








# macy's inc

## INVESTOR DAY 2020

# SAFE HARBOR STATEMENT

All forward-looking statements are subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from the expectations and assumptions. A detailed discussion of these factors and uncertainties is contained in the company's filings with the Securities and Exchange Commission.

This presentation includes non-GAAP financial measures that exclude the impact of certain financial statement items. Additional important information regarding these non-GAAP financial measures as well as others used in the press release can be found at the end of this presentation.

# WELCOME

**Jeff Gennette**
Chairman & Chief Executive Officer




POLARIS

**2017**

Year of investment

Achieved positive comparable sales in Q4

**2018**

Strategic initiatives led to 2% annual comparable sales growth

Challenging Holiday season

**2019**

Challenging year for Macy's

Executed Holiday season well

# POLARIS

**Organizational Changes**

**Close Underperforming Stores**

**Expand Customer Loyalty Program**

**Build 4 $1B Brands**

**Create Best Fashions Website**

**Taking action to address aspects of the business under our control**

# EXTERNAL FACTORS POLARIS PLAN WILL ADDRESS

1. **America is over-malled and over-retailed**

2. **America loves to shop, but is shopping differently**

3. **Retail environment moving faster than ever**

# POLARIS

WILL



## Stabilize Profitability in 2020



## Position Company for Profitable Growth

# MACY'S HAS A STRONG FOUNDATION

**Loyal customers**

Best fashion **brand partners**

**Growing** digital business

**Healthier stores**

New in-store **experiences**

Shared commitment with **mall partners**

Strong foundation in **Data analytics**

Robust **technology agenda**

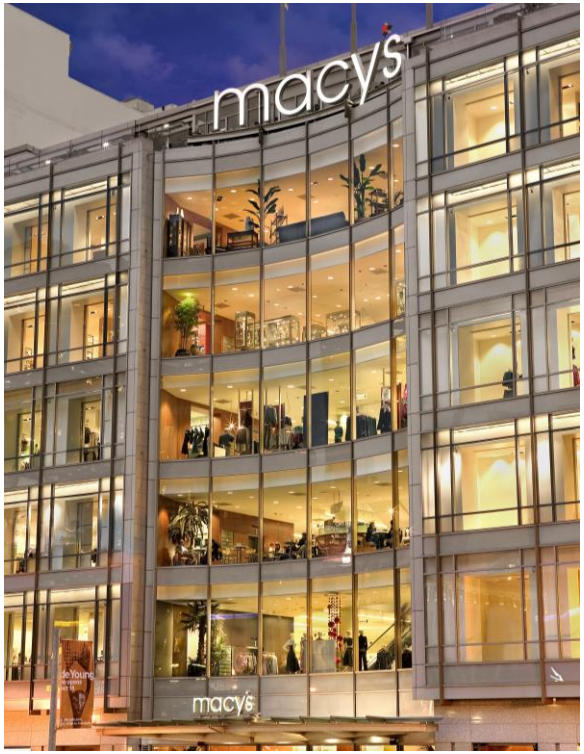
Modernized **supply chain**

bloomingdale's
bluemercury
makeup • skincare • spa

# AMERICA'S DEPARTMENT STORE









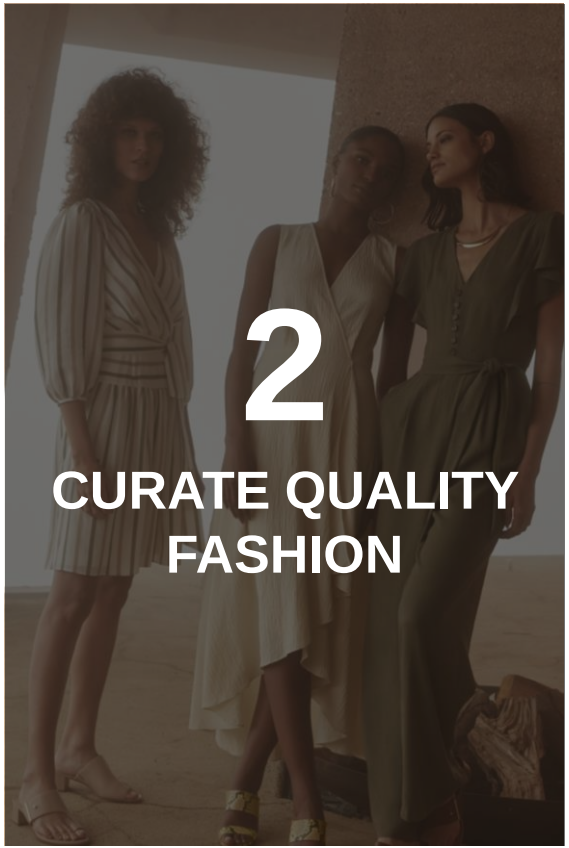
## WE WILL

- Focus resources on healthy parts of the business
- Address the unhealthy parts of the business
- Invest where retail is growing today
- Develop new plans with improved execution
- Build new profitable revenue streams and maximize value of our assets




POLARIS

- **Build profitable customer lifetime value**
- **Expand loyalty program**
- **Accelerate personalization & monetization**



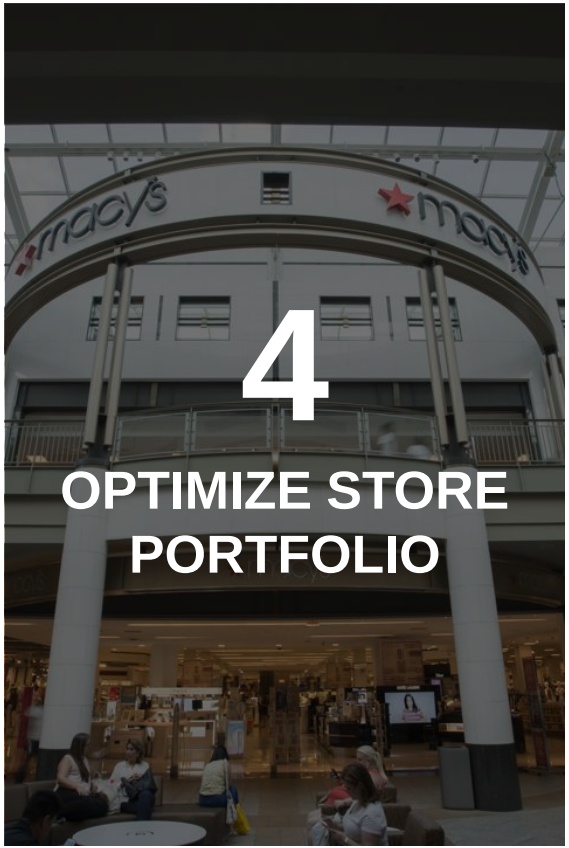

# POLARIS

- **Drive category roles**
- **Best brand destination**
- **Balance sales & margin**



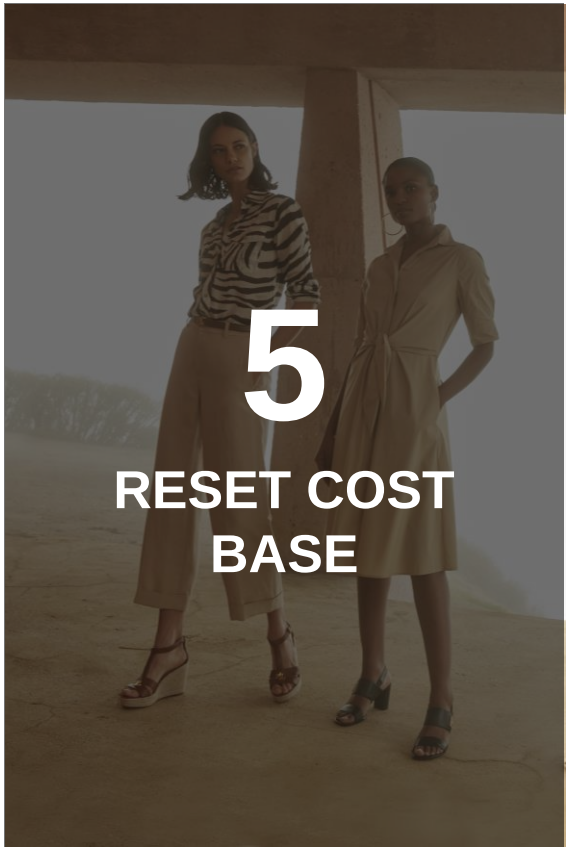

# POLARIS

- **Enhance digital experience**
- **Grow omni-channel customer base**
- **Improve profitability**




POLARIS

- Invest in best stores
- Expand off-mall profitably
- Test & prove market ecosystem




POLARIS

- **Right-size organization & expense base**
- **Balance sales & profit**
- **Improve productivity of working capital**


POLARIS

POLARIS will

**Accelerate savings totaling $1.5B by the end of 2022:**

- $600M in gross margin improvement
- $900M in SG&A savings

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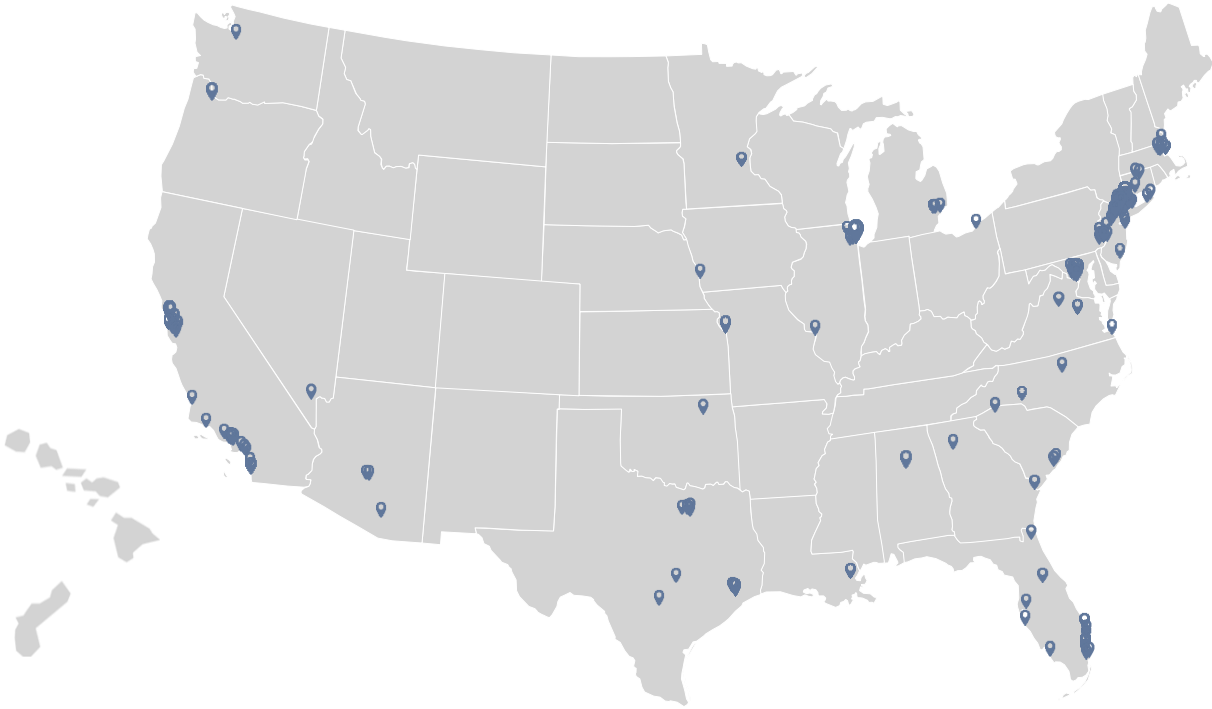
**Stabilize profitability and improve cash flow generation**

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**Fuel capital allocation strategy for long-term financial stability**

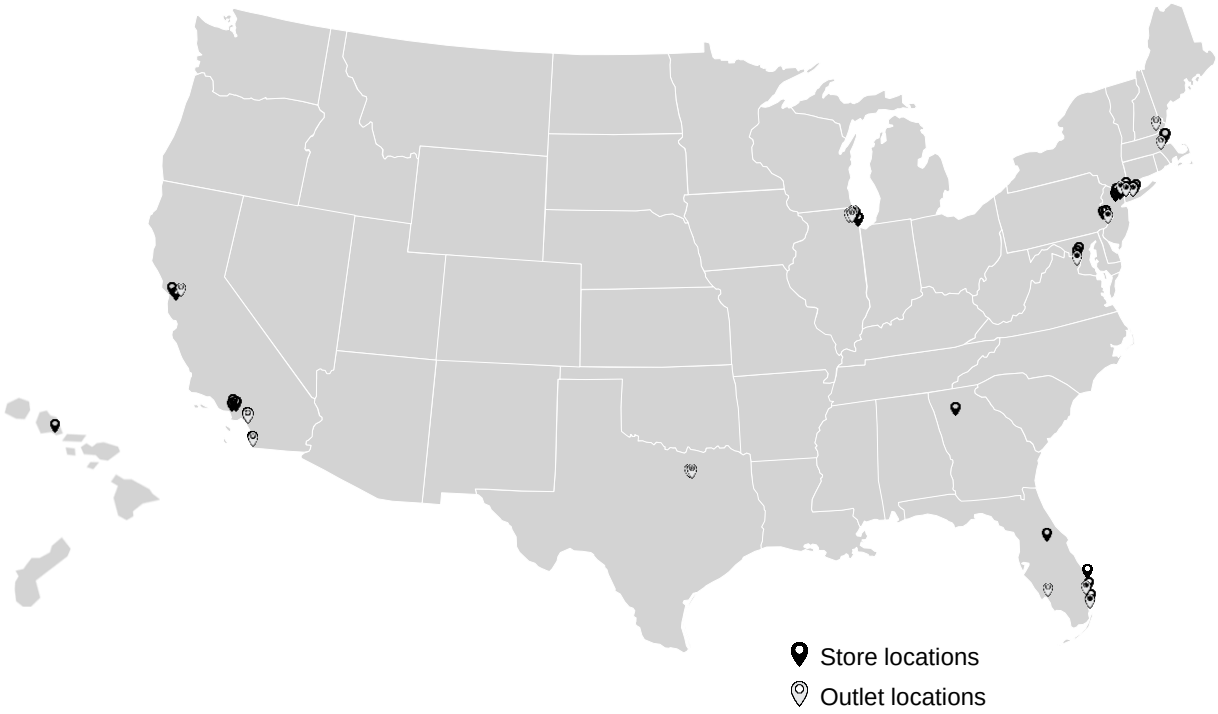
bluemercury®
makeup • skincare • spa



# bloomingdale's



# AGENDA

## Strategy Overview
**JEFF GENNETTE** CHAIRMAN & CEO

## Strengthen Customer Relationships
**RICH LENNOX** CHIEF CUSTOMER OFFICER

## Curate Quality Fashion
**PATTI ONGMAN** CHIEF MERCHANT

## Accelerate Digital Growth
**JILL RAMSEY** HEAD OF DIGITAL

## Optimize Store Portfolio **JEFF GENNETTE** CHAIRMAN & CEO
## Real Estate Update **DOUG SESLER** HEAD OF REAL ESTATE
## Modernize our Supply Chain **DENNIS MULLAHY** HEAD OF SUPPLY CHAIN

## Reset Cost Base and Three-Year Financial Plan
**PAULA PRICE** CHIEF FINANCIAL OFFICER





# STRENGTHEN CUSTOMER RELATIONSHIPS

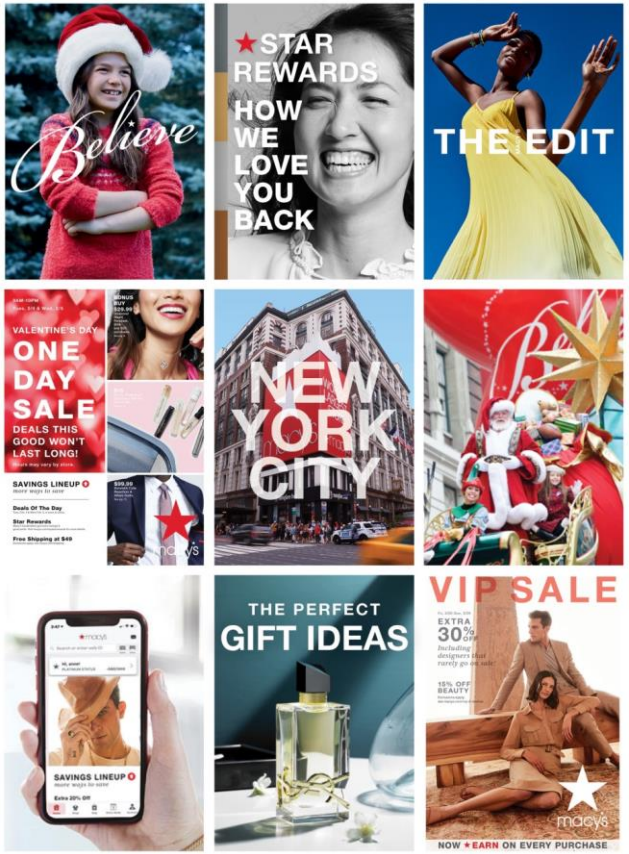
**Rich Lennox**
Chief Customer Officer




GREAT BRANDS
ARE BEACONS IN
CONSUMERS' LIVES
THE POWER OF BRAND RELATIONSHIPS

# MACY'S IS A BEACON BRAND

## AMERICA'S DEPARTMENT STORE



# STRONG CUSTOMER FRANCHISE

**40M+**

ACTIVE CUSTOMERS ANNUALLY

**28M+**

STAR REWARDS MEMBERS



# RE-ENGINEERING OUR ECOSYSTEM

Build a high engagement model and unify our initiatives to:

**Elevate and inspire our customers** when, where, and how they shop

## STORE





## DIGITAL







## ENGAGEMENT DRIVERS

macy's
STAR REWARDS

**BOPS/BOSS**

**AT YOUR SERVICE**

**PERSONAL STYLIST**

# RE-ENGINEERING OUR ECOSYSTEM

Build a high engagement model and unify our initiatives to:

**Elevate and inspire our customers** when, where, and how they shop

ACQUIRE

MIGRATE

RETAIN



# EVOLVING APPROACH TO BUILDING STRONG, PROFITABLE CUSTOMER RELATIONSHIPS

From buying customers one transaction at a time to

Building relationships one customer at a time

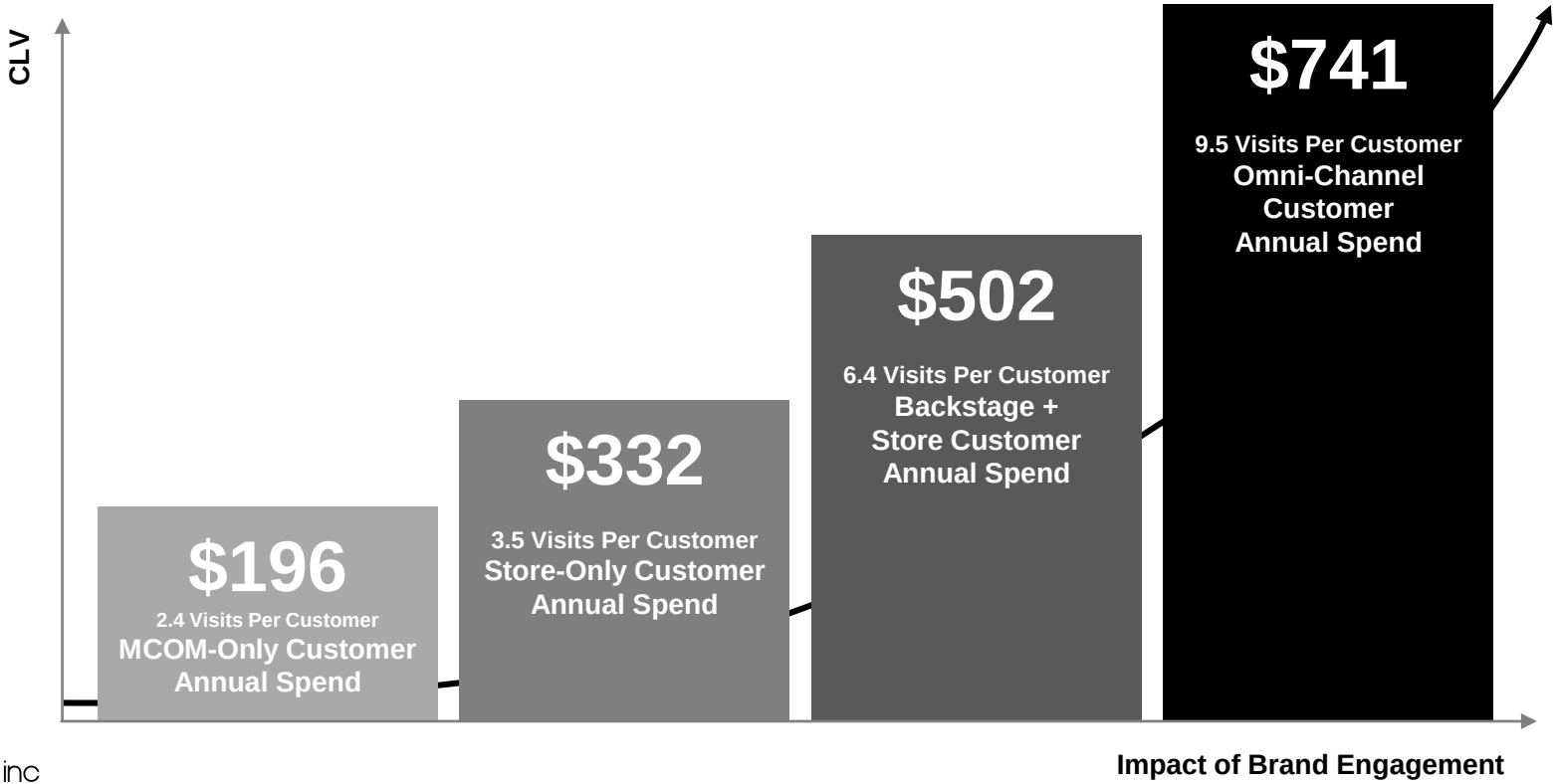
**Engage**
Win the emotional high ground

**Inspire**
Build our fashion & gift authority

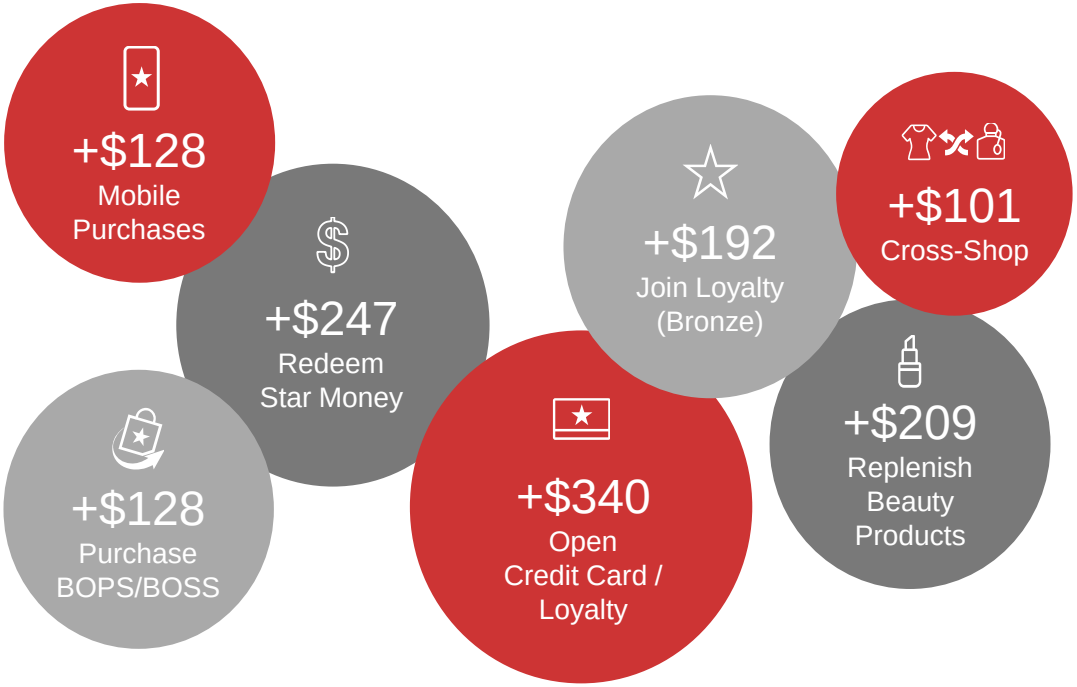
**Activate**
Offer great value



# CROSS CHANNEL: INCREASE ENGAGEMENT IN OMNI ECOSYSTEM

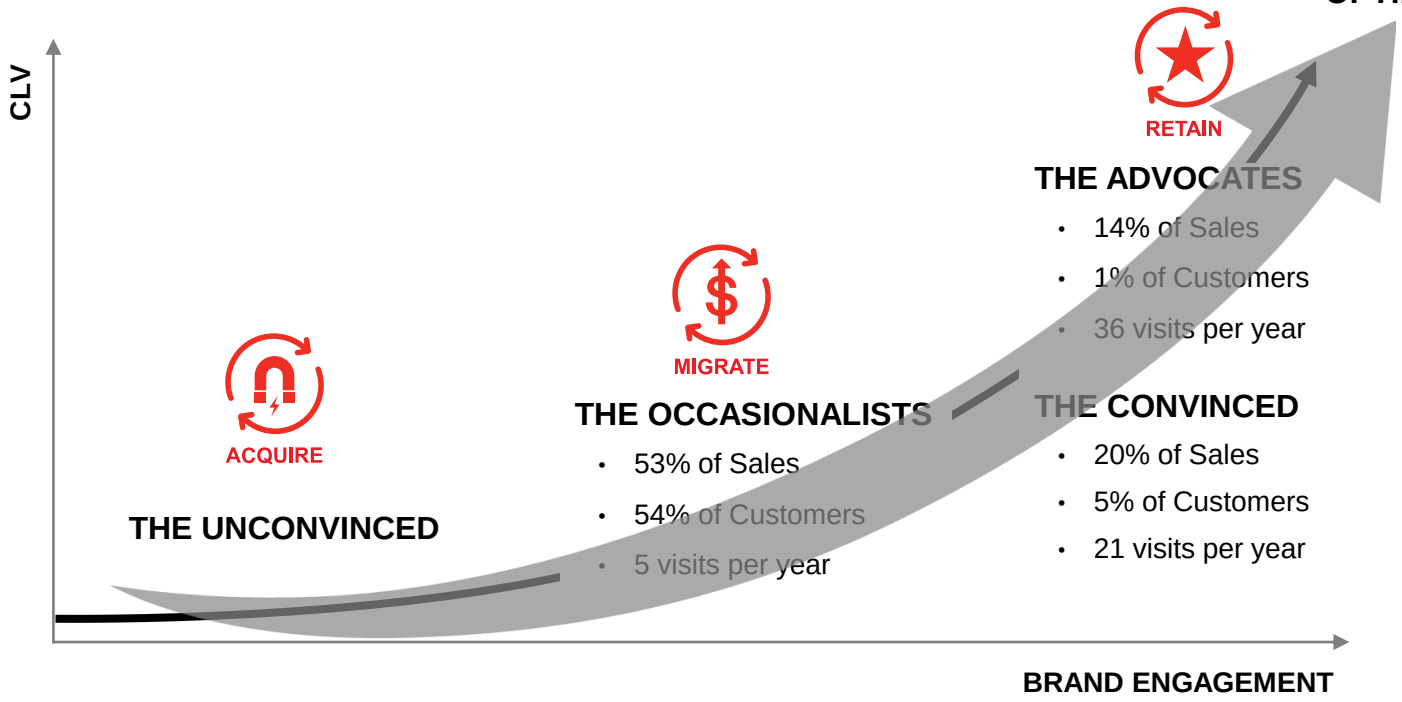


# BUILD CLV: AMPLIFY IMPACT OF BRAND ENGAGEMENT DRIVERS



# THE RELATIONSHIP MODEL: BEHAVIORAL COHORTS & ATTITUDINAL SEGMENTS

**TARGET ATTITUDINAL SEGMENT: FASHIONABLE OPTIMISTS**



# ENTERPRISE INITIATIVES STRENGTHEN RELATIONSHIPS

| | | |
|---|---|---|
| **THE ADVOCATES**<br>**THE CONVINCED** | RETAIN | • Star Rewards Loyalty Program 1.0 & 2.0<br>• Brand Events, Early Access, etc.<br>• Proprietary and Co-Brand Credit Card<br>• Mobile App Experience<br>• Private Label |
| **THE OCCASIONALISTS** | MIGRATE | • Star Rewards 3.0: All-Tier Everyday Loyalty Earn<br>• Growth Store Investments, Backstage, & New Store Formats<br>• Gifting & Fashion Authority<br>• Mobile App Download<br>• Test and Prove Market Ecosystem |
| **THE UNCONVINCED** | ACQUIRE | • Star Rewards 3.0: All-Tier Everyday Loyalty Earn<br>• U40 Store Pilot<br>• Customer-First Media Planning<br>• New Store Formats |

# LOYALTY IS THE RISING TIDE AND DRIVES THE BUSINESS

| | | |
|---|---|---|
| Purchase Behavior | **+4.4%** | total program increase purchase behavior |
| Loyalty Accounts | **+28M** | total program accounts |
| Retention Rate | **98%** | retention rate for top tier customers |
| Platinum Members | **~15%** | Platinum tier increase in purchase behavior |
| Positive Migration | **+1.4-5.3pp** | trend change for upward & downward migration |
| Bronze Members | **6.6M** | Bronze members program to date |

MIGRATE

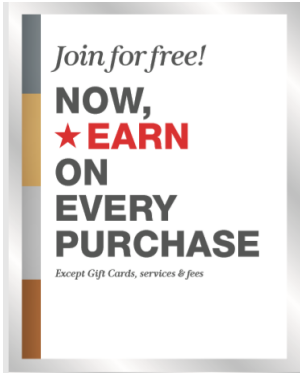
# LOYALTY 3.0 WILL PROVIDE VALUE TO OCCASIONALISTS

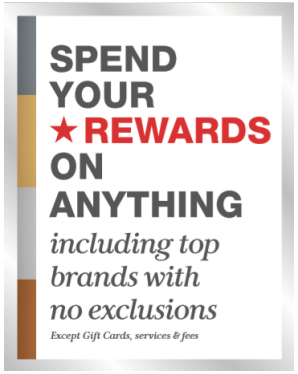
**Bronze = 1% back**

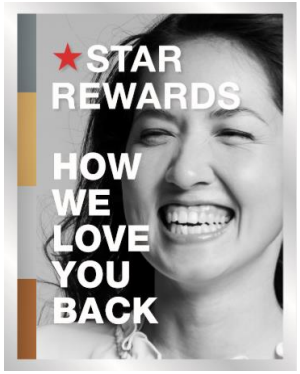
**Silver = 2% back**

**Gold = 3% back**

**Platinum = 5% back**

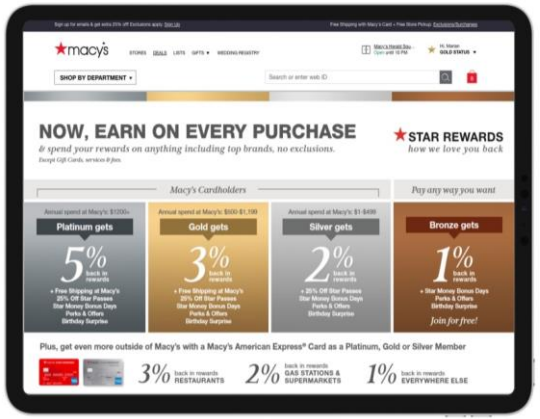








MIGRATE

# MIGRATION STRATEGIES WILL TARGET HIGH-VALUE "LOOKALIKES"

**5.3M** customers "look" like those in our best segments, warranting increased migration focus

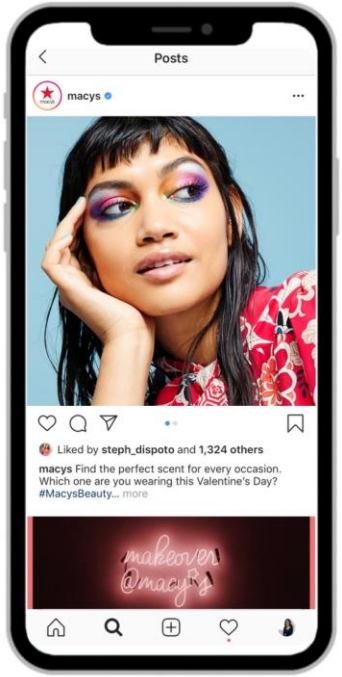


ACQUIRE

# MILLENNIAL ACQUISITION ADDRESSING GAPS WITH PROSPECTS

**Relevant content and experiences** for "unconvinced shoppers"

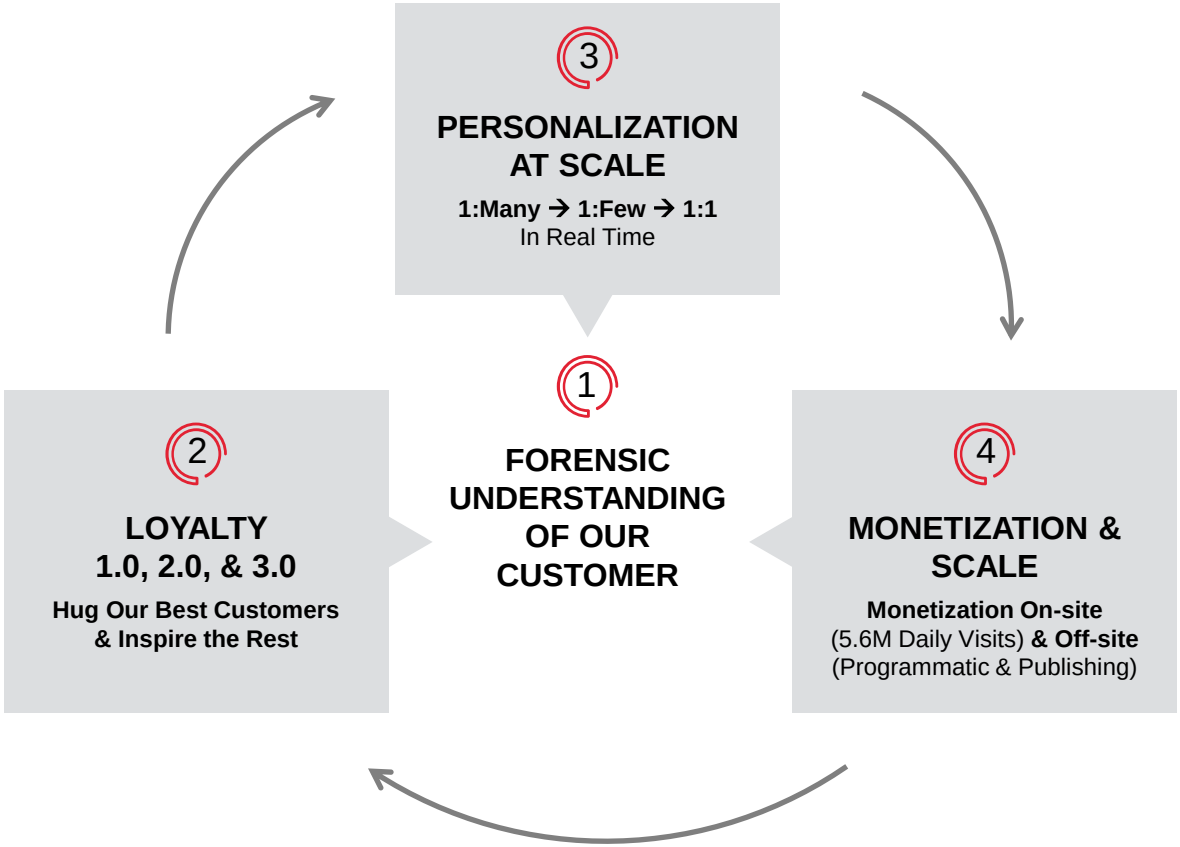





RETAIN

# THE CUSTOMER RELATIONSHIP ECOSYSTEM: LEVERAGED ACROSS MARKETING






POLARIS

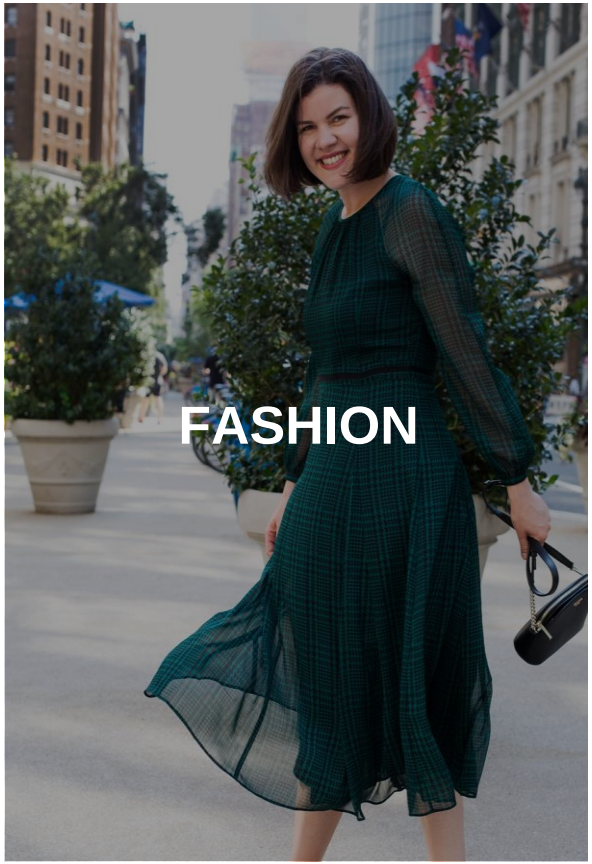
- **Build profitable customer lifetime value**
- **Expand loyalty program**
- **Accelerate personalization & monetization**

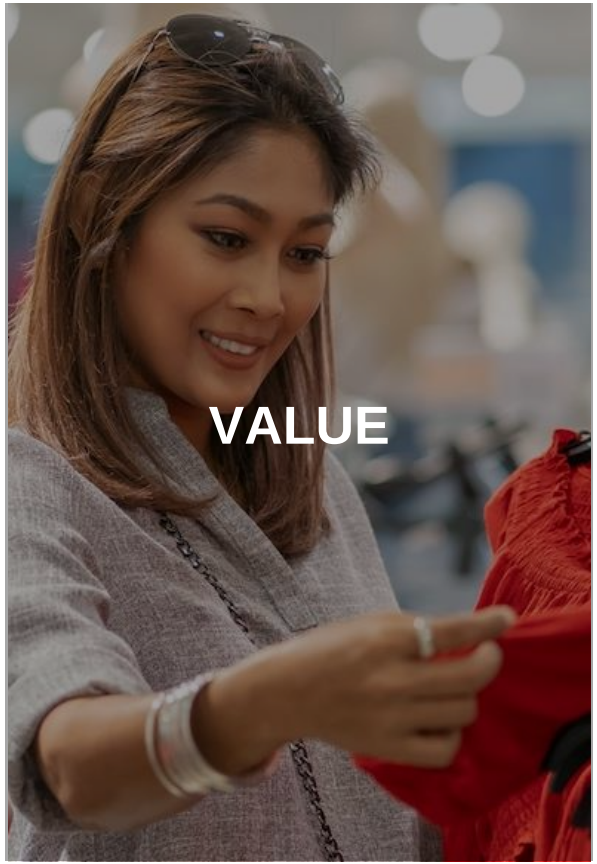
# CURATE QUALITY FASHION

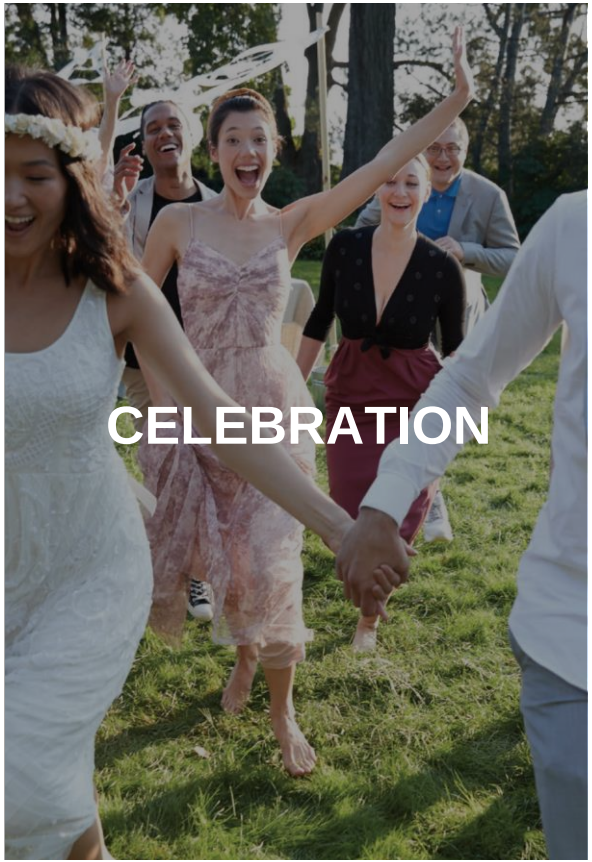
**Patti Ongman**

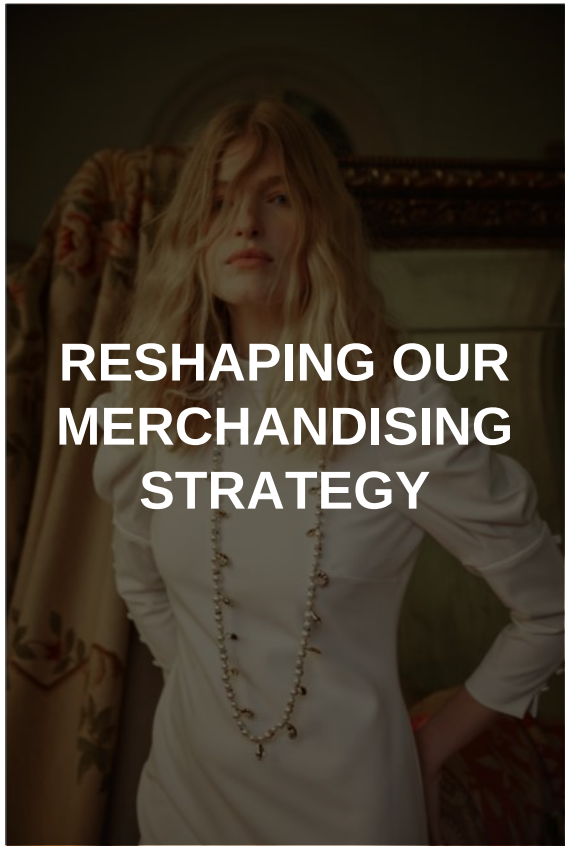
Chief Merchandising Officer




FASHION


VALUE


CELEBRATION




- Double down on **categories that matter to customers and drive profitability**
- Bring the **best brands and fashion to our customers**
- Provide the **best value to our customers and shareholders**

# OUR PRIORITY: WIN WITH CUSTOMERS PROFITABLY

1

## CUSTOMER

- Use data & analytics to define category strategy that drives profitability
- Maintain focus on Destination Businesses
- Reinvent Ready-to-Wear

2

## PRODUCT

- Build powerful private brands
- Be the best expression of America's favorite brands
- Deliver consistent stream of trend product

3

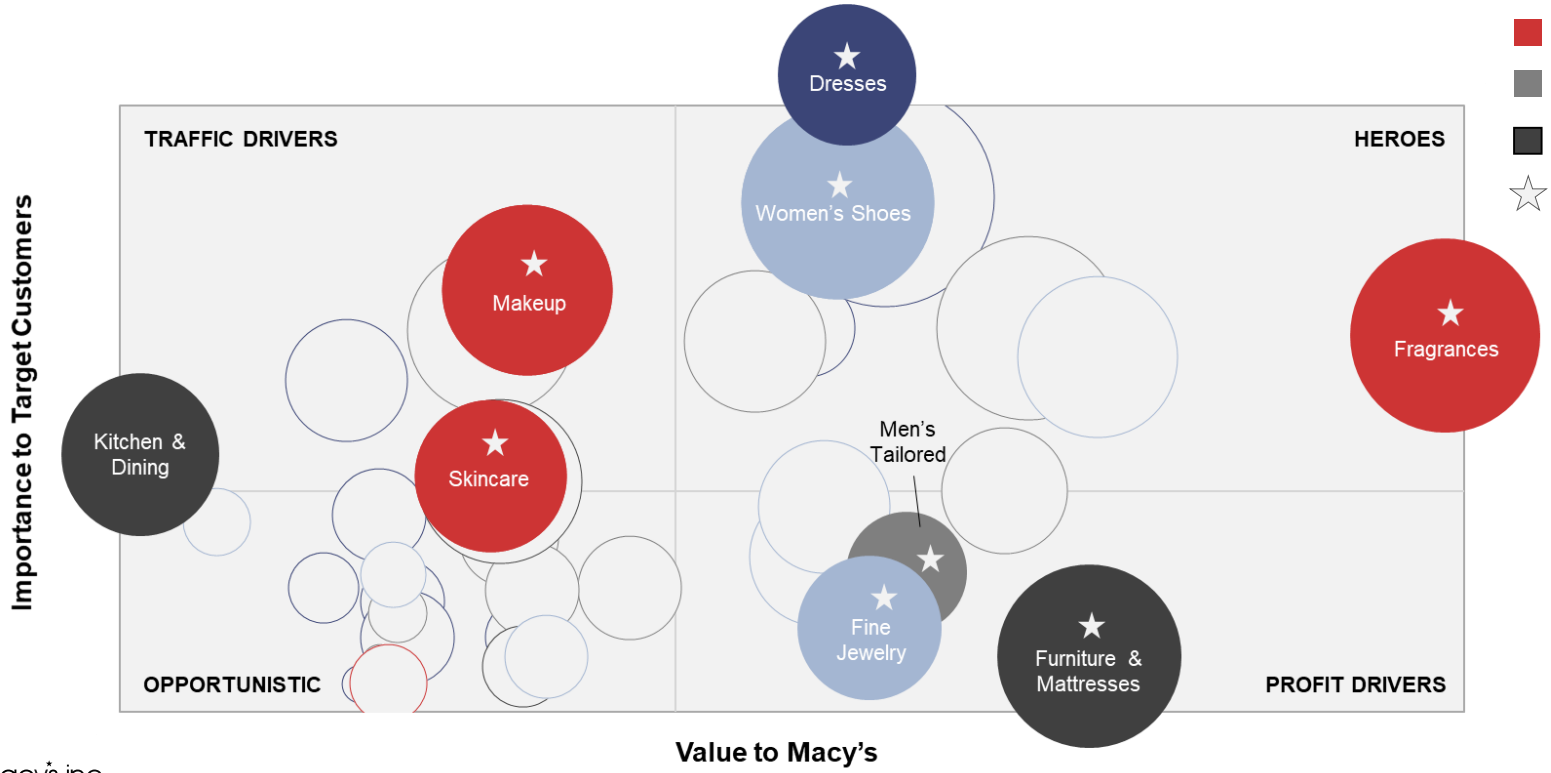
## VALUE

- Maintain rigor in merchandising process and inventory management
- Create pricing and promotions that resonate with customers
- Location-level markdown optimization

# CHANGING HOW WE PLAY IN PRIORITY CATEGORIES

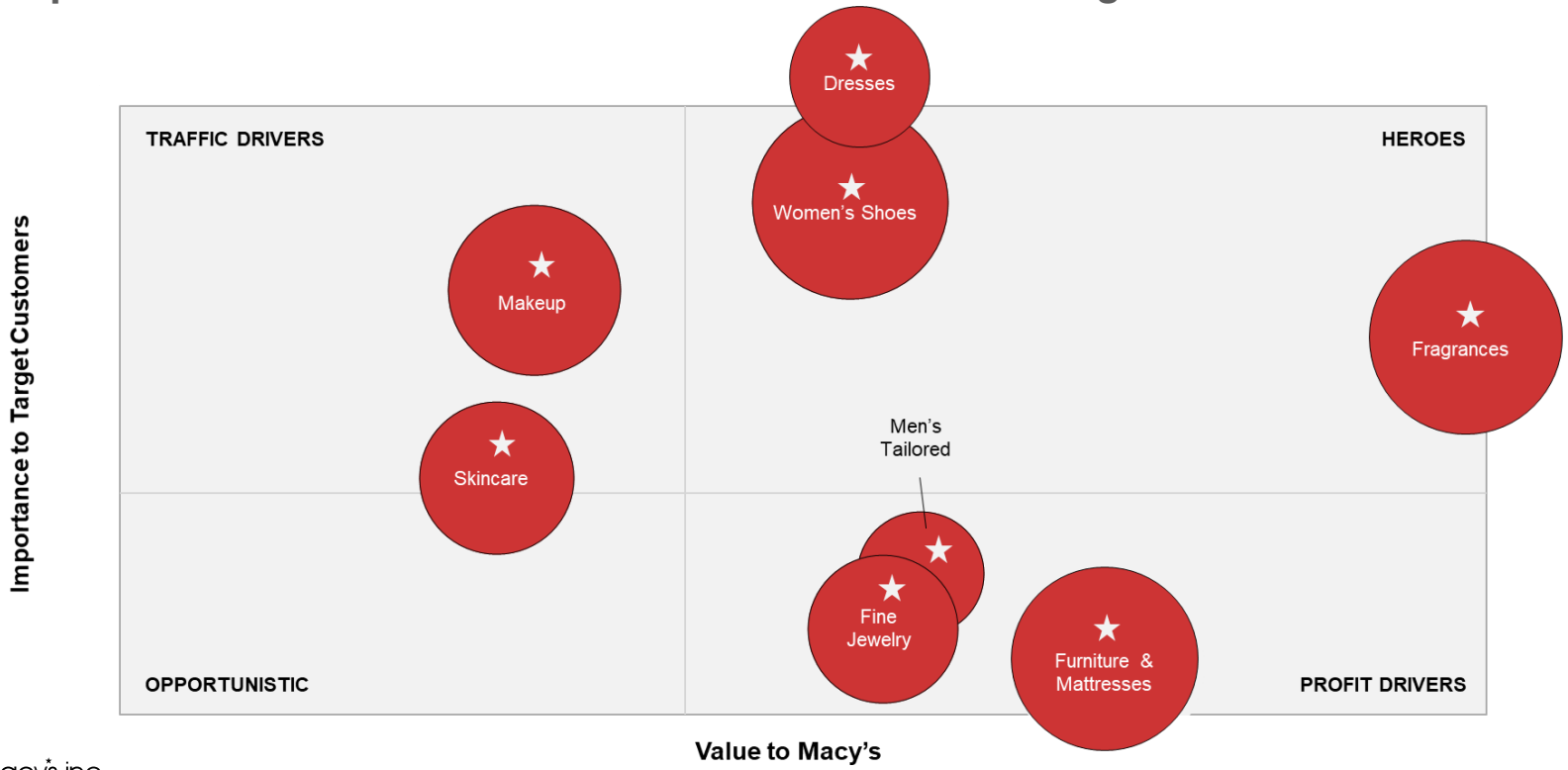
| | HERO | PROFIT DRIVERS | TRAFFIC DRIVERS | OPPORTUNISTIC |
|---|---|---|---|---|
| **Actions** | Investing to drive growth with exclusive, differentiated product<br><br>Allocating significant space and marketing | Profitably reinforcing role as full-line provider<br><br>Focusing on elevated product | Deepening assortment of styles that drive volume<br><br>Focusing on volume at reasonable margins | Editing to items with high standalone profitability<br><br>Minimizing space and SKUs; disrupt at key moments |
| **Our Goal** | Outperform by gaining share and improve contribution margin | Drive contribution margin | Drive traffic and cross shopping | Improve contribution margin and turn |

# CURRENT CATEGORY ROLES



# DESTINATION BUSINESSES

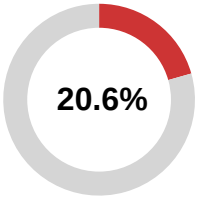
## Represent ~40% of sales and ~50% of contribution margin



# OUTSIZED SHARE IN OUR DESTINATION BUSINESSES

## BEAUTY

**1/5** OF TOTAL MARKET

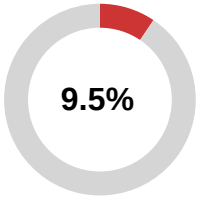



POS DATA

**$17B**
Market

## MEN'S TAILORED

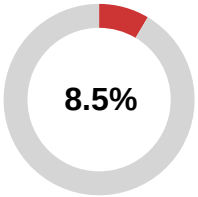
**#1** MARKET SHARE




**$4B**
Market

## DRESSES

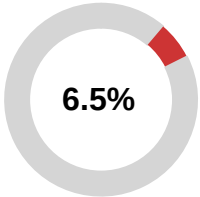
**#1** MARKET SHARE




**$14B**
Market

## FINE JEWELRY

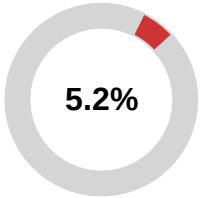
**#2** MARKET SHARE




**$17B**
Market

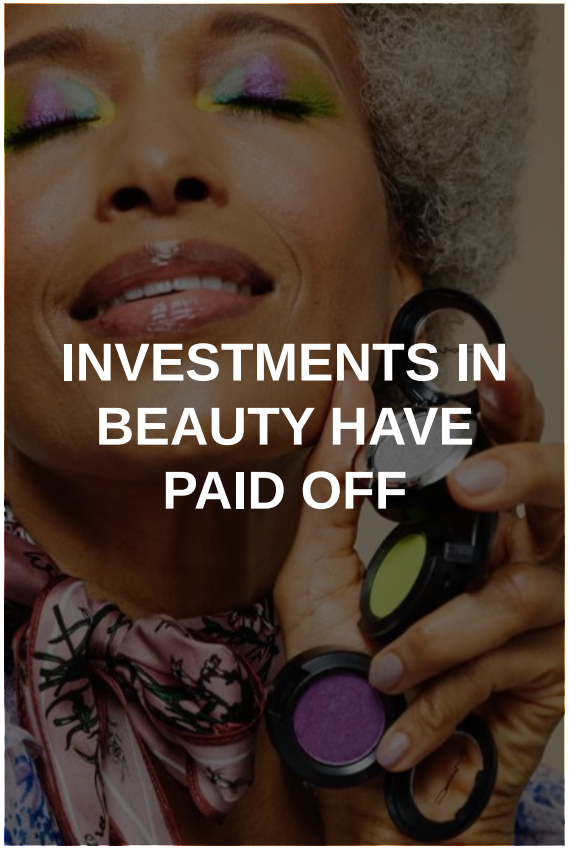
## WOMEN'S SHOES

**#3** MARKET SHARE




**$26B**
Market

Sources: Macy's Consumer Insights, Market Trends, NPD Consumer Data. October 2019 ME. POS data for Beauty, Market rank unavailable. Big Ticket market data unavailable through NPD. Women's Shoes excludes shoe types sold through licensing agreement with Finish Line (e.g., athletic shoes). Fine Jewelry includes Watches. Beauty represents Department Store and Specialty market.



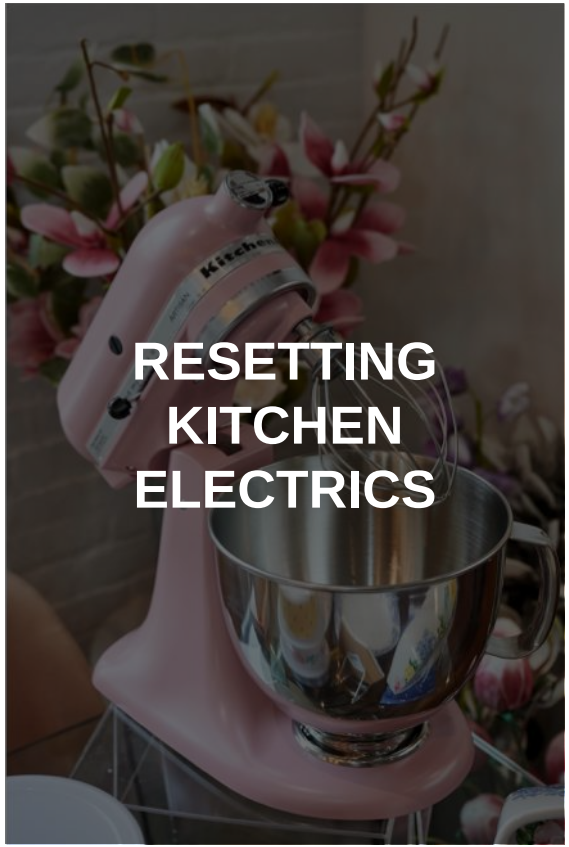

## HERO | TRAFFIC DRIVER

### Achieved positive results in 2019

- **+3 pp** on **total remodels**
- Gained market share

### Focused on Beauty in 2020

- Continue **capital investments** in growth stores
- Evolve **beauty advisors** to sell across all brands and categories
- Invest more in **brand awareness** and **customer acquisition marketing**



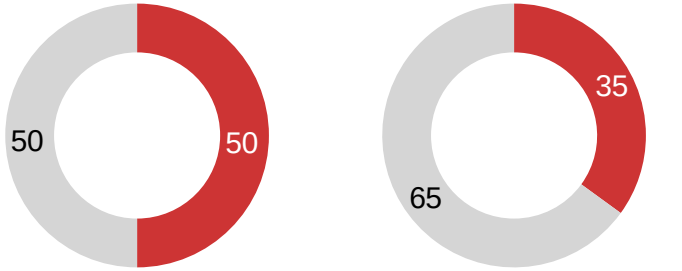

**OPPORTUNISTIC**

## Kitchen electrics

- Deliver curated, streamlined core assortment
- Decrease sales by more than 20% in order to grow margin by 2-3 pp over next 5 years
- Reinvest margin growth to be more disruptive during key times of year

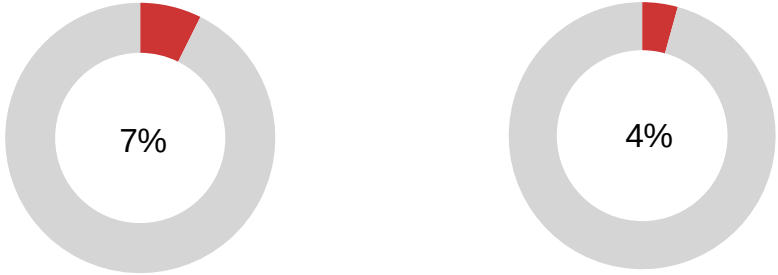
# UNDER 40 NEW CUSTOMER ACQUISITION

**Relatively underpenetrated within under 40 RTW** with opportunity to expand




Market RTW Penetration vs. Macy's

Leading **market share in key RTW categories** will serve as the platform of our under 40 strategy




Sources: Macy's Consumer Insights, Market Trends, NPD Consumer Data. October 2019 ME. Classifications comprised of Dresses, Coats, Tailored Market (Suits), and Swim. Sportswear comprised of Petites, Plus, Active, and Denim

# UNDER 40 READY-TO-WEAR REINVENT

## The Under 40 Customer

- Cares about **store environment**
- Shops for a **complete outfit** in one place
- Shops across categories; **RTW biggest opportunity**

## The Lifestyle Zone

- 6 stores piloted a **Lifestyle Zone** based on how she shops
- Tiered assortment strategy around new and core brands across **denim, casual, dressy**
- **Curated trend statements –** multi-branded, casual and dressy zones
- **Influencer collaborations and new brand partnerships** increase social media engagement

Sources: Macy's Consumer Insights, Primary Research, 2017

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## PRODUCT

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3

## VALUE

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- Create pricing and promotions that resonate with our customers
- Location-level markdown optimization

# *Curating Fashion for America*

macy's inc

# MACY'S FASHION EXPERTS



BEAUTY &
CENTER CORE



FASHION
OFFICE



READY-TO-WEAR



BACKSTAGE



HOME &
LEASED



MEN'S & KIDS

# WE BRING THE BEST BRANDS TO OUR CUSTOMERS



# OUR NEW MEN'S EXPERIENCE IN HERALD SQUARE

## THE PARK






# REINVENTING OUR PRIVATE BRANDS

I·N·C INTERNATIONAL CONCEPTS® · CHARTER CLUB · bar III · ideology believe in movement · GIANI BERNINI

ALFANI · style & co. · CLUB ROOM® · HOTEL COLLECTION®

## Actions

- Implemented new **organizational structure**
- Cleaned up **brand DNA**
- Introduced **new** brands
- Distinctive, on trend **capsule collections**

## Goals

- **25%** private brand sales penetration by 2025
- Improved margins through **better sourcing** and **materials management**
- **Four $1B** brands

# BUILDING FOUR $1 BILLION PRIVATE BRANDS

I·N·C INTERNATIONAL CONCEPTS



ALFANI



style & co.



CHARTERCLUB®



# BUILDING ON OUR SUCCESS: FASHION JEWELRY



style & co.



ALFANI



CHARTER CLUB



I·N·C

**Driving continued sales and margin contribution**

# BUILDING ON OUR SUCCESS: HOTEL CLASSIC



**Hotel Collection**



**Hotel Classic**

**Driving continued sales and margin contribution**

# GREAT EARLY TRACTION ON INC AND STYLE & CO FOR RTW





I·N·C INTERNATIONAL CONCEPTS





style & co.

# BRINGING AMERICA'S FAVORITE BRANDS TO OUR CUSTOMERS

RALPH LAUREN COACH MICHAEL KORS LANCÔME CHANEL Calvin Klein
CLINIQUE ESTĒE LAUDER TOMMY HILFIGER MAC

## Win-Win Relationships

- **25% of sales** from our top national brands
- Represent **>20%** of many of these brands' wholesale sales
- **2 pp higher margin** from core vendors
- 30% core vendor penetration by 2022 through focus on **core assortment and shared assets**

## Differentiation

- **Exclusive and innovative** content
- **First at Macy's** launches and exclusive capsule collections
- **The best expression** of their brands
- **Analytics and insights** on what customers want
- Supply chain and digital **synergies**

# ENHANCING ASSORTMENT THROUGH LEASE PARTNERS

BCBGMAXAZRIA

BOSS HUGO BOSS

BURBERRY LONDON ENGLAND

FINISH LINE

THE FINE RUG GALLERY AT macy's

GUCCI

LENSCRAFTERS

Justice

Locker Room By Lids

LV

MANGO

sunglass hut

# OUR PRIORITY: WIN WITH CUSTOMERS PROFITABLY

1

## CUSTOMER

- Use data & analytics to define category strategy that drives profitability
- Maintain focus on Destination Businesses
- Reinvent Ready-to-Wear

2

## PRODUCT

- Build powerful private brands
- Be the best expression of America's favorite brands
- Deliver consistent stream of trend product

3

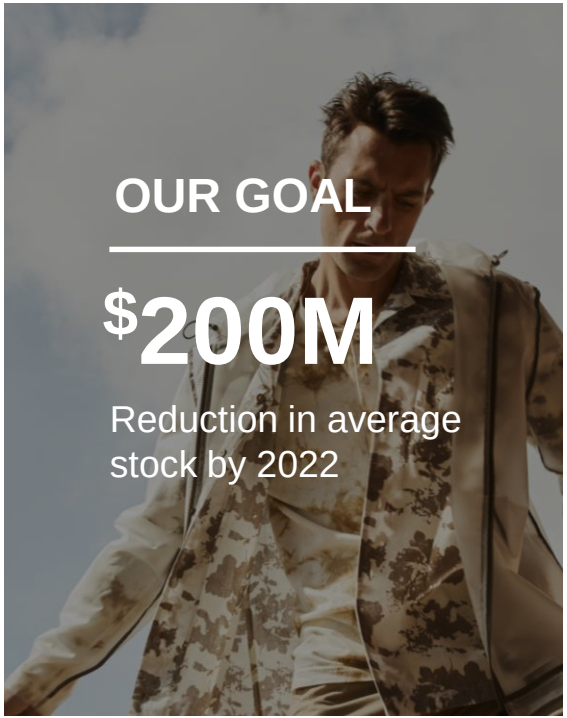
## VALUE

- **Maintain rigor in merchandising process and inventory management**
- **Create pricing and promotions that resonate with our customers**
- **Location-level markdown optimization**

# MORE DISCIPLINED INVENTORY MANAGEMENT APPROACH

- **Implementing new process controls and guidelines**
- **Improving our buying tools**
- **Streamlining of buying organization**





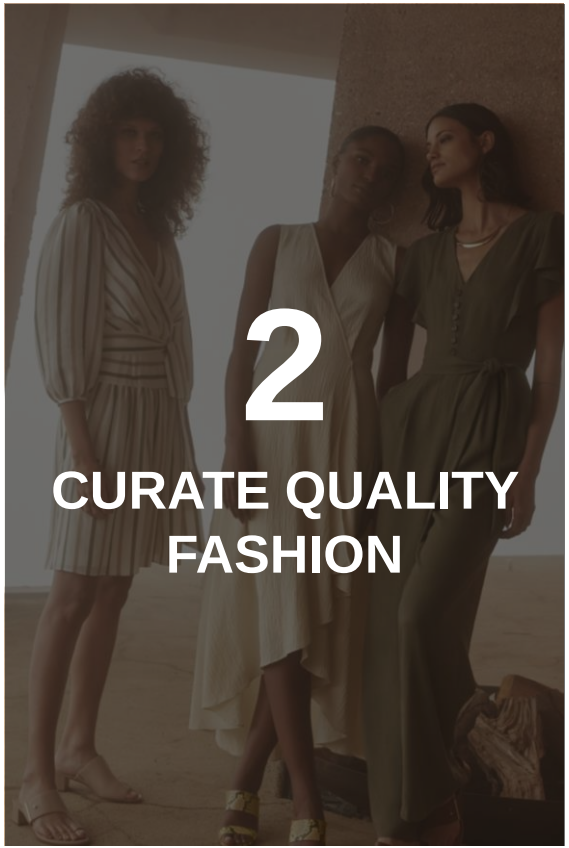
# PRICING AND MARKDOWN OPTIMIZATION

## Increasing margin through more coordinated, data-driven approach:

- **Rapid test-and-learn campaigns**
- **Analytics for optimized POS and coupon planning**
- **Dedicated merchandise pricing team**
- **Location-level markdown optimization**








# POLARIS

- **Drive category roles**
- **Best brand destination**
- **Balance sales & margin**

# ACCELERATE DIGITAL GROWTH

**Jill Ramsey**
Chief Digital Officer



# DIGITAL IS GROWING AND CONTRIBUTES TO PROFITABILITY



**~24%**

**sales growth 2009-19**[1] outpacing retail ecommerce market



**54%**

**sales through mobile app & web –** up from 49% in 2018[2]



**$5B+**

**revenue generated** by digital – about 25% of Macy's brand

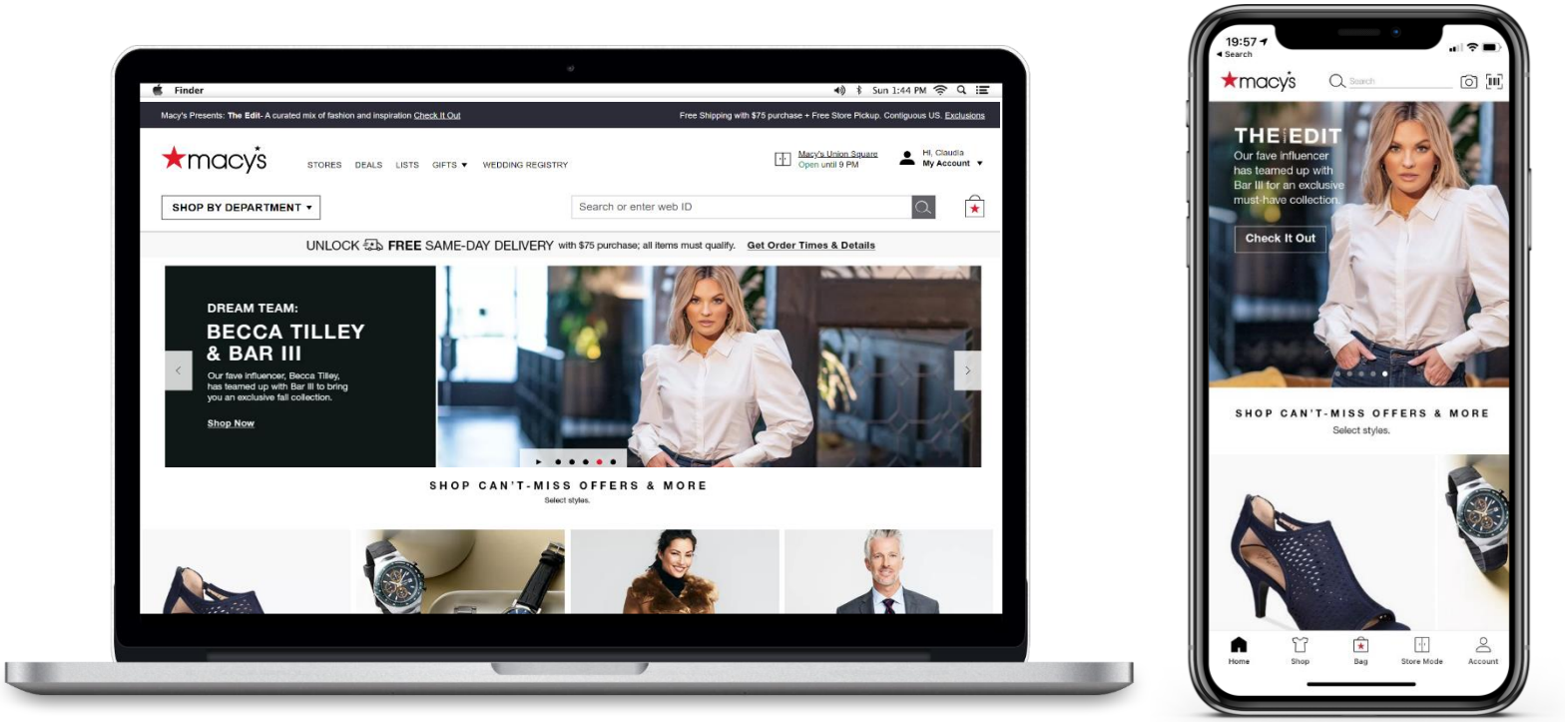


**3 years**

contributions to **operating profit**

1 Growth 2010-18 based on non-NSR sales; 2018-19 based on NSR sales; all sales including leased and BOPS
2 Share based on demand sales per device December YTD for 2018 and 2019; includes purchases made on tablets
SOURCE: MCOM December ROF (as of January 13, 2019)
Data in presentation excludes Bloomingdales and bluemercury digital business

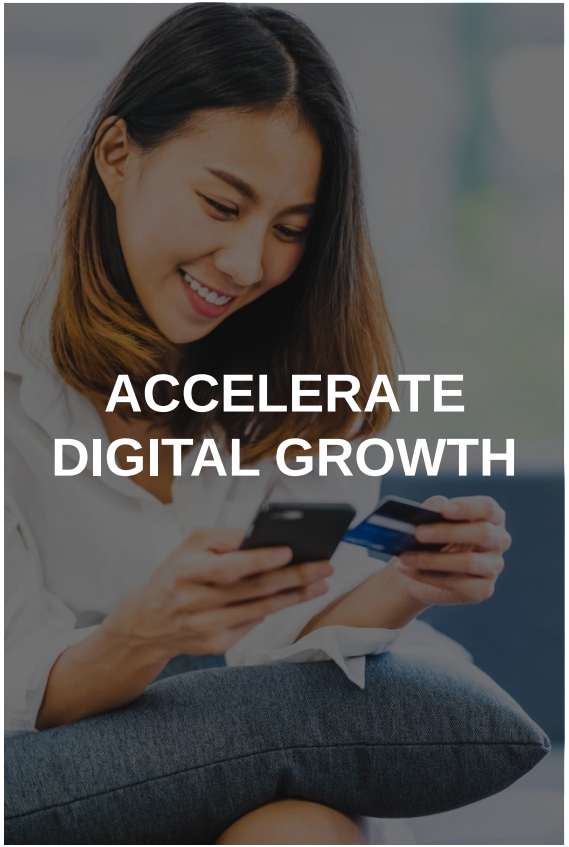
# WE BEGAN UPGRADE OF OUR DIGITAL EXPERIENCE IN 2019



# 2019 EFFORTS DROVE MEASUREABLE RESULTS

| | |
|---|---|
| Mobile app | **+56%** sales through mobile app |
| Vendor direct fulfillment | **+59%** sales fulfilled direct from vendors |
| Store pickup | **+62%** digital sales picked up in stores |
| Same day delivery | **+162%** sales fulfilled via same-day delivery |
| Product recommendations | **~21%** of site sales driven by product recommendations |

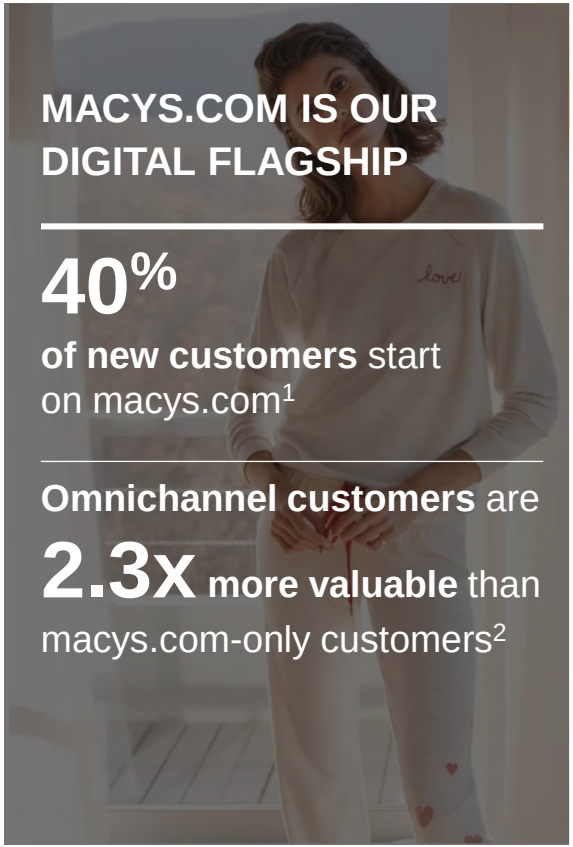
Source: MCOM December 2019 YTD actuals for mobile app, VDF; MCOM 2019 ROF as of January 2020 for store pickup and SDD; Product recommendations based on Dec 2019 actuals




1 **Enhance digital experience**

2 **Grow omni-customer base**

3 **Improve profitability**




# 1 IMPROVE THE DIGITAL EXPERIENCE

## Site and app updates

- Improve site speed
- Redesign navigation menu
- Upgrade search and filter relevancy
- Enhance checkout process

## Enhance omnichannel experience

- Optimize pickup and return processes
- Enable and support in-store experience
- Fast and accurate delivery

1 Based on 12ME December 2019
2 Omnichannel value multiple in reference to MCOM customers with 2+ visits; data from 12ME Q3 2019
SOURCE: Macy's customer analytics




# 2 GROW OMNI-CUSTOMER BASE

## Enhance our loyalty experience

- Increase online engagement
- Introduce app exclusives for most loyal customers

## Increase focus on personalization

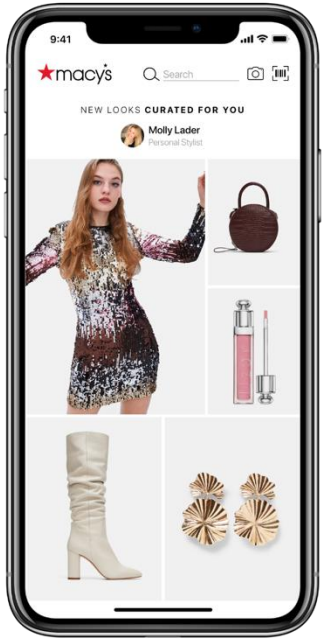
- End-to-end personalization
- Invest in a consolidated data platform and decision engine

## Bring more fashion to customers

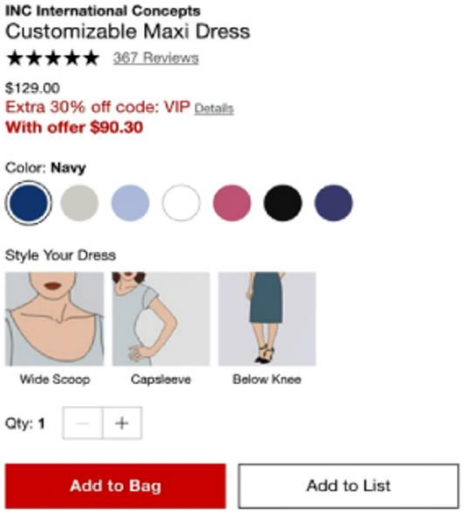
- Innovate on consumer engagement with fashion
- Customize with made-to-measure
- Test alternative business models i.e. recommerce

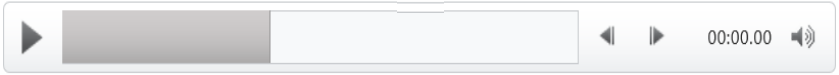

Source: MCOM December 2019 YTD actuals

# 2 NEW WAYS TO BRING FASHION TO CUSTOMERS





# 3 IMPROVE DIGITAL PROFITABILITY




## Polaris improvements will benefit digital bottom line

- Lower fulfillment and delivery cost while improving the customer experience
- Better product margins across digital assortment

## Focus on macys.com profitability levers

- Grow store pickup – currently 9%
- Expand ad-monetization
- Reduce impact of returns

# TRANSFORM DIGITAL TEAM

**Next Generation Digital Team**

1. Consolidate **talent centers** in New York and Atlanta to integrate teams
2. **Strengthen our agile operating model** across the organization
3. Enable **high velocity delivery** and rapid test and learn




# POLARIS

- **Enhance digital experience**
- **Grow omni-channel customer base**
- **Improve profitability**