

MACY'S, INC.

QuickLook Report

General Information		Key Personnel	
Address:	7 West Seventh Street Cincinnati, OH 45202	Chairman, President & CEO:	Terry J. Lundgren
Business:	Department Store	EVP & CFO:	Karen M. Hoguet
		Auditor:	KPMG LLP
Store Base		Financial Markets	
Count:	847 Stores as of 1/31/09	Stock Ticker:	M (NYSE)
		Current Price:	\$9.81 at 4/8/09
Locations:	45 states, DC, Puerto Rico and Guam	52 Week High/Low:	\$27.08/\$5.01

Analyst's "Insight"

Fiscal Year Ended January 31, 2009

Weak same store sales and a gross margin decline were the primary factors behind Macy's 26.2% decline in fourth quarter EBITDA. Comps were negatively impacted by the difficult economic climate however, the Company's comp results continued to outperform its competitors. Gross margin declined 230 basis points due to significantly higher markdowns and a 50 basis point increase in inventory shrinkage. The markdowns served to keep merchandise current and inventory declined 7.5% on a comp store basis. SG&A declined \$26.0 million on a dollar basis but margins rose due to the deleveraging effect of the weak sales. The Company has taken several steps to weather what it appropriately termed "the worst economic environment in a generation." It is rolling out the My Macy's localization initiative nationwide in the fourth quarter sales at the My Macy's pilot stores outperformed the rest of the chain by 150 basis points. In addition, the Company is reducing expenses (it expects a \$250.0 million reduction in 2009), cutting capital expenditures, managing inventories conservatively, paying down debt and lowering its dividend. The Company expects fiscal 2009 earnings per share to be in a range of \$0.40 to \$0.55, assuming a 6% to 8% same store sales decline. The Company noted that the uncertain direction of the economy makes guidance difficult. The Company earned \$0.66 per share in fiscal 2008. Despite the unfavorable environment, the Company generated \$1.11 billion of free cash flow in fiscal 2008 and ended the year with \$1.30 billion in cash. Macy's also ended the year with no direct borrowings against its \$2.00 billion revolver. At year end, the Company had \$350.0 million of senior notes maturing April 1, 2009 and \$600.0 million maturing July 15, 2009. Early in fiscal 2009 it used approximately \$686.0 million of cash on hand for the soon to be maturing notes, and reduced annual interest expense by \$7.0 million. The Company expects to pay the remaining \$270.0 million in July. The Company has only \$238.0 million in maturing debt in fiscal 2010.

Credit Rating: C2

Analyst, [Jim Rice](#) (800) 789-0123, ext. 127

In a Nutshell

- **February Sales.** On March 5, 2009, the Company reported total sales of \$1.57 billion for the four weeks ended February 28, 2009, a decrease of 9.3% compared to total sales of \$1.73 billion in the four weeks ended March 1, 2008. On a same store basis, sales were down 8.5% in February. The results were consistent with management's expectations.
- **Debt Rating Cut.** On April 1, 2009, Moody's Investors Services downgraded Macy's debt to **Ba2** from **Baa3** or "junk" territory. Moody's said that Macy's credit metrics have deteriorated along with its operating performance. Moody's further stated that Macy's operating performance will continue to be pressured given the current consumer spending environment. Moody's assigned a Corporate Family Rating of **Ba2**, and a Probability of Default Rating of **Ba2**, with a stable outlook.
- **Goodwill Impairment Charge.** On March 31, 2009, the Company announced that it recorded an estimated \$5.10 billion after tax goodwill impairment charge. The charge is in connection with the Company's August 2005 acquisition of The May Department Stores. The goodwill impairment estimate is subject to further adjustment in the first quarter of 2009. The non-cash write-down is expected to have no impact on the Company's bank credit agreement or bond indentures.
- **Capital Expenditures** were \$761.0 million in fiscal 2008 compared to \$994.0 million in fiscal 2007. The Company opened two new Macy's department stores and closed 11 Macy's stores in fiscal 2008. The Company expects fiscal 2009 capital expenditures to be approximately \$450.0 million. The Company plans to open four new stores in fiscal 2009, one of which is a replacement store.
- **Credit Availability.** As of January 31, 2009, there were no outstanding borrowings, and \$48.0 million in outstanding letters of credit on the Company's \$2.00 billion revolver leaving \$1.95 billion available. The borrowing limit may be

increased to \$2.50 billion at the Company's option, subject to the willingness of existing or new lenders to provide commitments for additional funding. The facility, which matures on August 30, 2012, is used as a backstop to support the Company's commercial paper program. As of January 31, 2009, the Company had no outstanding borrowings under its unsecured commercial paper program. The agreement contains two financial covenants, an interest coverage ratio and a specified leverage ration. As of January 31, 2009, the Company was in compliance with both covenants.

"By-the-Numbers"

	3 Months Ended		% Change/ Difference	12 Months Ended		% Change/ Difference
	1/31/2009	2/2/2008		1/31/2009	2/2/2008	
	(Dollars in Millions)			(Dollars in Millions)		
Operating Performance:						
Sales	\$ 7,934.0	\$ 8,594.0	-7.7%	\$ 24,892.0	\$ 26,313.0	-5.4%
Store Count	847	853	-0.7%	847	853	-0.7%
Comp Store Sales (% Change)	-7.0%	-2.0%		-4.6%	-1.3%	
Gross Margins	39.3%	41.6%	-2.3%	39.7%	40.4%	-0.7%
SG&A Margin	28.4%	26.6%	1.8%	28.9%	27.6%	1.3%
EBITDA ⁽¹⁾	\$ 1,194.0	\$ 1,618.0	-26.2%	\$ 2,680.0	\$ 3,386.0	-20.9%
EBITDA Margin	15.0%	18.8%	-3.8%	10.8%	12.9%	-2.1%
Op. Income (Loss) ⁽¹⁾	\$ 866.0	\$ 1,222.0	-29.1%	\$ 1,004.0	\$ 1,863.0	-46.1%
Int. Exp. (Income)	\$ 143.0	\$ 136.0	5.1%	\$ 560.0	\$ 543.0	3.1%
Net Income (Loss) ⁽²⁾	\$ (5,072.0)	\$ 750.0	-776.3%	\$ (4,803.0)	\$ 893.0	-637.8%
Interest Coverage	8.35	11.90	-29.8%	4.79	6.24	-23.3%
Capital Expenditures	\$ 215.0	\$ 294.0	-26.9%	\$ 761.0	\$ 994.0	-23.4%
Capex Margin	2.7%	3.4%	-0.7%	3.1%	3.8%	-0.7%
Return on equity for period	Neg.	6.1%	N.M.	Neg.	7.3%	N.M.
Working Capital & Liquidity Indicators:						
Cash and Equivalents	\$ 1,306.0	\$ 583.0	124.0%	\$ 1,306.0	\$ 583.0	124.0%
Accounts Receivable	\$ 439.0	\$ 463.0	-5.2%	\$ 439.0	\$ 463.0	-5.2%
Inventory	\$ 4,769.0	\$ 5,060.0	-5.8%	\$ 4,769.0	\$ 5,060.0	-5.8%
% Inventory financed by vendors	39.8%	41.3%	-1.5%	39.8%	41.3%	-1.5%
Inventory turnover (annualized)	2.73	2.75	-0.8%	2.73	2.75	-0.8%
Accounts Payable	\$ 1,900.0	\$ 2,091.0	-9.1%	\$ 1,900.0	\$ 2,091.0	-9.1%
Days Payable Outstanding						
Working capital	\$ 1,612.0	\$ 964.0	67.2%	\$ 1,612.0	\$ 964.0	67.2%
Current ratio	1.31	1.18	11.4%	1.31	1.18	11.4%
Debt & Leverage Ratios:						
Total Debt	\$ 9,699.0	\$ 9,753.0	-0.6%	\$ 9,699.0	\$ 9,753.0	-0.6%
Stockholders' Equity	\$ 4,646.0	\$ 9,907.0	-53.1%	\$ 4,646.0	\$ 9,907.0	-53.1%
Tangible Net Worth	\$ (5,198.0)	\$ (57.0)	>1,000%	\$ (5,198.0)	\$ (57.0)	>1,000%
Total debt to equity ratio	2.09	0.98	112.1%	2.09	0.98	112.1%
Total liabilities to equity ratio	4.92	1.80	172.8%	4.92	1.80	172.8%
Total debt to TTM EBITDA	3.62	2.88	25.6%	3.62	2.88	25.6%

1) Excludes division consolidation, store closing, and asset impairment costs of \$219.0 million and \$398.0 million in the fourth quarter and year-to-date periods of fiscal 2008 respectively; May integration costs of \$69.0 million and \$219.0 million in the fourth quarter and year-to-date periods of fiscal 2007 respectively; and goodwill impairment charges of \$5.38 billion in the fourth quarter and year-to-date periods of fiscal 2008.

2) Includes a loss from discontinued operations of \$16.0 million in the year-to-date period of fiscal 2007.

Free Cash Flow Analysis

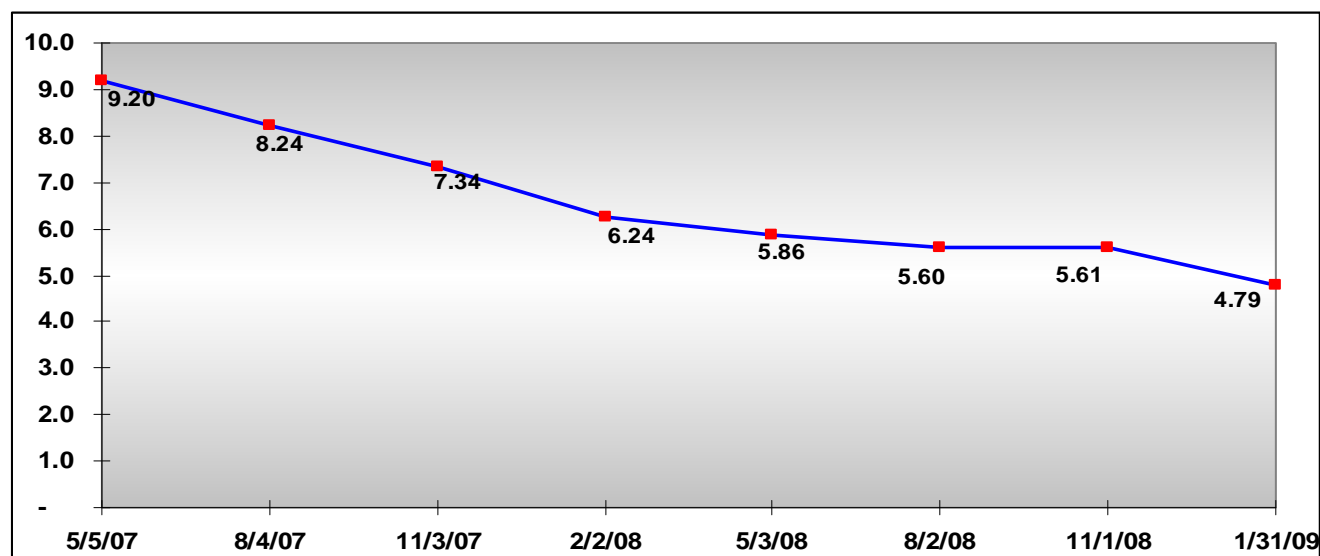
(dollars in millions)

	FYE 1/31/09	3Q 11/1/08	2Q 8/2/08	1Q 5/3/08	FYE 2/2/08	3Q 11/3/07	2Q 8/4/07	1Q 5/5/07
Cash From Operations	\$ 1,879.0	\$ 317.0	\$ 592.0	\$ 21.0	\$ 2,231.0	\$ 285.0	\$ 412.0	\$ (370.0)
Cash From Investing	(791.0)	(606.0)	(312.0)	(99.0)	(789.0)	(618.0)	(315.0)	(31.0)
Cash From Financing	(365.0)	6.0	430.0	(139.0)	(2,069.0)	(935.0)	(1,058.0)	(309.0)
Net Change in Cash *	723.0	(283.0)	710.0	(217.0)	(628.0)	(1,269.0)	(962.0)	(711.0)
* Includes effect of exchange rate changes								
Cash From Operations	1,879.0	317.0	592.0	21.0	2,231.0	285.0	412.0	(370.0)
+ Interest Expense (Income)	560.0	417.0	274.0	136.0	543.0	407.0	262.0	125.0
Capital Expenditures	(761.0)	(546.0)	(284.0)	(81.0)	(994.0)	(700.0)	(403.0)	(125.0)
Free Cash Flow Before Interest Expense	1,678.0	188.0	582.0	76.0	1,780.0	(8.0)	271.0	(370.0)
Free Cash Flow / Interest Expense	3.00	0.45	2.12	0.56	3.28	(0.02)	1.03	(2.96)
Free Cash Flow After Interest Expense	1,118.0	(229.0)	308.0	(60.0)	1,237.0	(415.0)	9.0	(495.0)
Debt Service								
Total Debt	\$ 9,699.0	\$ 9,834.0	\$ 10,377.0	\$ 9,739.0	\$ 9,753.0	\$ 10,731.0	\$ 10,307.0	\$ 10,073.0
Revolver Available	2,000.0	1,800.0	2,000.0	2,000.0	1,968.0	2,000.0	2,000.0	2,000.0

Credit Facility

Original Facility Date	August 30, 2005
Maturity Date	August 30, 2012
Agent Banks	JPMorgan Chase Bank N.A. & Bank of America, N.A.
Maximum Borrowings	\$2.00 billion (may be increased to \$2.50 billion at Company's op
Letter of Credit Sublimit	\$1.00 billion
Availability (as of 1/31/09)	\$2.00 billion
Interest Rate	Based on Prime or LIBOR plus applicable margin
Security	Unsecured
Financial Covenant Categories	Debt/EBITDA of no more than 4.90 to 1.00 through 10/31/09 4.75 to 1.00 from 11/1/09 to 10/31/10 and 4.50 to 1 thereafter Minimum interest coverage ratio of 3.00 through 10/30/10 and 3.25 thereafter

Interest Coverage



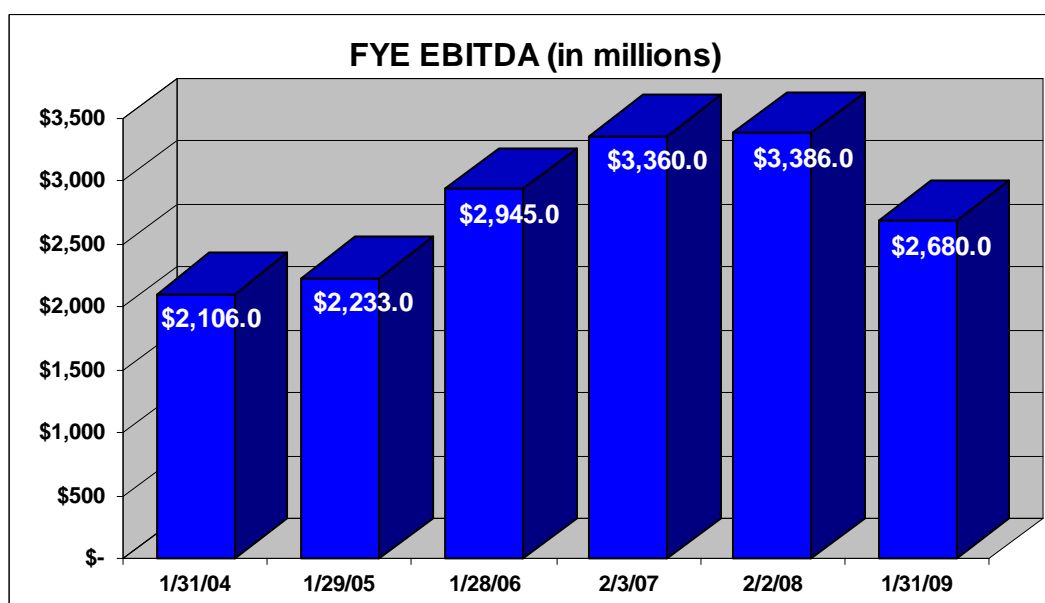
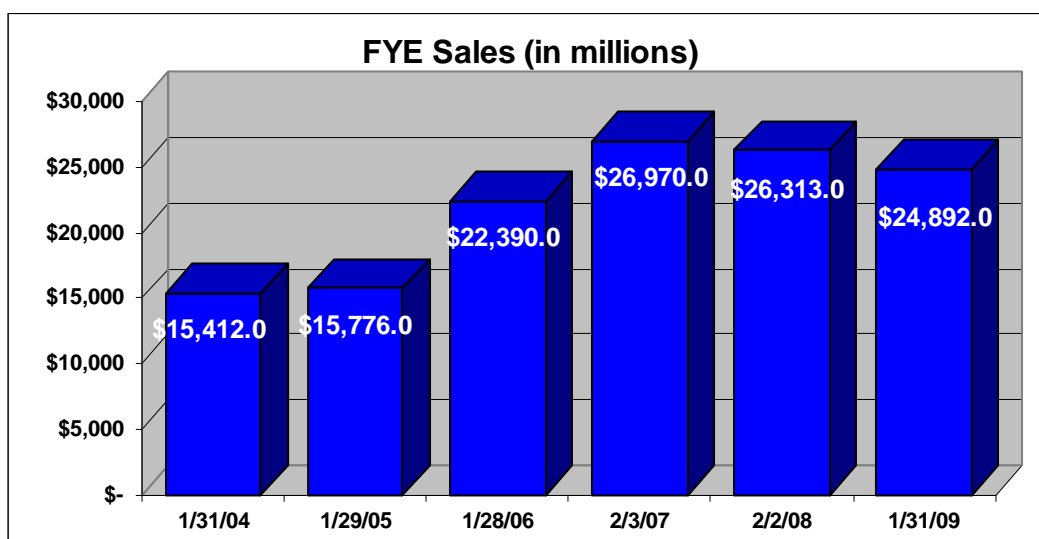
Critical Capital Requirements Calendar

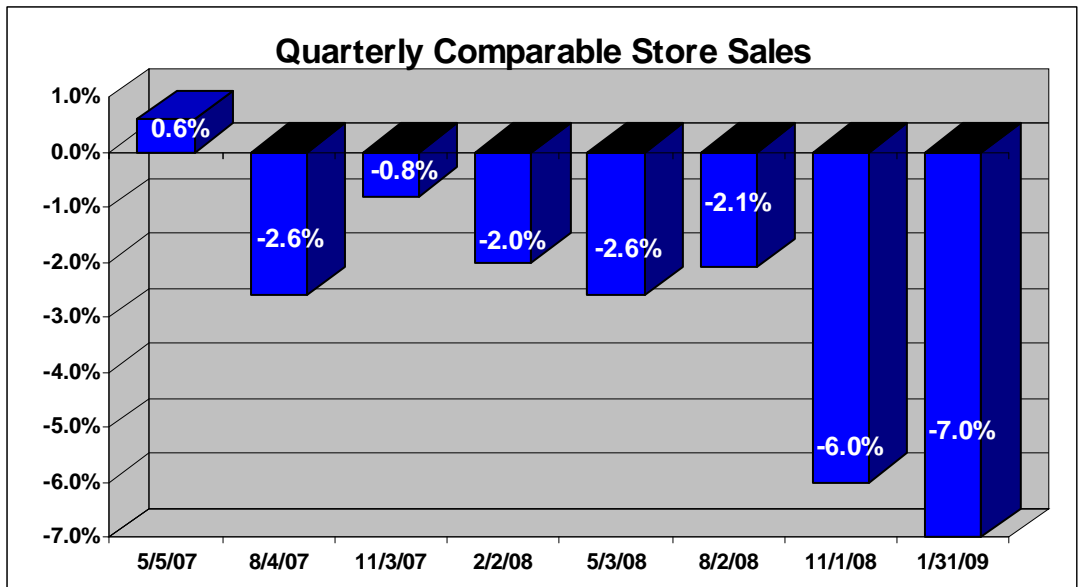
(Approximate month and amount - dollars in millions)

	<u>April</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Other Debt</u>	<u>Total</u>
Senior notes due 2010-2014	--	--	--	--	--	--	115.00 i	115.00
Senior notes due 2009	--	--	--	270.00	--	--	270.00 b	270.00
Senior Unsecured Notes due 2016	--	--	--	--	--	--	32.45 i	32.45
Senior Notes due 2015	--	--	--	--	--	--	25.50 i	25.50
Debentures due through 2036	--	--	--	--	--	--	120.29 i	120.29
Senior Unsecured Notes due 2037	--	--	--	--	--	--	15.94 i	15.94
Other	--	--	--	--	--	--	7.70 i	7.70
Capital Leases	<u>0.47</u> b	<u>0.47</u> b	<u>0.47</u> b	<u>0.47</u> b	<u>0.47</u> b	<u>0.47</u> b	--	<u>2.82</u>
	<u>0.47</u>	<u>0.47</u>	<u>0.47</u>	<u>270.47</u>	<u>0.47</u>	<u>0.47</u>	<u>586.88</u>	<u>589.70</u>

i= Interest Payment; p= Principal Payment; b= Both Interest and Principal.

The following charts show various performance measures for the Company for the periods indicated:





Please email jimr@creditintell.com with questions or concerns regarding **Macy's, Inc.**

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