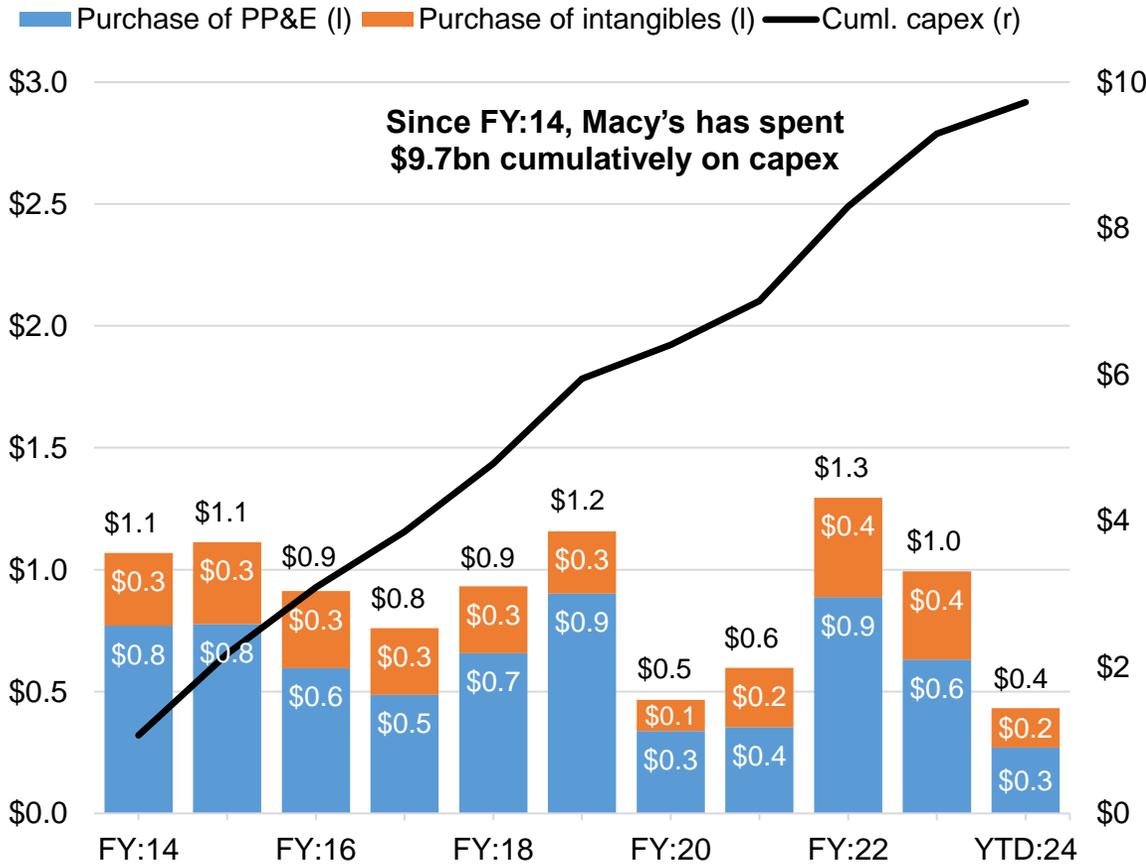
Source: Company Forms 10-K and 10-Q and earnings presentations.

(1) Net debt excludes capitalized leases.

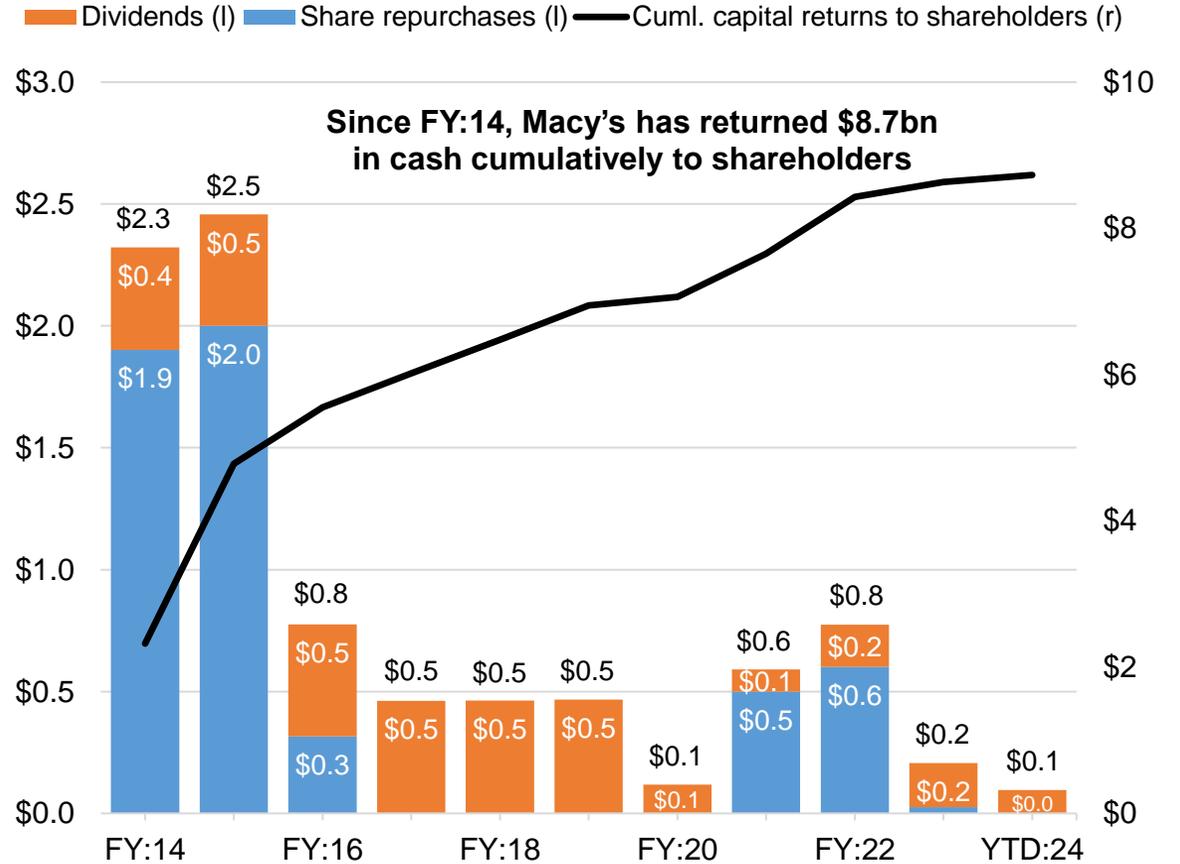
Macy's has devoted a significant amount of its cash sources to fund a large capex program, while capital returns to stockholders have fallen off

- Since FY:14, Macy's has spent \$9.7bn on capex, comprised of \$6.7bn on purchases of PP&E and \$3.0bn on technology. Large areas of spend include digital and logistics to improve omni-channel capabilities and store refurbishments.
- Macy's has returned \$8.7bn in capital to shareholders since FY:14. However, \$5.6bn or ~65% of the total cash returned occurred from FY:14-16. Since then, capital returns have largely declined as Macy's has prioritized its capex program.

Capital expenditures (in bn)



Capital returns to shareholders (in bn)



Macy's market performance has seen a sharp decline, as merchandising and capital allocation initiatives have failed to instill investor confidence

- We believe Macy's inability to deliver positive returns from its capital investments, coupled with the challenging industry environment, have been the major drivers of the Company's poor share price performance.
- Share repurchases on average, since FY:14, have not been executed at accretive prices.

Share price and volume since 12/31/2013



Market capitalization since 12/31/2013 (in bn)



Source: S&P Capital IQ as of 12/4/24.

(1) Reflects \$5.3bn in share repurchases from since FY:14 accounting for 120.5mm shares.

Macy's total return has underperformed its peers and the market as a whole over multiple time periods

- Macy's has lagged its department store peers largely due to Dillard's, which has been executing a successful strategic plan focused on margin improvements and substantial capital returns to stockholders.
- Many of Macy's 10-K peers, which are not subject to the same operating challenges that have impacted department stores, have benefitted from store expansion and digital investments.

Total return performance

	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>	<u>7-Year</u>	<u>10-Year</u>
Macy's	25.1%	-31.2%	32.7%	-10.9%	-59.5%
Department store peers ¹	23.8%	12.7%	40.5%	43.7%	22.9%
Dillard's	31.1%	101.3%	668.6%	825.2%	364.9%
Kohl's	-30.2%	-62.9%	-57.1%	-55.1%	-56.5%
Nordstrom	60.9%	31.3%	-26.9%	-36.4%	-54.7%
10-K peers ²	25.1%	14.6%	88.7%	168.0%	241.2%
S&P Retail Select index	27.5%	-8.0%	95.5%	94.2%	85.6%
S&P 500 index	34.5%	36.9%	106.4%	151.5%	233.1%

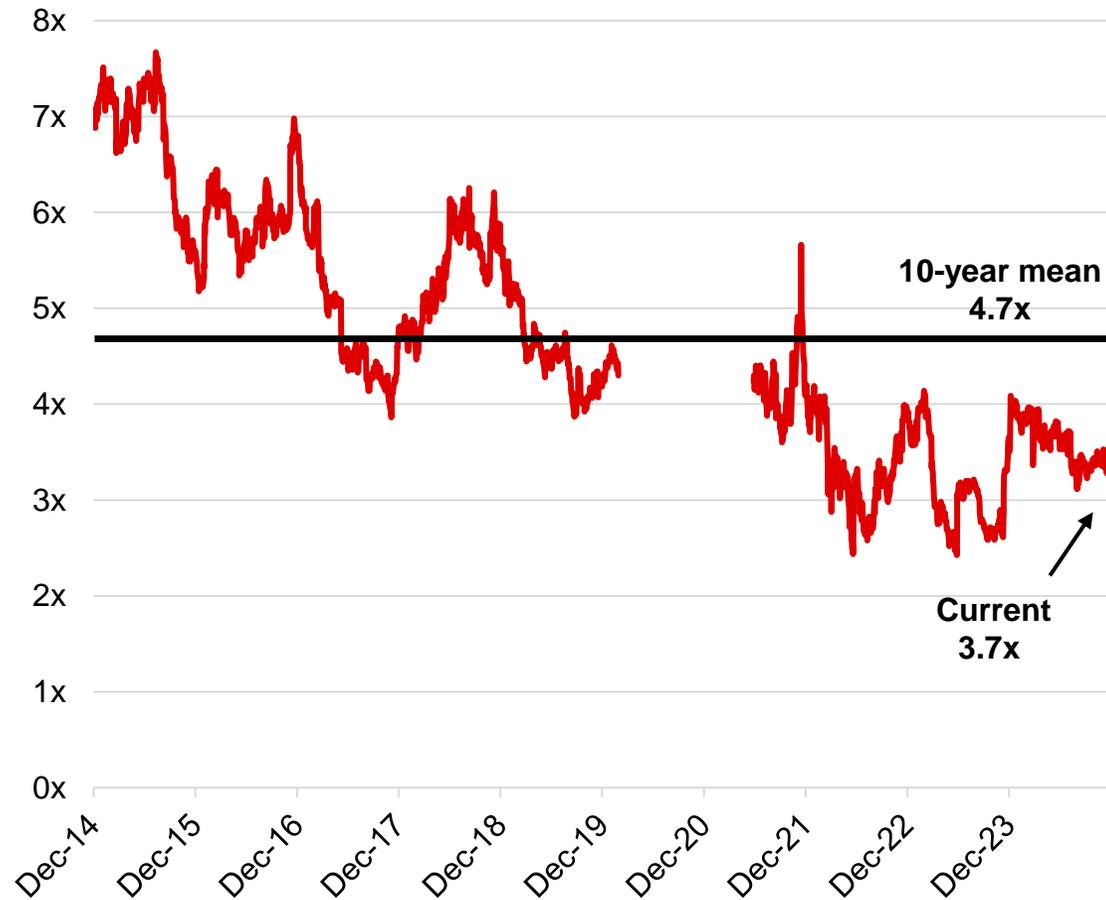
Source: S&P Capital IQ as of 12/4/24. All returns adjusted for dividends.

(1) Index is market capitalization weighted and based on department store competitors, including Dillard's, Kohl's and Nordstrom.

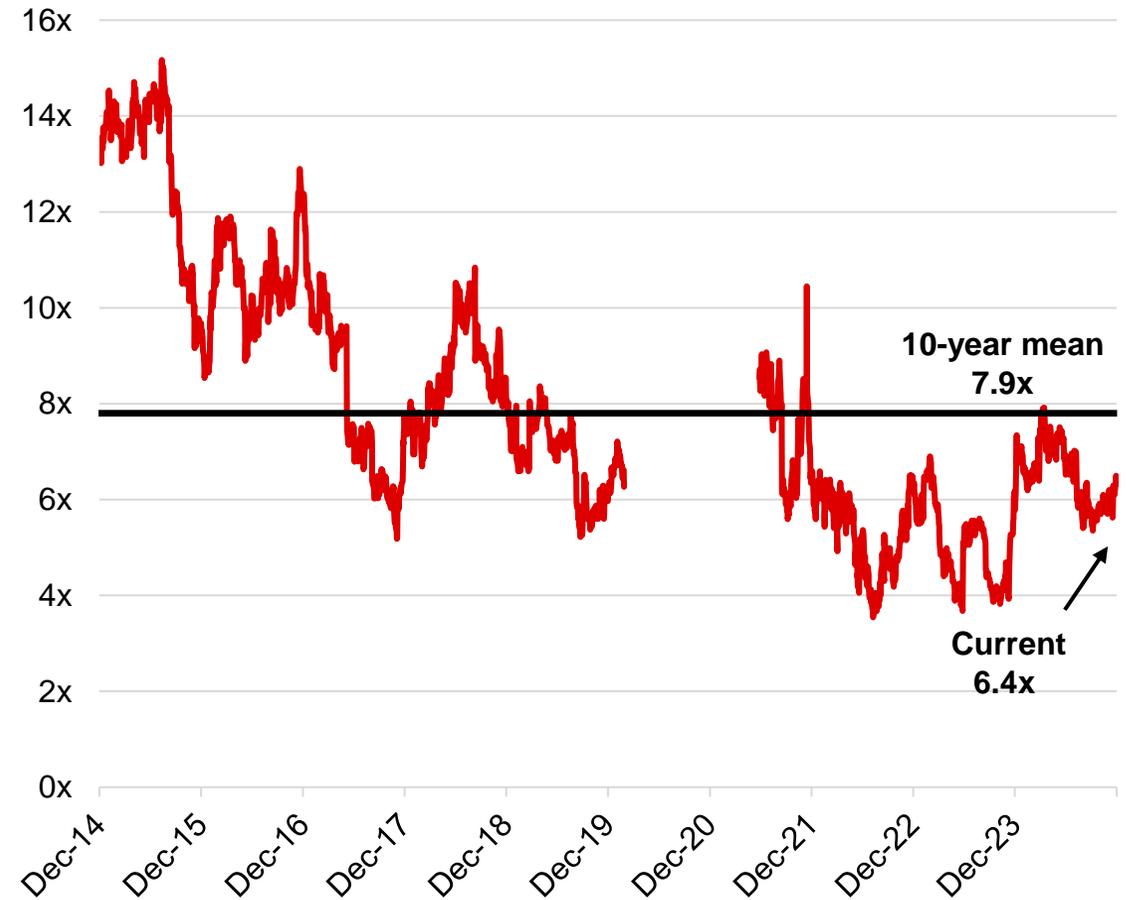
(2) Index is market capitalization weighted and based on peer group companies listed in the Company's 2023 Form 10-K, including Best Buy, Burlington Stores, DICK'S Sporting Goods, Dillard's, Dollar Tree, Foot Locker, Gap, Kohl's, Lowe's, Nordstrom, Ross Stores, Target, TJX Companies, Ulta Beauty and Williams-Sonoma.

Macy's is now trading near all-time trough levels

Enterprise value / NTM EBITDA (10-year)^{1,2}



NTM P/E ratio (10-year)²



Source: S&P Capital IQ as of 12/4/24.

Note: NTM reflects next twelve months consensus mean estimate.

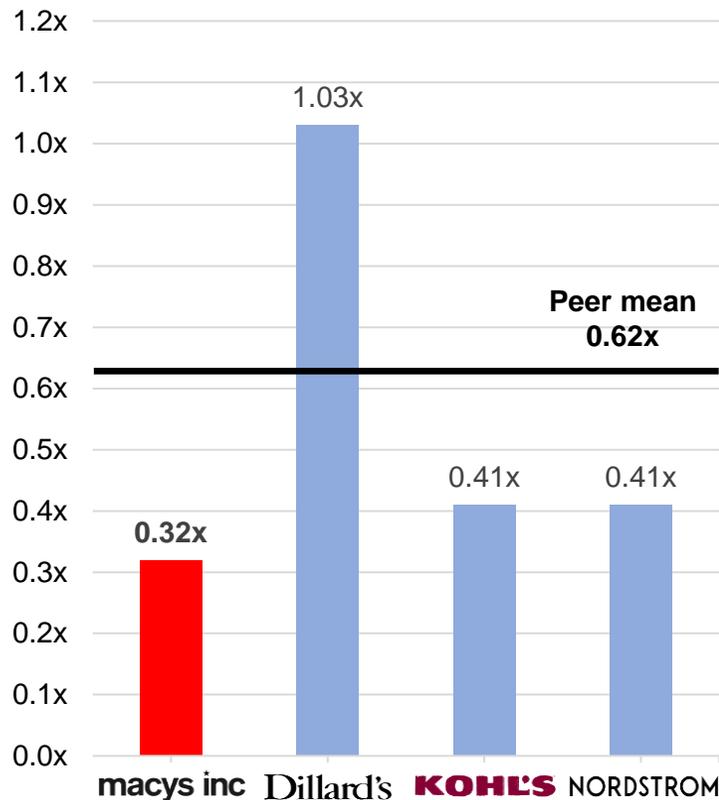
(1) Enterprise value excludes operating leases.

(2) Results exclude period from 2/3/20 to 5/28/21 due to the impact on share prices and estimates stemming from the Covid pandemic.

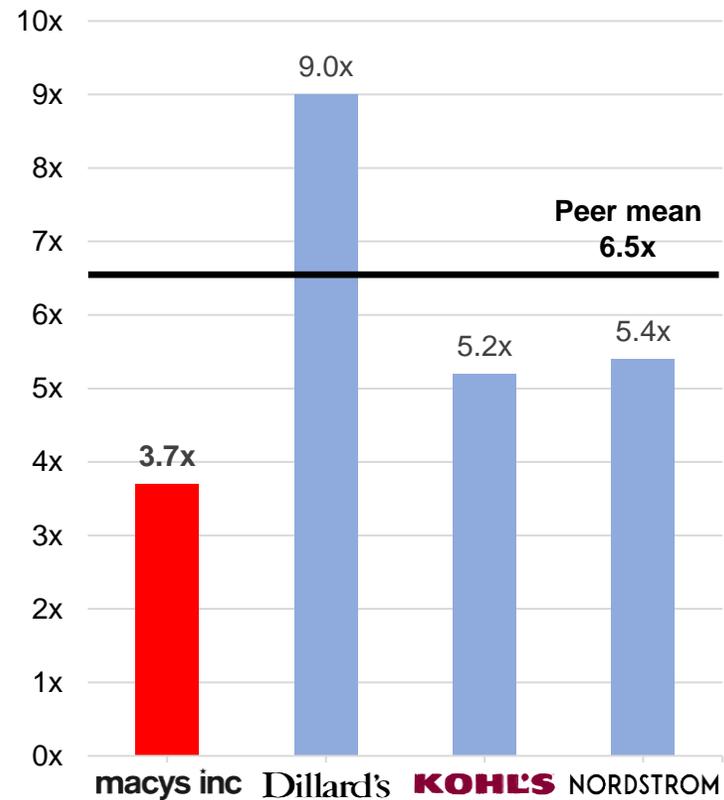
Macy's trades at a sizable discount to its department store peers

- Department stores are trading at low multiples due to inconsistent performance and uncertainty with their retail model.
- Dillard's has achieved a premium valuation to its peers due to a successful business model that delivers profits and rewards shareholders.

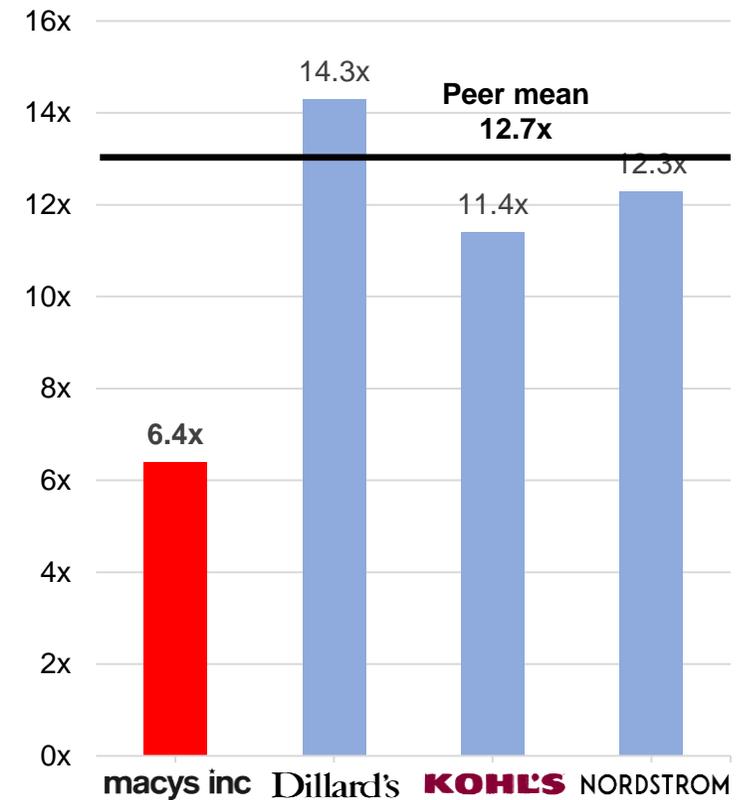
EV / NTM net sales



EV / NTM EBITDA



NTM P/E ratio



Source: S&P Capital IQ as of 12/4/24.
 Note: EV reflects enterprise value and excludes operating leases. NTM reflects next twelve months consensus mean estimate.

Macy's recently embarked on a bold transformation plan to enhance operating performance with a focus on improving the Macy's nameplate

A Bold New Chapter

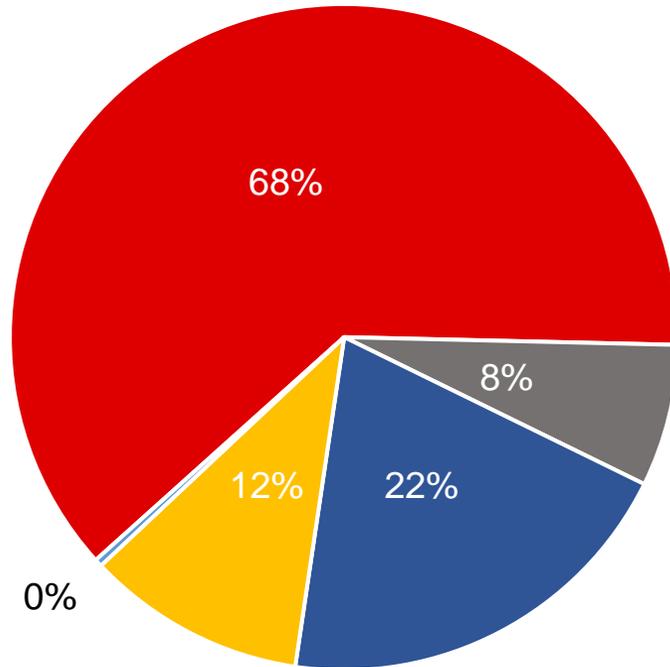
- In Feb:24, Macy's announced its new transformation plan – “A Bold New Chapter” – under new CEO, Tony Spring.
- The plan incorporates three key initiatives to be executed through FY:26:
 1. **Strengthen the Macy's nameplate.**
 - Close ~150 underperforming Macy's stores (~30% of store base).
 - Grow small-format “Market by Macy's” concept by 30 stores (currently 18).
 - Improve experience at 350 remaining stores through revitalized merchandising, better service and enhanced digital integration.
 - Testing started at “First 50” locations with best practices to be rolled out over time.
 2. **Accelerate growth at luxury franchises.**
 - Add ~15 new Bloomingdale's stores in either small-format “Bloomies” concept or outlets.
 - Add ~30 new Bluemercury stores and complete ~30 remodels.
 3. **Simplify and modernize operations.**
 - Improvements to fulfillment, inventory and technology.
 - Realize \$235mm in annual run-rate cost savings (~1% of net sales).
- Store closures to generate ~\$600-\$750mm in gross sale proceeds and \$250-\$350mm in P&L gains.

Macy's new plan will deliver a marked shift in its store base toward more luxury and growth-oriented concepts

- By FY:26E, Macy's plans to have almost 50% of its store base reoriented towards its luxury Bloomingdale's and Bluemercury brands and small-format growth concepts vs. 32% currently.

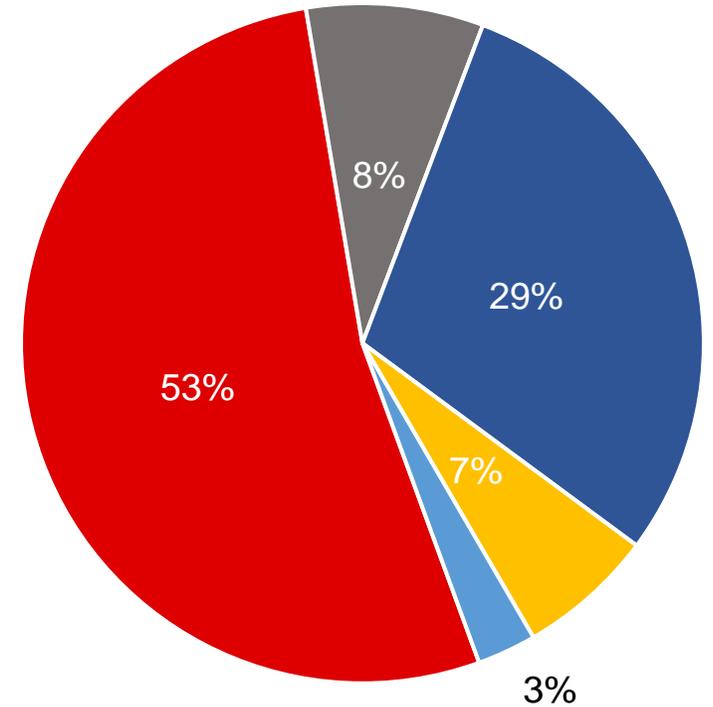
Macy's store base at FY:23
718 stores

- Macy's
- Bloomingdale's
- Bluemercury
- Macy's small format
- Bloomingdale's small format



Macy's potential store base at FY:26E
643 stores

- Macy's
- Bloomingdale's
- Bluemercury
- Macy's small format
- Bloomingdale's small format



Macy's nameplate Go-Forward 350 locations are significantly more productive than the 150 stores being closed



(in mm, except stores and per sf data)

	<u>Go-Forward stores</u>	<u>Non-Go-Forward stores</u>	<u>Total nameplate stores</u>
FY:23 stores:	352	150	502
FY:23 square feet: ¹	73.6	27.5	101.1
FY:23 retail sales: ²	\$18,012	\$1,847	\$19,859
Retail sales / store:	\$51.2	\$12.3	\$39.6
Retail sales / square feet:	\$245	\$67	\$196

Other metrics:

- In FY:23, these stores outperformed the Non-Go-Forward stores by:
 - 500bps in comp sales, and
 - 950bps in 4-wall adjusted EBITDA rate

Go-Forward stores are ~250%+ more productive and have higher profitability, creating more fertile ground for merchandising initiatives.

Source: Company Q4:23 earnings presentation and Barington extrapolation.

(1) Macy's stated that in FY:23, Non-Go-Forward stores represented ~25% of the Company's gross square footage. At FY:23, the Company had 110.0mm in gross square footage.

(2) Macy's stated that in FY:23, Non-Go-Forward stores represented less than 10% of net sales. At FY:23, the Company has \$23.1bn in net sales. Barington assumed Non-Go-Forward net sales at 8% of total.

Macy's nameplate First 50 locations are delivering early positive results due to new merchandising and service testing actions

- First 50 locations are comprised of a broad geographic mix that represents the Go-Forward footprint.
- Key initiatives that have improved sales performance at the First 50 stores include:
 - Improved customer experience with focused staffing in shoes, handbags and fitting rooms;
 - Enhanced merchandising and new brands;
 - Modernized visuals; and
 - Unique store-level digital activations and events.
- Given positive results to-date, Macys' rolled-out initiatives in ~100 new Go-Forward locations in fall 2024.



Macy's nameplate comparable store sales

	<u>Q1:24</u>	<u>Q2:24</u>	<u>Q3:24</u>
Total 500 stores	-0.4%	-3.6%	-2.2%
Go-Forward 350 stores	+0.0%	-3.3%	-1.8%
Go-Forward First 50 stores	+3.4%	+1.0%	+1.9%
Go-Forward 300 stores (excludes First 50 stores)	-1.3%	-3.7%	
Non-Go-Forward 150 stores	-4.5%	-6.5%	

First 50 locations have seen three consecutive quarters of positive comp store sales.

150 stores being closed are very poor performers.

We believe Macy's transformation plan has several positive elements that should help to improve results, but we are concerned with the Company's large capex program

- Management finally taking a bold step to close a large number of very low productivity Macy's nameplate department stores.
 - Go-Forward portfolio has a higher probability of success due to the imbedded health of the locations.
 - Eliminates distractions from Non-Go-Forward locations.
 - Real estate sale proceeds can be better used elsewhere.
- First 50 Macy's nameplate locations are showing significant outperformance.
 - Learnings from these locations should help to drive improved results at the balance of the Go-Forward portfolio.
- Reorientation of store portfolio towards luxury brands provides the Company with a point of differentiation in the market.
 - Bloomingdale's and Bluemercury are in healthy shape with loyal customer bases.
 - Curation of luxury merchandise and experiences remains highly valued by consumers.
- Recent initiatives, such as Backstage and small-format stores, expands Macy's value proposition.
 - Backstage, which has been driving higher comps at its locations, allows Macy's to compete for off-price customers.
 - Small-format stores are located closer to customers, allowing for more convenient and localized shopping experiences and expanding the Company's omni-channel offerings.
- **We believe Macy's capex program has been excessive.**
 - The cumulative capital investments to-date have driven no shareholder value.
 - We are concerned that the total cash sources that Macy's could generate through a successful transformation plan – which we believe could be ~\$4bn+ – may be misallocated in ineffective capex spending.
- **We believe there is a better use for Macy's cash and look to Dillard's, a department store peer, as validation.**

Dillard's has been executing a merchandising strategy that has markedly improved its operating performance, while Macy's has struggled to grow its business

- Dillard's retail plan focuses on "profitable sales" through tight inventory controls which promotes more full-priced selling.
- Macy's has lowered SG&A, but the lack of sales growth has pressured profits and cash flows.

Dillard's

macys inc

Key operating metrics

(\$ in mm)	FY:18	LTM:24	Change	FY:18	LTM:24	Change
Total stores	291	273	-6.2%	800	720	-10.0%
Net sales ¹	\$6,121	\$6,332	+3.5%	\$24,971	\$22,763	-8.8%
per store	\$21.0	\$23.2	+10.3%	\$31.2	\$31.6	+1.3%
Gross profit margin¹	33.6%	41.4%	+780bps	39.1%	39.1%	0bps
SG&A expense ²	\$1,951	\$1,978	+1.4%	\$9,039	\$8,329	-7.9%
% total sales	30.0%	29.5%	+50bps	35.1%	35.4%	-30bps
Adjusted EBITDAR³	\$514	\$969	+89%	\$2,783	\$2,597	-6.7%
% total sales	7.9%	14.5%	+660bps	10.8%	11.0%	+20bps
Free cash flow ⁴	\$230	\$669	+192%	\$803	\$310	-61%
ROIC ⁵	8.3%	23.8%	+1550bps	9.8%	13.6%	+380bps

Source: Dillard's Forms 10-K and 10-Q and earnings press releases. Company Forms 10-K and 10-Q and earnings presentations.

(1) Net sales and gross margin exclude other revenue. Dillard's other revenue includes service charges and construction operations. Macy's other revenue includes credit card operations and marketing.

(2) Dillard's calculation includes depreciation and amortization expense to conform with Macy's accounting. Rate includes other revenue.

(3) Excludes gains and losses on real estate, special charges and other non-operating income and expenses. Includes rent expense and other revenue. LTM rental expense based on Barington extrapolation. Margin includes other revenue.

(4) Calculated as cash from operations less capital expenditures.

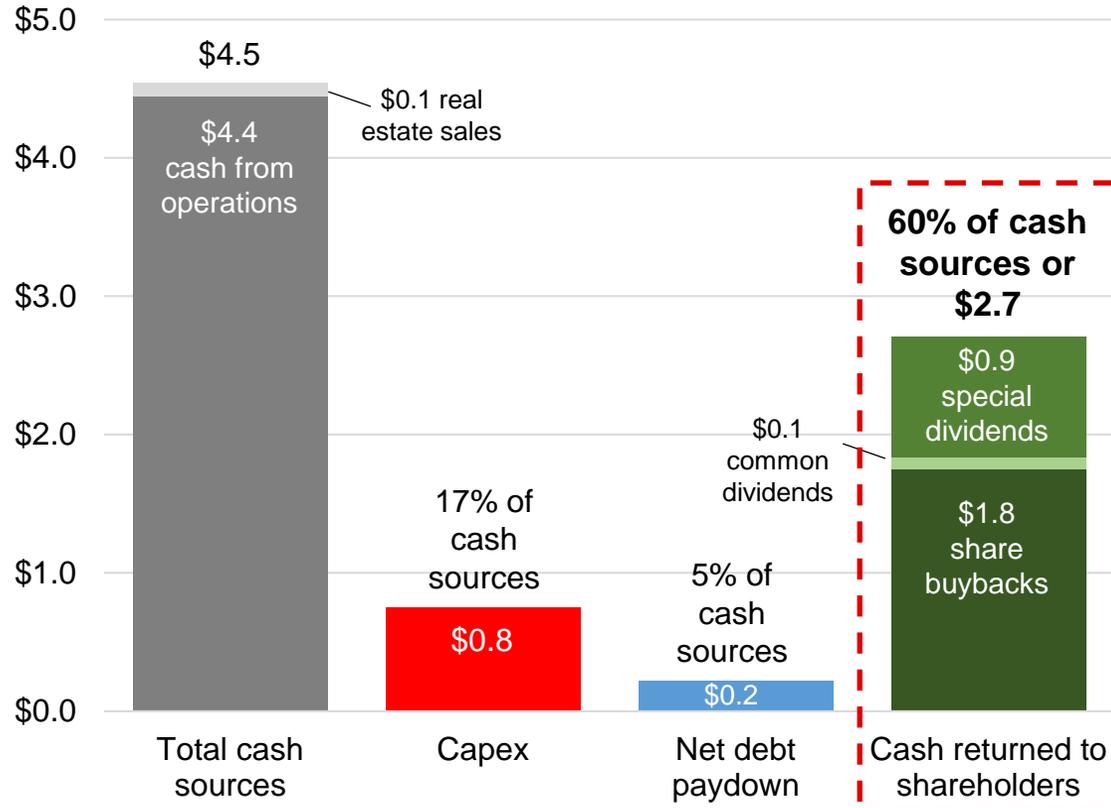
(5) Calculated as EBIT plus goodwill amortization tax-effected at 25% divided by average total capital comprised of total debt plus total shareholders' equity.

Dillard's has prudently managed capex and aggressively returned cash to shareholders, whereas Macy's has devoted more of its cash to fund capex

- Since FY:18, Dillard's has returned 60% of its cumulative cash to stockholders, while spending only 17% on capex.
- Macy's has spent nearly 54% of its cash funding a \$5.9bn capex program, but returned only 25% to shareholders.

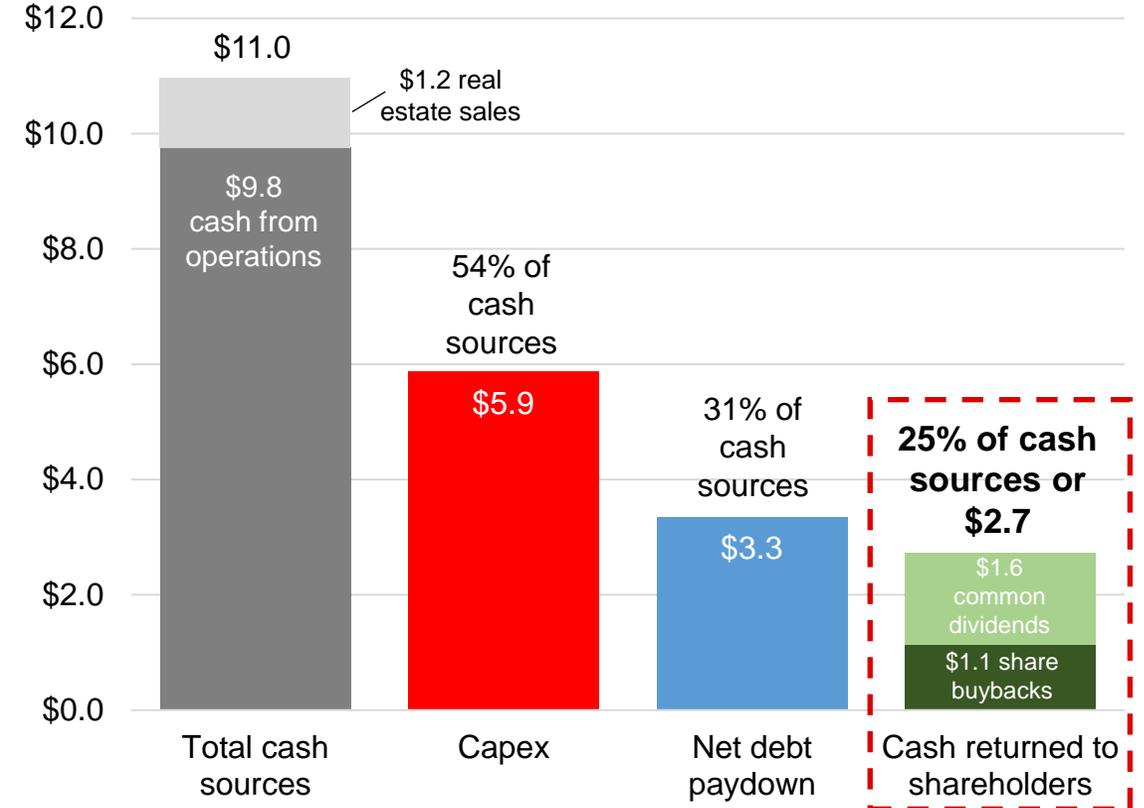
Dillard's

Cumulative sources and uses of cash
FY:18-YTD:24 (in bn)



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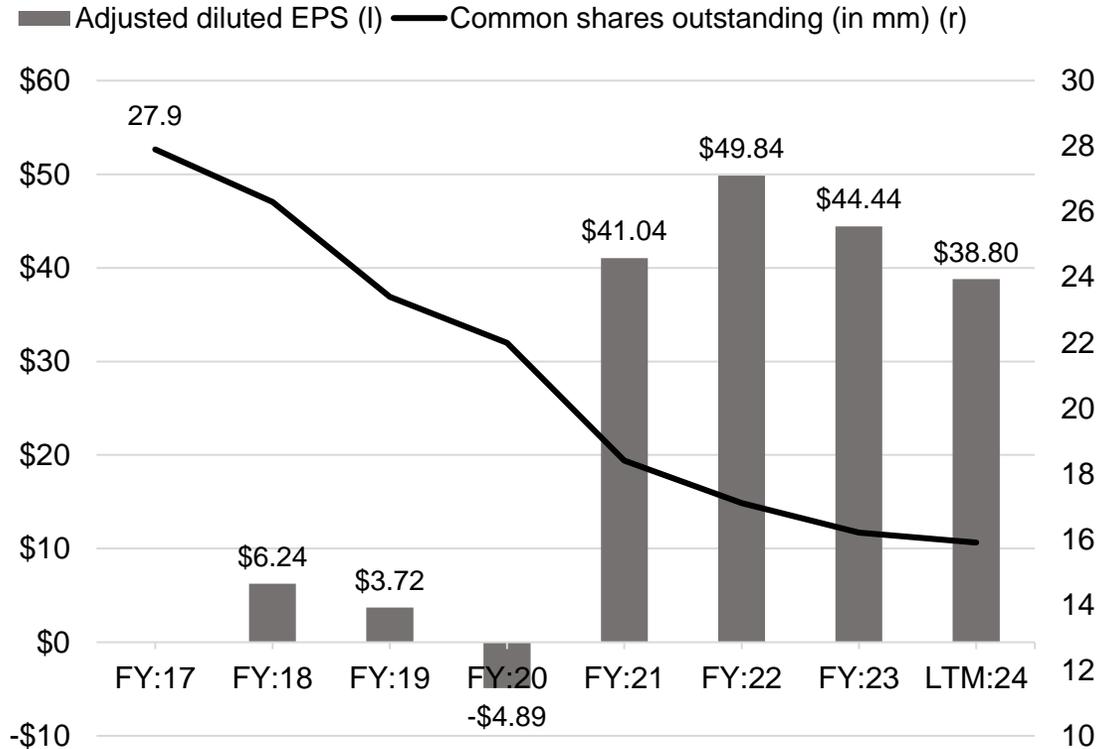
Cumulative sources and uses of cash
FY:18-YTD:24 (in bn)



Dillard's large share repurchases have served as a major catalyst for EPS growth, whereas Macy's has seen no EPS growth

Dillard's

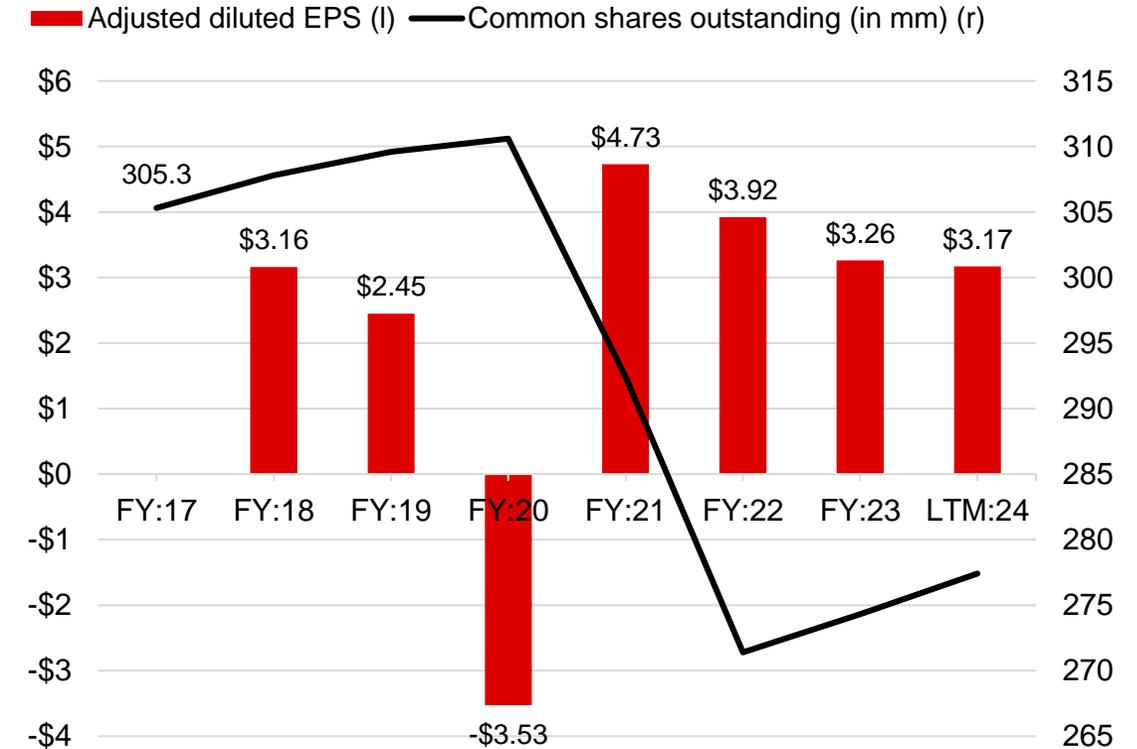
Diluted EPS and shares outstanding¹



- Since the end of FY:17, Dillard's share repurchases have lowered its share count by ~43%.
- Fewer shares have served as a major driver for EPS, helping to increase growth by ~520% from FY:18 to LQ:24.

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Diluted EPS and shares outstanding¹

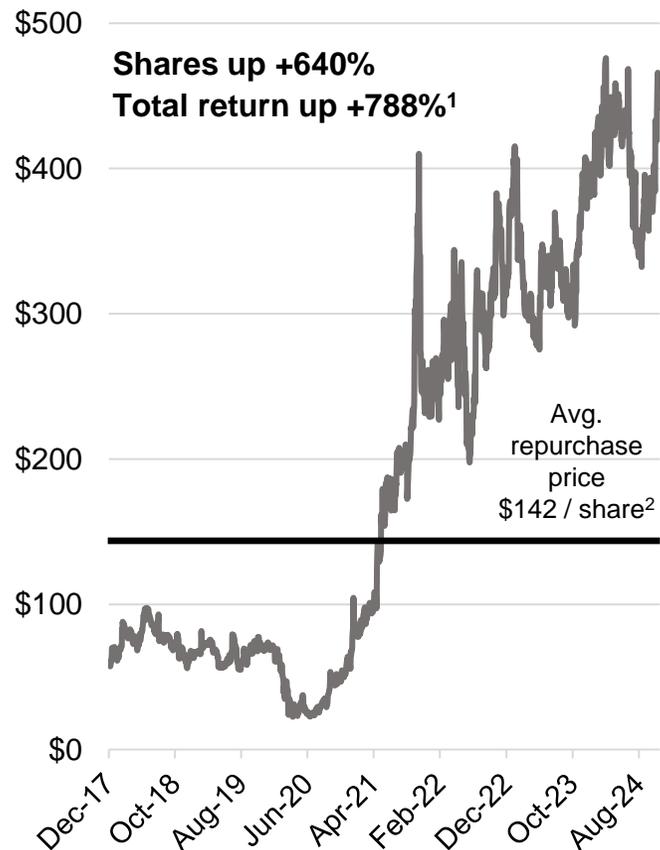


- Macy's has repurchased only 9% of its shares from the end of FY:17 to LQ:24. Lately, share count has been increasing due to executive compensation.
- Macy's EPS have been flat from since FY:18 due to operating challenges and limited recent share repurchase activity.

Dillard's improved operating performance, coupled with its highly accretive share repurchases, have driven a sizable appreciation in shareholder value versus Macy's

Dillard's

Share price since 12/29/2017

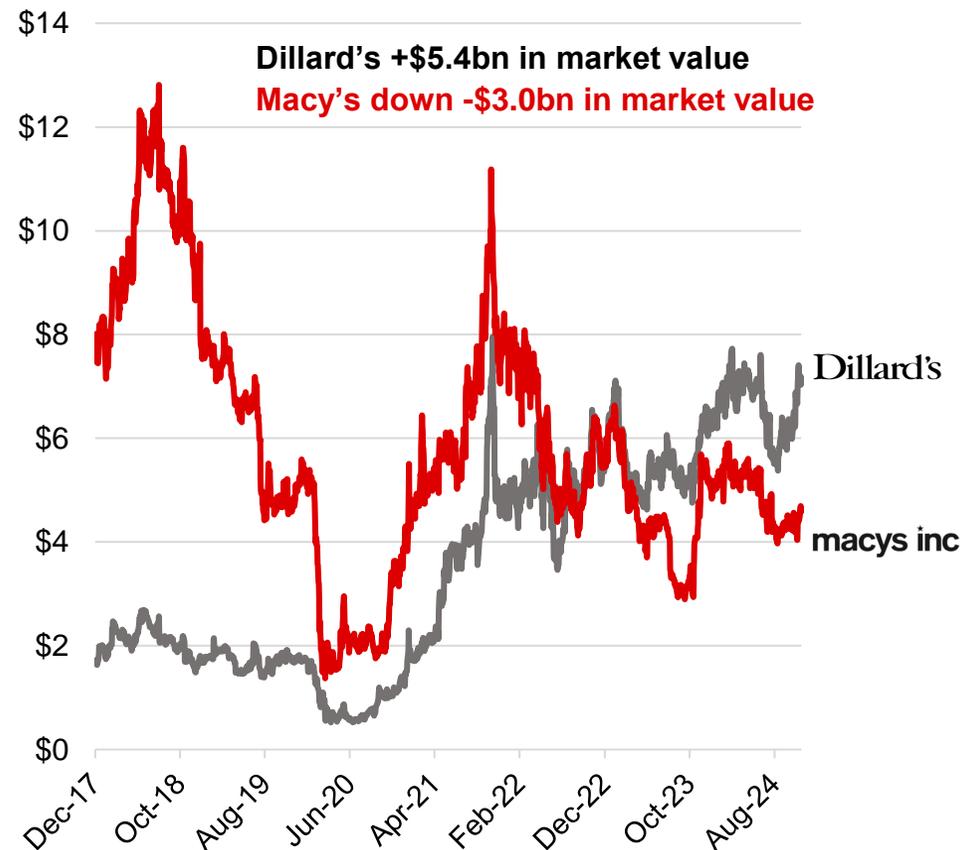


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Share price since 12/29/2017



Market capitalization since 12/29/2017 (in bn)



Source: S&P Capital IQ as of 12/4/24.

(1) Includes the reinvestment of dividends.

(2) Reflects average repurchase price per share for share repurchases completed from FY:18-YTD:24.

We believe Macy's should implement the following recommendations to maximize shareholder value

1. Significantly reduce capital expenditures.

- Macy's capex track record has been abysmal and **shareholders cannot continue to fund unproven growth and efficiency initiatives.**
- We strongly believe that capex must be reduced to 1.5%-2% of total sales vs. ~4% currently.

2. Aggressively repurchase shares.

- Macy's share price does not reflect its turnaround potential or the attractive values present in its owned real estate and luxury brands.
- We believe a successful transformation plan could generate over \$4bn in cash sources over the next three years.
- We recommend that Macy's repurchase a minimum of \$2-\$3bn in stock over the next three years, as the timing is optimal.

3. Create a separate internal real estate subsidiary to optimize the value potential of owned assets.

- Macy's has valuable owned real estate that we believe is currently worth between \$5-\$9bn.
- We believe an internal real estate entity – we call Macy's Realty Co. – would best determine market options vs. status quo structure.

4. Evaluate strategic alternatives for the luxury operations.

- Bloomingdale's and Bluemercury have attractive growth prospects that we believe are being stunted by the Macy's nameplate turnaround.
- We believe Macys' luxury operations would trade at a valuation well in excess of Macy's current multiple levels.

5. Add Barington and Thor representatives to the Macy's board.

- Barington has expertise in the retail sector with prior publicly-disclosed investments in Hanesbrands, L Brands, Chico's FAS and Dillard's.
- Thor has expertise in the real estate markets, especially in developing value-enhancing alternatives for retail real estate.

▪ In our opinion, **Dillard's has demonstrated the keys to shareholder value creation in the department store sector:**

- Prioritize “profitable sales” (i.e., tight inventory and expense controls), especially during challenging revenue cycles;
- Be very prudent with capex spending, given that most projects in the mature department store sector are likely sub-optimal; and
- Aggressively return capital to shareholders.

Macy's transformation plan will result in lower net sales by FY:26E, but deliver a significantly more productive store portfolio

- We are encouraged by Macy's plan to exit 150 very low-performing Macy's nameplate locations – nearly 1/3 of the nameplate's store base.
 - The stores to be exited generated sales of ~\$67 per square foot vs. the Go-Forward Macy's nameplate locations of ~\$245 per square foot.
- We are supportive of the new Macy's small format stores but seek performance data for validation.
 - We object to calling the new small format stores “Market by Macy's” and believe the Company should use the Macy's name due to the brand's strength.
- We are supportive of adding new Bloomingdale's and Bluemercury locations due to the strong positioning of these luxury concepts.
 - We object to the “Bloomies” name being used for the new small format stores and believe the Company should use the Bloomingdale's name due to the brand's strength.
- **We believe Macy's plan could see store productivity rise to ~\$250 per square feet by FY:26E or 6% annually.**

Source: Company Forms 10-K and 10-Q and earnings presentations.

(1) Barington plan results based on Barington extrapolation and Company guidance.

(2) Assumes comp store sales as follows: FY:24E -2.5%, FY:25E -1.0% and FY:26E 0.0%.

(3) Assumes 30 new stores per Macy's plan. New stores assumed to be 40,000 square feet per store. Assumes new stores generate sales per square foot at historical \$245 level using a mid-year convention.

(4) Reflects 57 Go-Forward stores plus 15 new stores per Macy's plan. New stores assumed to be 20,000 square feet per store. Assumes Go-Forward stores generate comp sales as follows: FY:24E 0.0%, FY:25E 0.5% and FY:26E 0.75%. Assumes new stores generate sales per square foot at historical \$333 level using a mid-year convention.

(5) Reflects 159 Go-Forward stores plus 30 new stores per Macy's plan. New stores assumed to be 2,500 square feet. Assumes Go-Forward stores generate comp sales as follows: FY:24E 4.0%, FY:25E 3.0% and FY:26E 2.0%. Assumes new stores generate sales per square foot at historical \$1,000 level using a mid-year convention.

Macy's store and sales results¹

(in mm, except stores and per unit data)

		Historical	Barington plan			
		FY:23	FY:24E	FY:25E	FY:26E	CAGR
Stores						
Macy's Go-Forward	(2)	352	352	352	352	0.0%
Macy's Non-Go-Forward		150	95	45	0	-100.0%
Macy's new small format	(3)	0	10	30	30	NA
Total Macy's nameplate		502	457	427	382	-8.7%
Bloomingdale's	(4)	57	62	67	72	8.1%
Bluemercury	(5)	159	169	179	189	5.9%
Total		718	688	673	643	-3.6%

Square feet

Macy's Go-Forward	(2)	73.6	73.6	73.6	73.6	0.0%
Macy's Non-Go-Forward		27.5	17.4	8.3	0.0	-100.0%
Macy's new small format	(3)	0.0	0.4	1.2	1.2	NA
Total Macy's nameplate		101.1	91.4	83.0	74.8	-9.6%
Bloomingdale's	(4)	8.5	8.6	8.7	8.8	1.2%
Bluemercury	(5)	0.4	0.4	0.4	0.5	5.9%
Total		110.0	100.4	92.2	84.1	-8.6%

Net sales

Macy's Go-Forward	(2)	\$18,012	\$17,561	\$17,386	\$17,386	-1.2%
Macy's Non-Go-Forward		1,847	1,170	554	0	-100.0%
Macy's new small format	(3)	0	49	196	294	NA
Total Macy's nameplate		19,859	18,780	18,136	17,680	-3.8%
Bloomingdale's	(4)	2,835	2,852	2,900	2,954	1.4%
Bluemercury	(5)	398	426	463	497	7.7%
Total		\$23,092	\$22,058	\$21,499	\$21,131	-2.9%

Net sales / square feet

Macy's Go-Forward	(2)	\$245	\$239	\$236	\$236	-1.2%
Macy's Non-Go-Forward		67	67	67	NA	NA
Macy's new small format	(3)	NA	122	163	245	NA
Total Macy's nameplate		196	205	218	236	6.4%
Bloomingdale's	(4)	333	331	333	335	0.2%
Bluemercury	(5)	1,000	1,008	1,035	1,051	1.7%
Total		\$210	\$220	\$233	\$251	6.2%

We believe improved margins from the transformation plan and a return of capex to more normalized levels will free up significant cash for stockholders

- **We believe reported adjusted EBITDA margins can return to the 10%+ level or higher as weaker stores are removed from the portfolio.**
 - Higher sales productivity at Macy's Go-Forward store base will give the Company a more fertile operating environment for its merchandising initiatives.
- We are concerned that the \$4bn+ in total cash sources that Macy's should generate over the next three years could be misallocated on ineffective capex projects.
- **We believe Macy's needs to reduce capex to 1.5%-2% of total sales, as prior spending has yielded no improvements in operating performance.**
- **The Barington plan would free up \$2bn+ for share repurchases.**
- Under the Barington plan, Macy's would be returning 60%+ of its total cash sources to shareholders – a level in-line with Dillard's.

Macy's income and cash flow statement results¹

(in mm, except stores and per unit data)

	Historical FY:23	Barington plan			
		FY:24E	FY:25E	FY:26E	Cuml
Income statement					
Net sales	\$23,092	\$22,058	\$21,499	\$21,131	
Other revenue	774	678	671	667	
Total sales	\$23,866	\$22,736	\$22,169	\$21,797	\$66,703
% change		-4.7%	-2.5%	-1.7%	
Reported adjusted EBITDA	\$2,317	\$2,009	\$2,106	\$2,180	
% total sales	9.7%	8.8%	9.5%	10.0%	
Real estate losses/(gains)	(61)	(115)	(100)	(85)	(300)
Benefit plan income	(11)	(11)	(11)	(11)	
Adjusted EBITDA	(2) \$2,245	\$1,883	\$1,995	\$2,084	
% total sales	9.4%	8.3%	9.0%	9.6%	
% change		-16.1%	5.9%	4.4%	
Cash flow statement					
Cash from operations	\$1,305	\$1,130	\$1,247	\$1,362	\$3,739
% of adjusted EBITDA	58.1%	60.0%	62.5%	65.4%	
Sale of PP&E	86	150	250	250	650
Total cash sources	\$1,391	\$1,280	\$1,497	\$1,612	\$4,389
Total capex	(\$993)	(\$883)	(\$443)	(\$327)	(\$1,653)
% of total sales	-4.2%	-3.9%	-2.0%	-1.5%	-2.5%
Dividends paid	(3) (181)	(191)	(185)	(164)	(540)
Total cash uses	(\$1,174)	(\$1,073)	(\$629)	(\$491)	(\$2,192)
Cash avail. for share repurchases	\$217	\$207	\$868	\$1,122	\$2,197
Capital return to stockholders					
Total capital return	(4) \$206	\$397	\$1,054	\$1,285	\$2,736
% of total cash sources	14.8%	31.1%	70.4%	79.7%	62.3%

Source: Company Forms 10-K and 10-Q and earnings presentations.

(1) Barington plan results based on Barington extrapolation and Company guidance.

(2) Excludes gains and losses on real estate, special charges and other non-operating income and expenses.

(3) Based on current dividend of \$0.69 per share.

(4) FY:23 reflects actual amount returned to shareholders, including \$25mm in share repurchases and \$181mm in dividends.

We recommend that Macy's take advantage of its discounted share price by aggressively repurchasing shares

- Assuming a rerating in Macy's P/E multiple, the Company's \$2bn+ in share repurchases will result in the retirement of ~80mm shares.
 - If Macy's shares continue to trade at the current low valuation multiple, we recommend that the Company front load its repurchase activity.
- Under Barington's plan, Macy's repurchases will result in a reduction in common shares outstanding of ~25%.**
- We believe Macy's stock represents its best investment, serving as a catalyst that will drive 20%+ annual EPS growth.**

Macy's share repurchase and diluted EPS results¹

(in mm, except stores and per unit data)

	Historical	Barington plan			
	FY:23	FY:24E	FY:25E	FY:26E	Cuml
Share repurchase activity					
Share repurchases	(\$25)	(\$207)	(\$868)	(\$1,122)	(\$2,197)
Shares repurchased	1.4	11.5	36.2	35.1	82.7
Average repurchase price	\$17.86	\$18.00	\$24.00	\$32.00	\$26.56
Repurchase P/E multiple	5.5x	7.4x	7.9x	8.5x	
Basic shares out. - BOP	271.4	274.3	266.8	235.6	
Shares repurchased	(1.4)	(11.5)	(36.2)	(35.1)	(82.7)
Option activity	4.3	4.0	5.0	6.0	
Basic shares out. - EOP	274.3	266.8	235.6	206.6	
% change from FY:23		-2.7%	-14.1%	-24.7%	
Weighted average diluted shares					
Basic shares out. - BOP	271.4	274.3	266.8	235.6	
Shares repurchased	(2) (1.1)	(8.6)	(27.1)	(26.3)	(62.0)
Option activity	(2) 3.2	3.0	3.8	4.5	
Other dilutive factors	4.4	4.0	4.0	4.0	
Weighted avg. diluted shrs. out.	278.0	272.7	247.4	217.8	
Adjusted diluted EPS					
Adjusted EBITDA	\$2,245	\$1,883	\$1,995	\$2,084	
D&A	(897)	(880)	(880)	(880)	
Interest expense	(3) (135)	(120)	(120)	(120)	
Adjusted pre-tax income	1,213	883	995	1,084	
Adjusted tax rate	25%	25%	25%	25%	
Adjusted taxes	(305)	(216)	(244)	(266)	
Net income	908	667	751	818	
Adjusted diluted EPS	\$3.26	\$2.45	\$3.04	\$3.76	
% change		-25.1%	24.2%	23.7%	

Source: Company Forms 10-K and 10-Q and earnings presentations.

(1) Barington plan results based on Barington extrapolation and Company guidance.

(2) Weighted at 75%.

(3) Assumes net debt in line with current levels.

We believe the Barington plan could deliver a total return to shareholders of ~170% by the end of FY:26E

- We believe Macy's multiple can re-rate higher once improved operating results become more sustainable.
 - As Dillard's performance became more consistent in early FY:23, its multiples have rerated as follows:
 - NTM EBITDA multiple has seen a 3.5x rerating to 9x, and
 - NTM P/E multiple has seen a 5x rerating to 14x.
- **A combination of improving results and less dilution from outstanding shares will help increase shareholder value at Macy's.**

Macy's valuation under the Barington plan¹

(in mm, except per unit data)

	EBITDA methodology			Diluted EPS methodology			Midpoint
	FY:24E	FY:25E	FY:26E	FY:24E	FY:25E	FY:26E	FY:26E
Result	\$1,883	\$1,995	\$2,084	2.45	3.04	3.76	
Assumed multiple	3.5x	4.5x	6.0x	6.0x	7.5x	10.0x	
Enterprise value	\$6,591	\$8,978	\$12,502				
Net debt / (cash) ²	2,500	2,500	2,500				
Equity value	\$4,091	\$6,478	\$10,002				
Basic shares out. - EOP	266.8	235.6	206.6				
Equity value / share	\$15.34	\$27.49	\$48.43	\$14.67	\$22.78	\$37.57	\$43.00
% premium to market ³	-8.4%	64.2%	189.3%	-12.3%	36.1%	124.4%	156.8%
Cumulative DPS ⁴	\$0.69	\$1.39	\$2.08	\$0.69	\$1.39	\$2.08	\$2.08
Total return / share	\$16.03	\$28.88	\$50.51	\$15.37	\$24.17	\$39.65	\$45.08
% premium to market³	-4.2%	72.5%	201.7%	-8.2%	44.4%	136.9%	169.3%

Source: Company Forms 10-K and 10-Q and earnings presentations.

(1) Barington plan results based on Barington extrapolation and Company guidance.

(2) Assume net debt in line with current levels.

(3) Based on closing share price from S&P Capital IQ at 12/4/24.

(4) Assumes no change in dividend per share.

Macy's owns valuable real estate holdings that we believe are worth between \$5-\$9bn

- We believe Macy's should pursue all alternatives to extract value from its real estate holdings and use the cash for additional share repurchases.
- We believe that once the Go-Forward portfolio begins to deliver higher and more consistent margins, those locations should be candidates for sale-leaseback transactions.
- Macy's current enterprise value is \$7.2bn vs. Barington and Thor's real estate value for Macy's of \$5-\$9bn.
The market is implying that Macy's retail operations are essentially worthless.

Value of Macy's owned real estate

(\$ and sq. ft. in mm, except per unit data)

	Key data		Value / sq. ft.		Valuation	
	FY:23 units	FY:23 sq. ft. ¹	Low	High	Low	High
<u>Macy's nameplate</u>						
Herald Square – NYC	1	2.2	\$750	\$1,100	\$1,639	\$2,404
State Street – Chicago	1	1.3	300	400	390	520
Union Square – San Francisco	1	0.7	350	425	245	298
Other owned department/furniture stores ²	<u>357</u>	<u>76.8</u>	<u>25</u>	<u>50</u>	<u>1,921</u>	<u>3,841</u>
Total owned stores	360	81.0	52	87	4,194	7,062
Leased department/furniture stores ³	121	19.3	0	15	0	290
Other leased stores ⁴	<u>21</u>	<u>0.8</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Macy's nameplate	502	101.1	\$41	\$73	\$4,194	\$7,352
<u>Bloomington's nameplate</u>						
South Coast Plaza – Costa Mesa	1	0.3	\$150	\$200	\$44	\$58
Other owned department/furniture stores ⁵	<u>18</u>	<u>4.1</u>	<u>50</u>	<u>75</u>	<u>203</u>	<u>304</u>
Total owned stores	19	4.3	57	83	246	362
59 th & Lexington – NYC	1	0.9	50	75	43	64
Leased department/furniture stores ³	13	2.7	0	15	0	41
Other leased stores ⁴	<u>24</u>	<u>0.6</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Bloomington's nameplate	57	8.5	\$34	\$55	\$289	\$467
<u>Bluemercury nameplate</u>						
Total leased stores ⁴	<u>159</u>	<u>0.4</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Total stores	718	110.0	\$41	\$71	\$4,483	\$7,819
<u>Logistics centers</u>						
Total owned centers	12	14.1	\$50	\$75	\$703	\$1,055
Total leased centers ⁴	<u>12</u>	<u>5.0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total logistics centers	24	19.1	\$37	\$55	\$703	\$1,055
Total real estate value	742	129.1			\$5,187	\$8,874

Source: Company Forms 10-K and 10-Q and earnings presentations.

(1) Based on Barington extrapolation.

(2) Includes 84 stores subject to a ground lease and 3 stores partly owned and partly leased.

(3) Reflects leased locations where the lease structure has embedded value.

(4) Reflects leased locations where the lease structure has no embedded value.

(5) Includes 6 stores subject to a ground lease.

We believe Macy's should form a separate internal real estate subsidiary that would be responsible for optimizing the value potential of its owned real estate

- A newly formed Macy's real estate subsidiary – which we refer to as **Macy's Realty Co.** (“Realty Co.”) – would house all of the Company's owned and leased real estate, including stores and distribution centers.
- The retail operating company would pay “market rents” to Realty Co.
- The leased assets would be analyzed for any “below-market” terms that have embedded value.
- Realty Co. would make recommendations to senior leadership on how best to optimize asset valuations, including outright sales, sale-leasebacks and redevelopment projects, vs. the status quo structure.
- **We believe Realty Co. would serve as a proper check on Macy's retail operations to ensure that underperforming stores are more regularly identified, and asset values are maximized for the benefit of shareholders.**



Macy's Herald Square - NYC



Bloomingdale's Lexington Ave. - NYC



Macy's State Street - Chicago



Bloomingdale's South Coast Plaza – CA



Macy's Union Square - SF



Macy's Aventura Mall - FL

We believe Macy's luxury operations have attractive market prospects and should be evaluated for strategic alternatives

- We believe Macy's luxury operations would trade at a higher multiple than Macy's Inc. due to the brands' higher-end positioning and solid growth prospects.
 - Neiman Marcus, a Bloomindale's peer which has at times been in varying states of distress, has agreed to be acquired by Saks for 0.59x FY:23 sales.³
 - Bath & Body Works and Ulta Beauty, Bluemercury peers which are more mature, trade at 1.64x NTM sales.
- Based on our valuations for Macy's luxury operations and credit card business, which excludes any value for the Company's real estate, **we believe the implied value for the Macy's nameplate is being undervalued by the market.**
 - Note that over the past 10-years, excluding the Covid period, Macy's, Inc. traded at a minimum of 0.24x sales and a mean of 0.52x sales.⁴

Implied value of the Macy's Nameplate

(\$ in mm, except store and per share data)

	FY:24E			Multiple		Enterprise value	
	Total sales ¹	Q2:24 Stores	Sales / Store	Low	High	Low	High
Macy's, Inc. enterprise value	\$22,928			0.30x	0.30x	\$7,193	\$7,193
<u>Less</u>							
Bloomingdale's nameplate	\$2,945	57	\$51.7	0.50x	1.00x	\$1,473	\$2,945
Bluemercury nameplate²	393	157	2.5	1.50x	2.50x	589	981
Total luxury operations	\$3,338	214	\$15.6	0.62x	0.90x	\$2,061	\$3,926
Credit card operations	\$498			0.75x	1.25x	\$373	\$622
Marketing operations	180			0.00x	0.00x	0	0
Total other operations	\$678			0.55x	0.92x	\$373	\$622
Implied Macy's nameplate enterprise value	\$18,913	506	\$37.4	0.25x	0.14x	\$4,759	\$2,645
<u>Key data</u>							
Net sales	\$22,250						
Other revenue	678						
Total sales	\$22,928						
Macy's	\$18,913						
% of total net sales ²	85%						
Bloomingdale's / Bluemercury	3,338						
Total net sales	\$22,250						

Source: S&P Capital IQ at 12/4/24. Company Forms 10-K and 10-Q and earnings presentations.

(1) Based on midpoint of Company FY:24E guidance.

(2) Based on Barington extrapolation.

(3) The Dallas Morning News, "Saks owner to purchase Neiman Marcus for \$2.65 billion, according to reports," 7/3/24.

(4) Results exclude the period from 2/1/20 to 5/31/21 due to the impact on share prices and estimates stemming from the Covid pandemic.

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