

PENNEY INTERMEDIATE HOLDINGS LLC

Consolidated Financial Statements (Unaudited)

July 30, 2022 and July 31, 2021

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(Unaudited)
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PENNEY INTERMEDIATE HOLDINGS LLC
Consolidated Statements of Comprehensive Income
(Unaudited)

<i>(In millions)</i>	Three Months ended July 30, 2022	Three Months ended July 31, 2021
Total net sales	\$ 1,790	\$ 1,895
Credit income and other	80	98
Total revenues	1,870	1,993
Costs and expenses/(income):		
Cost of goods sold (exclusive of depreciation and amortization shown separately below)	1,096	1,162
Selling, general and administrative	599	576
Depreciation and amortization	56	50
Real estate and other, net	(4)	—
Restructuring, impairment, store closing and other costs	4	7
Total costs and expenses	1,751	1,795
Operating income	119	198
Net interest expense	14	26
Income before income taxes	105	172
Income tax expense	1	5
Net income	\$ 104	\$ 167
Other comprehensive income (loss):		
Currency translation adjustment	(1)	—
Comprehensive income	\$ 103	\$ 167

See accompanying Notes to Consolidated Financial Statements (Unaudited).

PENNEY INTERMEDIATE HOLDINGS LLC
Consolidated Statements of Comprehensive Income (Continued)
(Unaudited)

<i>(In millions)</i>	Six Months Ended July 30, 2022	Six Months Ended July 31, 2021
Total net sales	\$ 3,444	\$ 3,488
Credit income and other	190	174
Total revenues	3,634	3,662
Costs and expenses/(income):		
Cost of goods sold (exclusive of depreciation and amortization shown separately below)	2,108	2,141
Selling, general and administrative	1,192	1,131
Depreciation and amortization	111	102
Real estate and other, net	(6)	—
Restructuring, impairment, store closing and other costs	6	23
Total costs and expenses	3,411	3,397
Operating income	223	265
Net interest expense	27	51
Income before income taxes	196	214
Income tax expense	3	8
Net income	\$ 193	\$ 206
Other comprehensive income (loss):		
Currency translation adjustment	(2)	(1)
Comprehensive income	\$ 191	\$ 205

See accompanying Notes to Consolidated Financial Statements (Unaudited).

PENNEY INTERMEDIATE HOLDINGS LLC
Consolidated Balance Sheets
(Unaudited)

<i>(In millions)</i>	July 30, 2022	July 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 157	\$ 611
Merchandise inventory	2,082	1,682
Prepaid expenses and other assets	285	363
Total current assets	2,524	2,656
Property and equipment, net	833	895
Operating lease assets	1,579	1,601
Financing lease assets	79	82
Other assets	298	349
Total assets	\$ 5,313	\$ 5,583
Liabilities and member's equity		
Current liabilities:		
Merchandise accounts payable	\$ 460	\$ 389
Other accounts payable and accrued expenses	549	761
Current operating lease liabilities	46	57
Current financing lease liabilities	3	1
Current portion of long-term debt, net	6	20
Total current liabilities	1,064	1,228
Noncurrent operating lease liabilities	1,771	1,731
Noncurrent financing lease liabilities	82	84
Long-term debt	486	780
Other liabilities	156	133
Total liabilities	3,559	3,956
Member's equity		
Member's contributions	300	300
Profits interest plan	2	—
Accumulated other comprehensive loss	(4)	(2)
Reinvested earnings	1,456	1,329
Total member's equity	1,754	1,627
Total liabilities and member's equity	\$ 5,313	\$ 5,583

See accompanying Notes to Consolidated Financial Statements (Unaudited).

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

<i>(In millions)</i>	Member's Contributions/ (Distributions)	Profits Interest Plan Grants/ (Distributions)	Accumulated Other Comprehensive Income/(Loss)	Reinvested Earnings	Total Member's Equity
January 29, 2022	\$ 300	\$ 1	\$ (2)	\$ 1,317	\$ 1,616
Member tax distributions	—	—	—	(54)	(54)
Net income	—	—	—	193	193
Currency translation adjustment	—	—	(2)	—	(2)
Profits interest plan grants	—	1	—	—	1
July 30, 2022	\$ 300	\$ 2	\$ (4)	\$ 1,456	\$ 1,754

See accompanying Notes to Consolidated Financial Statements (Unaudited).

PENNEY INTERMEDIATE HOLDINGS LLC
Consolidated Statements of Cash Flows
(Unaudited)

<i>(In millions)</i>	Year-to-Date July 30, 2022	Year-to-Date July 31, 2021
Cash flows from operating activities:		
Net income	\$ 193	\$ 206
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Gain on asset disposition	(6)	—
Restructuring, impairment, store closing and other costs, non-cash	2	—
Gain on insurance proceeds received for damage to property	(1)	(2)
Depreciation and amortization	111	102
Change in cash from operating assets and liabilities:		
Merchandise inventory	(429)	(162)
Prepaid expenses and other assets	(13)	2
Merchandise accounts payable	147	238
Other accounts payable, accrued expenses and other liabilities	(134)	100
Net cash provided (used) by operating activities	(130)	484
Cash flows from investing activities:		
Capital expenditures	(69)	(21)
Proceeds from sale of real estate assets	14	—
Insurance proceeds received for damage to property and equipment	2	2
Net cash used by investing activities	(53)	(19)
Cash flows from financing activities:		
Payments of long-term debt	—	(6)
Member tax distributions	(54)	(123)
Repayments of principal portion of finance leases	(2)	—
Net cash used by financing activities	(56)	(129)
Net increase (decrease) in cash and cash equivalents	(239)	336
Cash and cash equivalents at beginning of period	396	275
Cash and cash equivalents at end of period	\$ 157	\$ 611

See accompanying Notes to Consolidated Financial Statements (Unaudited).

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

1. Basis of Presentation and Consolidation

These Consolidated Financial Statements (Unaudited) have been prepared in accordance with generally accepted accounting principles in the United States. The accompanying Consolidated Financial Statements (Unaudited), in the Company's 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 29, 2022. The same accounting policies are followed 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 Consolidated Financial Statements.

The Consolidated Financial Statements (Unaudited) present the results of the Company and our subsidiaries. All significant inter-company transactions and balances have been eliminated in consolidation. Certain amounts were reclassified to conform with current year presentation. 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 July 30, 2022" refers to the 13- week period ended July 30, 2022 and "three months ended July 31, 2021" refers to the 13- week period ended July 31, 2021. Fiscal 2022 and 2021 consist of the 52-week periods ending January 28, 2023 and January 29, 2022, respectively.

Global COVID-19 Pandemic

The global COVID-19 pandemic which began in March 2020 has had, and continues to have, an impact on the Company. The full impact of the pandemic will continue to depend on future developments, including the continued spread and duration of the pandemic, the emergence of future variant strains of COVID-19, the availability and distribution of effective medical treatments or vaccines as well as any related federal, state, or local governmental orders, restrictions, or mandates. The Company did not experience sustained store closures due to COVID-19 from January 30, 2022 to July 30, 2022.

2. Revenue

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 the Company's intellectual property by others. Revenue includes Total net sales and Credit income and other. Net sales are categorized by merchandise product groupings as the Company believes it best depicts the nature, amount, timing and uncertainty of revenue and cash flow.

The components of Total net sales for the six months ended July 30, 2022 and July 31, 2021 were as follows:

	Six Months Ended July 30, 2022	Six Months Ended July 31, 2021
Women's apparel, accessories and footwear	36 %	35 %
Men's apparel, accessories and footwear	25 %	25 %
Jewelry, Handbags, and Beauty	13 %	16 %
Home, services and other	18 %	15 %
Kid's apparel, footwear and toys	8 %	9 %
Total net sales	100 %	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 Sheets and were as follows:

<i>(In millions)</i>	July 30, 2022	July 31, 2021
Gift cards	\$ 75	\$ 99
Loyalty rewards	33	32
Total contract liability	\$ 108	\$ 131

The Company has contract liabilities including consideration received for gift card and loyalty related performance obligations which have not been satisfied as of the balance sheet date.

A rollforward of the amounts included in contract liability are as follows:

<i>(In millions)</i>	Six Months Ended July 30, 2022	Six Months Ended July 31, 2021
Beginning balance	\$ 127	\$ 143
Current period gift cards sold and loyalty reward points earned	75	90
Net sales from amounts included in contract liability opening balances	(53)	(28)
Net sales from current period usage	(41)	(74)
Ending balance	\$ 108	\$ 131

3. Long-Term Debt

<i>(In millions)</i>	July 30, 2022	July 31, 2021
Issue:		
2020 Term Loan Due 2026	\$ —	\$ 518
ABL FILO Facility Due 2026	160	—
ABL Term Loan Due 2026 (FILO Facility in Fiscal 2021)	340	296
Total debt	500	814
Unamortized debt issuance costs	(8)	(14)
Less: current maturities	(6)	(20)
Total long-term debt	\$ 486	\$ 780

The Company is subject to a borrowing base under the \$1.75 billion senior secured asset-based revolving credit facility (“Revolving Credit Facility”). As of July 30, 2022, the Company had \$1.75 billion available for borrowing with no borrowings outstanding and \$0.20 billion reserved for outstanding standby letters of credit. After taking into account minimum availability requirements, the Company had \$1.37 billion available for future borrowings.

4. 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.

5. Subsequent Events

The Company has evaluated subsequent events from the balance sheet date through September 13, 2022, the date at which the financial statements were available to be issued.

Penney Intermediate Holdings LLC

Narrative Report

<i>(In millions)</i>	Three Months ended July 30, 2022	Three Months ended July 31, 2021	Increase/ (Decrease)
Total net sales	\$ 1,790	\$ 1,895	\$ (105)
Credit income and other	80	98	(18)
Total revenues	1,870	1,993	(123)
Costs and expenses/(income):			
Cost of goods sold (exclusive of depreciation and amortization shown separately below)	1,096	1,162	(66)
Selling, general and administrative	599	576	23
Depreciation and amortization	56	50	6
Real estate and other, net	(4)	—	(4)
Restructuring, impairment, store closing and other costs	4	7	(3)
Total costs and expenses	1,751	1,795	(44)
Operating income	119	198	(79)
Net interest expense	14	26	(12)
Income before income taxes	105	172	(67)
Income tax expense	1	5	(4)
Net income	\$ 104	\$ 167	\$ (63)
Other comprehensive income (loss):			
Currency translation adjustment	(1)	—	(1)
Comprehensive income (loss)	\$ 103	\$ 167	\$ (64)

Summary Results of Operations for Quarter Ended July 30, 2022

Total net sales were \$1.8 billion for the quarter ended July 30, 2022 and were \$105 million unfavorable from prior year. Total revenues were \$1.9 billion or \$123 million unfavorable when compared to the prior year.

Cost of goods sold as a percent of total net sales were 61.2% and 61.3% for the three months ended July 30, 2022 and July 31, 2021, respectively. Selling, general and administrative expenses were \$599 million or 33.5% of total net sales compared to \$576 million, or 30.4% for the prior year. Depreciation and amortization were \$56 million compared to \$50 million the prior year.

Financial Condition and Liquidity

As of July 30, 2022, the Company had \$1.75 billion available for borrowing with no borrowings outstanding and \$0.2 billion reserved for outstanding standby letters of credit. Taking into account minimum availability requirements and available cash, the Company had \$1.37 billion in total liquidity as of July 30, 2022.

Penney Intermediate Holdings LLC
Narrative Report

<i>(In millions)</i>	Six Months Ended July 30, 2022	Six Months Ended July 31, 2021	Increase/ (Decrease)
Total net sales	\$ 3,444	\$ 3,488	\$ (44)
Credit income and other	190	174	16
Total revenues	3,634	3,662	(28)
Costs and expenses/(income):			
Cost of goods sold (exclusive of depreciation and amortization shown separately below)	2,108	2,141	(33)
Selling, general and administrative	1,192	1,131	61
Depreciation and amortization	111	102	9
Real estate and other, net	(6)	—	(6)
Restructuring, impairment, store closing and other costs	6	23	(17)
Total costs and expenses	3,411	3,397	14
Operating income	223	265	(42)
Net interest expense	27	51	(24)
Income before income taxes	196	214	(18)
Income tax expense	3	8	(5)
Net income	\$ 193	\$ 206	\$ (13)
Other comprehensive income (loss):			
Currency translation adjustment	(2)	(1)	(1)
Comprehensive income (loss)	\$ 191	\$ 205	\$ (14)

Summary Results of Operations for Six Months Ended July 30, 2022

Total net sales were \$3.4 billion for the six months ended July 30, 2022 and were \$44 million unfavorable from prior year. Total revenues were \$3.6 billion or \$28 million unfavorable when compared to the prior year.

Cost of goods sold as a percent of total net sales were 61.2% and 61.4% for the six months ended July 30, 2022 and July 31, 2021, respectively. Selling, general and administrative expenses were \$1.2 billion or 34.6% of total net sales compared to \$1.1 billion, or 32.4% for the prior year. Depreciation and amortization were \$111 million compared to \$102 million the prior year.

PENNEY INTERMEDIATE HOLDINGS LLC
Statement of Consolidated Adjusted EBITDA
For the Six Months Ended July 30, 2022

(In millions)

Net Income	\$	193
Plus:		
Interest expense		27
Income tax expense		3
Depreciation and amortization		111
Restructuring, impairment, store closing and other costs		6
Minus:		
Real estate and other, net		(6)
Consolidated adjusted EBITDA	\$	334

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

STORE REPORTING PACKAGE

(follows this page)

Quarterly Reporting Package

9/8/2022

Fiscal Quarter Ended July 30, 2022 ^(A)							
Property Ownership	# of Properties	Square Feet	Tenant's Sales per Square Foot	Tenant's Four-Wall EBITDAR	Rent	Tenant's Four Wall EBITDA	Tenant's Four-Wall EBITDAR / Rent
Fee	122	16,108,739	\$20				2.1
Ground Lease	22	3,117,253	\$26				2.4
Total	144	19,225,992	\$21	\$79,284,956	\$36,524,394	\$42,760,562	2.2

Fiscal Quarter Ended July 30, 2022 ^(A)		
Rent Tier ^(B)	# of Properties	Square Feet
1 > \$ 2.3	36	4,399,900
2 > \$ 1.8	36	5,103,804
3 > \$ 1.6	36	4,563,774
4 < \$ 1.6	36	5,158,514
Total	144	19,225,992

^(A) Reflects financial activity from May 1, 2022 through July 30, 2022 (Fiscal Q2 2022)

^(B) Rent tier determined based on book Occupancy Expense per square foot

Rent : includes book Rent, Ground Leases, Contingent Rent, CAM & accrued Real Estate Taxes

EBITDA : Tenant's Unallocated Store Contribution Profit, uses book rent

EBITDAR : excludes Occupancy included in calculation of EBITDA

Quarterly Reporting Package

9/8/2022

Fiscal Quarter Ended July 30, 2022 ^(A)							
Tenant's Sales per Square Foot Tier	# of Properties	Square Feet	Tenant's Sales per Square Foot	Tenant's Four-Wall EBITDAR	Tenant's Four-Wall EBITDAR to Sales	Tenant's Four Wall EBITDA	Tenant's Four-Wall EBITDAR / Rent
> \$24.5	36	4,278,123	\$33		22.9%		2.8
> \$19.1	36	4,815,734	\$22		20.3%		2.2
> \$15.5	36	5,166,299	\$17		18.1%		1.8
< \$15.5	36	4,965,836	\$12		15.1%		1.5
Total	144	19,225,992	\$21	\$79,284,956	19.9%	42,760,562	2.2

Fiscal Quarter Ended July 30, 2022 ^(A)							
EBITDAR / Rent Tier ^(B)	# of Properties	Square Feet	Tenant's Sales per Square Foot	Tenant's Four-Wall EBITDAR	Tenant's Four-Wall EBITDAR to Sales	Tenant's Four Wall EBITDA	Tenant's Four-Wall EBITDAR / Rent
> {2.0}x	84	10,257,399	\$24		22.3%		2.7
< {2.0}x	60	8,968,593	\$17		16.0%		1.5
Total	144	19,225,992	\$21	\$79,284,956	19.9%	42,760,562	2.2

(A) Reflects financial activity from May 1, 2022 through July 30, 2022 (Fiscal Q2 2022)

(B) Stratifications consolidated due to insufficient store count in the top (> 3.0x) and bottom (< 1.0x) stratifications.

Quarterly Reporting Package

9/8/2022

Trailing 12 Months ^(B)							
Property Ownership	# of Properties	Square Feet	Tenant's Sales per Square Foot	Tenant's Four-Wall EBITDAR	Rent	Tenant's Four Wall EBITDA	Tenant's Four-Wall EBITDAR / Rent
Fee	122	16,108,739	\$82				2.1
Ground Lease	22	3,117,253	\$102				2.3
Total	144	19,225,992	\$85	\$321,678,804	\$150,357,967	\$171,320,837	2.1

Trailing 12 Months ^(B)							
Rent Tier ^(A)	# of Properties	Square Feet	Tenant's Sales per Square Foot	Tenant's Four-Wall EBITDAR	Rent	Tenant's Four Wall EBITDA	Tenant's Four-Wall EBITDAR / Rent
1 > \$ 9.5	36	4,427,906	\$124				2.4
2 > \$ 7.6	36	4,954,323	\$84				2.0
3 > \$ 6.7	36	4,727,243	\$79				2.0
4 < \$ 6.7	36	5,116,520	\$57				1.8
Total	144	19,225,992	\$85	\$321,678,804	\$150,357,967	\$171,320,837	2.1

^(A) Rent tier determined based on book Occupancy Expense per square foot

^(B) Reflects financial activity from August 1, 2021 through July 30, 2022 (TTM July 2022)

Rent : includes book Rent, Ground Leases, Contingent Rent, CAM & accrued Real Estate Taxes

EBITDA : Tenant's Unallocated Store Contribution Profit, uses book rent

EBITDAR : excludes Occupancy included in calculation of EBITDA

Quarterly Reporting Package

9/8/2022

Trailing 12 Months ^(A)							
Tenant's Sales per Square Foot Tier	# of Properties	Square Feet	Tenant's Sales per Square Foot	Tenant's Four-Wall EBITDAR	Tenant's Four-Wall EBITDAR to Sales	Tenant's Four Wall EBITDA	Tenant's Four-Wall EBITDAR / Rent
> \$103.4	36	4,245,722	\$132		23.1%		2.7
> \$81.5	36	4,518,541	\$92		20.3%		2.3
> \$65.6	36	5,213,139	\$73		17.9%		1.8
< \$65.6	36	5,248,590	\$54		14.3%		1.5
Total	144	19,225,992	\$85	\$321,678,804	19.7%	\$171,320,837	2.1

Trailing 12 Months ^(A)							
EBITDAR / Rent Tier ^(B)	# of Properties	Square Feet	Tenant's Sales per Square Foot	Tenant's Four-Wall EBITDAR	Tenant's Four-Wall EBITDAR to Sales	Tenant's Four Wall EBITDA	Tenant's Four-Wall EBITDAR / Rent
> {2.0}x	83	10,198,949	\$101		21.8%		2.6
< {2.0}x	61	9,027,043	\$67		16.2%		1.5
Total	144	19,225,992	\$85	\$321,678,804	19.7%	\$171,320,837	2.1

^(A) Reflects financial activity from August 1, 2021 through July 30, 2022 (TTM July 2022)

^(B) Stratifications consolidated due to insufficient store count in the top (> 3.0x) and bottom (< 1.0x) stratifications.

Quarterly Reporting Package

Master Lease Guarantor Operating Performance

Key Financial and Performance Metrics	Fiscal Quarter Ended July 30, 2022 ^(A)	Trailing 12 Months as of July 30, 2022 ^(C)
Comparable store sales percent increase/(decrease) for Master Lease Properties ^(B)	-5.4%	15.1%
Liquid assets covenant compliance (as defined in the Master Leases)	Yes	N/A
Tangible net worth (as defined in the Master Leases - in millions) ^(B)	\$1,641	N/A

Key Portfolio Metrics	Fiscal Quarter Ended July 30, 2022 ^(A)	Trailing 12 Months as of July 30, 2022 ^(C)
End of period number of stores - fee owned and ground leased	205	205
End of period number of stores - space leased	464	464
Gross square footage of stores (in millions)	81.7	81.7

^(A) Reflects financial activity from May 1, 2022 through July 30, 2022 (Fiscal Q2 2022)

^(B) Per Consolidated Financial Statements of Penney Intermediate Holdings LLC as of July 30, 2022

^(C) Reflects financial activity from August 1, 2021 through July 30, 2022 (TTM July 2022)

Quarterly Reporting Package
Master Lease Subtenants

Fiscal Quarter Ended July 30, 2022								
Subtenant Name	Subleased Property	Square Feet	Lease Commence Date	Lease Expiration Date ^(C)	Rent / Month	Rent Per Square Foot / Month	Percent of Total Rent ^(B)	Expense Provisions
Donald Bruce Drummond (Optometrist)	334	226	6/1/2017	5/31/2023	100	0.4	0.08%	JCP retains 2% of sublessee's sales run through JCP credit card machines to cover interchange fees
Dr. Norman Ratner (Optometrist)	634	202	9/1/2016	8/31/2023	100	0.5	0.05%	JCP retains 2% of sublessee's sales run through JCP credit card machines to cover interchange fees
Dr. Susan Shahriari (Optometrist)	2096	154	10/1/2015	9/30/2023	100	0.6	0.09%	JCP retains 2% of sublessee's sales run through JCP credit card machines to cover interchange fees
Dr. Brian W. Park, O.D. (Optometrist)	2467	120	10/1/2014	9/30/2023	100	0.8	0.05%	JCP retains 2% of sublessee's sales run through JCP credit card machines to cover interchange fees
Dr. Jeff Overbey (Optometrist)	2649	178	3/25/2018	3/31/2023	100	0.6	0.09%	JCP retains 2% of sublessee's sales run through JCP credit card machines to cover interchange fees
Dr. Laurence Rubin (Optometrist)	2677	126	9/1/2014	8/31/2023	100	0.8	0.03%	JCP retains 2% of sublessee's sales run through JCP credit card machines to cover interchange fees
Dr. Caleb H. Poon (Optometrist)	2955	248	2/6/2015	2/28/2023	100	0.4	0.08%	JCP retains 2% of sublessee's sales run through JCP credit card machines to cover interchange fees
Aspen Square, Inc.	2990	18,058	10/8/2008	10/7/2083	1	0.0	0.00%	
Total Subtenants ^(A)		19,312			701	0.0		

^(A) Excludes TBA leases consistent with Section 9.2(a) of the Master Lease Agreement
^(B) 6 months of sublease income divided by book rent for same period
^(C) Subleases for Optometrist offices auto-renew for 12 months w/30-day right to terminate by either party