# PENNEY INTERMEDIATE HOLDINGS LLC

Unaudited Interim Consolidated Financial Statements

May 1, 2021

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**PENNEY INTERMEDIATE HOLDINGS LLC**
**Consolidated Statement of Operations**
**(Unaudited)**

| *(In millions)* | Three Months Ended May 1, 2021 |
|---|---|
| Total net sales | $ 1,593 |
| Credit income and other | 76 |
| Total revenues | 1,669 |
| | |
| Costs and expenses/(income): | |
| Cost of goods sold (exclusive of depreciation and amortization shown separately below) | 979 |
| Selling, general and administrative | 558 |
| Depreciation and amortization | 51 |
| Real estate and other, net | (5) |
| Restructuring | 3 |
| Acquisition and transition related costs | 11 |
| Total costs and expenses | 1,597 |
| Operating income | 72 |
| Net interest expense | (25) |
| Income before income taxes | 47 |
| Income tax expense | 3 |
| Net income | $ 44 |

*See the accompanying notes to the Unaudited Interim Consolidated Financial Statements.*

**PENNEY INTERMEDIATE HOLDINGS LLC**
**Consolidated Balance Sheet**
**(Unaudited)**

| *(In millions)* | | **May 1, 2021** |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ | 433 |
| Merchandise inventory | | 1,682 |
| Prepaid expenses and other | | 356 |
| Total current assets | | 2,471 |
| Property and equipment, net | | 918 |
| Operating lease assets | | 1,647 |
| Financing lease assets | | 46 |
| Other assets | | 362 |
| **Total assets** | **$** | **5,444** |
| **Liabilities and member's equity** | | |
| Current liabilities: | | |
| Merchandise accounts payable | | 338 |
| Other accounts payable and accrued expenses | | 593 |
| Current operating lease liabilities | | 55 |
| Current portion of long-term debt, net | | 20 |
| Total current liabilities | | 1,006 |
| Noncurrent operating lease liabilities | | 1,787 |
| Noncurrent financing lease liabilities | | 47 |
| Long-term debt | | 784 |
| Other liabilities | | 177 |
| **Total liabilities** | | 3,801 |
| **Member's equity** | | |
| Member's Contributions | | 300 |
| Reinvested earnings | | 1,343 |
| **Total member's equity** | | 1,643 |
| **Total liabilities and member's equity** | **$** | **5,444** |

*See the accompanying notes to the Unaudited Interim Consolidated Financial Statements.*

**PENNEY INTERMEDIATE HOLDINGS LLC**
**Consolidated Statement of Member's Equity**
**(Unaudited)**

| *(In millions)* | Member's Contributions | Reinvested Earnings | Total Member's Equity |
|---|---|---|---|
| **January 30, 2021** | $ 300 | $ 1,299 | $ 1,599 |
| Member contributions | - | - | - |
| Net income | - | 44 | 44 |
| **May 1, 2021** | **$ 300** | **$ 1,343** | **$ 1,643** |

*See the accompanying notes to the Unaudited Interim Consolidated Financial Statements.*

**PENNEY INTERMEDIATE HOLDINGS LLC**
**Consolidated Statement of Cash Flows**
**(Unaudited)**

| *(In millions)* | **Three Months Ended May 1, 2021** |
|---|---|
| **Cash flows from operating activities:** | |
| Net income | $ 44 |
| Adjustments to reconcile net income to net cash provided by operating activities: | |
| Gain on asset disposition | - |
| Depreciation and amortization | 52 |
| Change in cash from operating assets and liabilities: | |
| Inventory | (162) |
| Prepaid expenses and other assets | 12 |
| Merchandise accounts payable | 187 |
| Accrued expenses and other | 33 |
| **Net cash provided by operating activities** | **166** |
| **Cash flows from investing activities:** | |
| Capital expenditures | (7) |
| Proceeds from sale of operating assets | - |
| **Net cash used by investing activities** | **(7)** |
| **Cash flows from financing activities:** | |
| Proceeds from borrowings under the revolving credit facility | - |
| Proceeds from issuance of long-term debt | - |
| Debt issuance costs | - |
| Payments of long-term debt | (1) |
| Proceeds from equity contributions | - |
| **Net cash used by financing activities** | (1) |
| Net increase in cash and cash equivalents | 158 |
| **Cash and cash equivalents at beginning of period** | 275 |
| **Cash and cash equivalents at end of period** | $ **433** |

*See the accompanying notes to the Unaudited Interim Consolidated Financial Statements.*

**PENNEY INTERMEDIATE HOLDINGS LLC**
**Notes to Unaudited Interim Consolidated Financial Statements**
**(Unaudited)**

## 1. Basis of Presentation and Consolidation

***Basis of Presentation***

Penney Intermediate Holdings LLC (the Company), formed on October 22, 2020, is the direct subsidiary of Penney Holdings LLC ("Holdings"), a direct subsidiary of Copper Retail JV LLC ("Copper"), a Delaware limited liability company. The assets of Copper and Holdings consist solely of the 100% ownership in each direct subsidiary. Copper and its related legal entity structure were formed to acquire certain operating assets and related liabilities of J.C. Penney Company, Inc. (JCPenney) on December 7, 2020 (the acquisition date). All acquired assets and liabilities of JCPenney are owned and operated by the Company and its subsidiaries.

The JCPenney brand was founded by James Cash Penney in 1902. We operate the JCPenney brand through the operation of 690 department stores in 49 states and Puerto Rico, as well as through our eCommerce website at jcp.com and our mobile application. We sell family apparel and footwear, accessories, fine and fashion jewelry, beauty products through Sephora inside JCPenney, and home furnishings. In addition, our department stores provide services, such as styling salon, optical, and portrait photography.

These Unaudited Interim Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States. The accompanying Unaudited Interim Consolidated Financial Statements, in our opinion, include all material adjustments necessary for a fair presentation and should be read in conjunction with the Audited Consolidated Financial Statements and notes thereto for the fiscal year ended January 30, 2021. We follow the same accounting policies to prepare quarterly financial statements as are followed in preparing annual financial statements. A description of such significant accounting policies is included in the notes to the Audited Financial Statements for the fiscal year ended January 30, 2021. Because of the seasonal nature of the retail business, operating results for interim periods are not necessarily indicative of the results that may be expected for the full year.

***Fiscal Year***

The Company's fiscal year consists of the 52-week period ending on the Saturday closest to January 31. As used herein, "three months ended May 1, 2021" refers to the 13-week period ended May 1, 2021. Fiscal 2021 will consist of the 52-week period ending on January 29, 2022.

***Basis of Consolidation***

All significant inter-company transactions and balances have been eliminated in consolidation.

## 2. Global COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared a global pandemic related to the rapidly growing outbreak of a novel strain of coronavirus (COVID-19). Subsequently, the COVID-19 pandemic has significantly impacted the economic conditions in the U.S. and globally. While all of our stores have been open from January 31, 2021 to May 1, 2021, the COVID-19 pandemic has, and continues to have, an impact on the Company's business operations, financial position, liquidity, capital resources and results of operations. While economic conditions in the U.S. are improving and restrictions imposed during the pandemic are easing, it is impossible to predict the effect and ultimate impact of the COVID-19 pandemic. Current financial information may not be indicative of future operating results.

### 3. Acquisition

On October 28, 2020, Copper entered into an Asset Purchase Agreement (the "Asset Purchase Agreement") with JCPenney and certain of its subsidiaries to acquire substantially all of JCPenney's retail and operating assets, and assume certain of JCPenney's obligations associated with such purchased assets, pursuant to Section 363 of the U.S. Bankruptcy Code in connection with JCPenney's voluntary chapter 11 cases pending in the United States Bankruptcy Court for the Southern District of Texas (the "Bankruptcy Court"). The Asset Purchase Agreement and the transactions contemplated thereby were approved by the Bankruptcy Court on November 9, 2020. Copper subsequently designated the Company and its subsidiaries as purchasers under the Asset Purchase Agreement. The acquisition of substantially all of the retail and operating assets of JCPenney by the Company and its subsidiaries was completed on December 7, 2020. Pursuant to the Asset Purchase Agreement, the Company and its subsidiaries also assumed certain liabilities related to such assets.

The company accounted for the acquisition as a business combination in accordance with ASC 805. The consideration transferred for the acquisition is as follows:

| *(In millions)* | December 7, 2020 | |
|---|---|---|
| Cash paid, net of cash acquired of $266 | $ | 634 |
| Term loan | | 520 |
| Estimated contingent consideration | | 105 |
| **Total consideration transferred, net of cash acquired** | **$** | **1,259** |

The estimated contingent consideration consists of both (i) an earn-out liability with fair value of $74.1 million and (ii) a liability related to any future receipts of credit card company holdback deposits with a fair value of $31.2 million as of the acquisition date. The value of the earn-out liability depends on the twelve-month average of the net merchandise accounts payable applicable for FY 2021 and FY 2022 and was estimated using a Monte Carlo simulation approach. The credit card holdback liability is equal to 50% of any cash proceeds received in connection with the release of the bankruptcy related credit card company holdbacks.

In accordance with GAAP, the carrying value of the contingent consideration must be remeasured at the end of each reporting period. As of May 1, 2021, the fair value of the estimated earn-out liability increased by $6 million to $80 million. The increase in fair value is recorded as a current period expense in Acquisition and transition related costs in our consolidated statement of operations.

### 4. Revenue

Our contracts with customers primarily consist of sales of merchandise and services at the point of sale, sales of gift cards to a customer for a future purchase, customer loyalty rewards that provide discount rewards to customers based on purchase activity, and certain licensing and profit sharing arrangements involving the use of our intellectual property by others. Revenue includes Total net sales and Credit income and other. Net sales are categorized by merchandise and service sale groupings as we believe it best depicts the nature, amount, timing and uncertainty of revenue and cash flow.

The components of Net sales for the three months ended May 1, 2021 were as follows:

| *(In millions)* | Three Months Ended May 1, 2021 | | |
|---|---|---|---|
| Men's apparel and accessories | $ | 278 | 17% |
| Women's apparel | | 354 | 22% |
| Women's accessories, including Sephora | | 265 | 17% |
| Home | | 154 | 10% |
| Footwear and handbags | | 149 | 9% |
| Kids', including toys | | 145 | 9% |
| Jewelry | | 150 | 9% |
| Services and other | | 98 | 7% |
| Total net sales | $ | 1,593 | 100% |

Credit income and other encompasses the revenue earned from the agreement with Synchrony associated with our private label credit card and co-branded MasterCard programs. The Company has contract liabilities associated with the sales of gift cards and our customer loyalty program.

The liabilities are included in Other accounts payable and accrued expenses in the Consolidated Balance Sheet and were as follows:

| *(In millions)* | | May 1, 2021 |
|---|---|---|
| Customer gift cards | $ | 101 |
| Customer loyalty program | | 31 |
| Total contract liability | $ | 132 |

Contract liability includes consideration received for gift card and loyalty related performance obligations which have not been satisfied as of a given date.

A rollforward of the amounts included in contract liability for the three months ended May 1, 2021 are as follows:

| *(In millions)* | | |
|---|---|---|
| Beginning balance | $ | 143 |
| Current period gift cards sold and loyalty reward points earned | | 41 |
| Net sales from amounts included in contract liability opening balances | | (26) |
| Net sales from current period usage | | (26) |
| Ending balance | $ | 132 |

**5. Long-Term Debt**

| *(In millions)* | | May 1, 2021 |
|---|---|---|
| **Issue:** | | |
| 2020 Term Loan Facility (Matures in 2026) | $ | 519 |
| FILO Loan Due 2025 | | 300 |
| Total debt | | 819 |
| Unamortized debt issuance costs | | (15) |
| Less: current maturities | | (20) |
| Total long-term debt | $ | 784 |
| Weighted-average interest rate at year end | | 9.8% |
| Weighted-average maturity (in years) | | 5.48 years |

As of May 1, 2021, there were no outstanding borrowings under our $2.0 billion senior secured asset-based revolving credit facility (Revolving Credit Facility). Pricing under the Revolving Credit Facility is tiered based on our utilization under the line of credit. As of May 1, 2021, the applicable interest rates were LIBOR (subject to a 0.75% floor) plus 3.0% or Prime Rate plus 2.0%. The applicable rate for standby letters of credit was 3.0%, while the required unused commitment fee was 0.375% for the unused portion of the Revolving Credit Facility.

**6. Litigation and Other Contingencies**

We are subject to various legal and governmental proceedings involving routine litigation incidental to our business. While no assurance can be given as to the ultimate outcome of these matters, we currently believe that the final resolution of these actions, individually or in the aggregate, will not have a material adverse effect on our results of operations, financial position, liquidity or capital resources.

NARRATIVE REPORT

(follows this page)

**Penney Intermediate Holdings LLC**
**Narrative Report**
**For the Three Months Ended May 1, 2021**

## Summary Results of Operations

| *($ in millionsVITON)* | Actual | Plan | B/(W) |
|---|---|---|---|
| Total net sales | $ 1,593 | $ 1,522 | $ 71 |
| Credit income and other | 76 | 76 | — |
| Total revenues | 1,669 | 1,598 | 71 |
| Costs and expenses/(income): | | | |
| Cost of goods sold | 979 | 1,035 | 56 |
| Selling, general and administrative | 558 | 605 | 47 |
| Depreciation and amortization | 51 | 88 | 37 |
| Real estate and other, net | (5) | (2) | 3 |
| Restructuring, acquisition and transition | 14 | 28 | 14 |
| Total costs and expenses | 1,597 | 1,754 | 157 |
| Operating income/(loss) | 72 | (156) | 228 |
| Net interest expense | (25) | (25) | — |
| Income/(loss) before income taxes | 47 | (181) | 228 |
| Income tax expense | 3 | — | (3) |
| Net income/(loss) | $ 44 | $ (181) | $ 225 |

Sales were $1.59 billion or $71 million favorable to plan aided by COVID relief stimulus checks. Credit revenue matched plan.

COGS as a percent of total net sales were 61% exceeding plan by $56 million. Selling, general and administrative expense was $558 million or 35% as a rate of net sales vs plan of 40% due to lower store expenses and lower admin expenses due to unfilled open positions. Depreciation and amortization was lower due to impact of purchase price accounting vs historical net book values.

## Financial Condition and Liquidity

As of May 1, 2021, the borrowing base under the ABL was $1.3 billion with $1.2 billion net availability when reduced by $0.1 billion in letters of credit. There were no cash advances outstanding. Including cash and cash equivalents of $0.4 billion, the Company had $1.6 billion in total liquidity.

STATEMENT OF CONSOLIDATED ADJUSTED EBITDA

(follows this page)

**PENNEY INTERMEDIATE HOLDINGS LLC**
**Statement of Consolidated Adjusted EBITDA**
**For the Three Months Ended May 1, 2021**

| | | |
|---|---|---|
| *(In millions)* | | |
| Net Income | $ | 44 |
| Plus: | | |
| Interest expense | | 25 |
| Income tax expense | | 3 |
| Depreciation and amortization | | 51 |
| Restructuring expenses | | 3 |
| Acquisition and transition costs | | 11 |
| Minus: | | |
| Non-cash GAAP gain from lease remeasurements | | (3) |
| Consolidated adjusted EBITDA | $ | 134 |

*Prepared in accordance with the definition of Consolidated Adjusted EBITDA per Section 1.1 of the Credit and Guaranty Agreement dated December 7, 2020.*