

PENNEY INTERMEDIATE HOLDINGS LLC

Consolidated Financial Statements (Unaudited)

October 29, 2022 and October 30, 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 October 29, 2022	Three Months ended October 30, 2021
Total net sales	\$ 1,717	\$ 1,804
Credit income and other	86	109
Total revenues	1,803	1,913
Costs and expenses/(income):		
Cost of goods sold (exclusive of depreciation and amortization shown separately below)	1,103	1,127
Selling, general and administrative	629	601
Depreciation and amortization	59	51
Real estate and other, net	—	(11)
Restructuring, impairment, store closing and other costs	10	8
Total costs and expenses	1,801	1,776
Operating income	2	137
Net interest expense	18	27
Income (loss) before income taxes	(16)	110
Income tax expense	1	4
Net income (loss)	\$ (17)	\$ 106
Other comprehensive income (loss):		
Currency translation adjustment	(1)	1
Comprehensive income (loss)	\$ (18)	\$ 107

See accompanying Notes to Consolidated Financial Statements (Unaudited).

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

<i>(In millions)</i>	Nine Months Ended October 29, 2022	Nine Months Ended October 30, 2021
Total net sales	\$ 5,161	\$ 5,292
Credit income and other	276	283
Total revenues	5,437	5,575
Costs and expenses/(income):		
Cost of goods sold (exclusive of depreciation and amortization shown separately below)	3,211	3,268
Selling, general and administrative	1,821	1,732
Depreciation and amortization	170	153
Real estate and other, net	(6)	(11)
Restructuring, impairment, store closing and other costs	16	31
Total costs and expenses	5,212	5,173
Operating income	225	402
Net interest expense	45	78
Income before income taxes	180	324
Income tax expense	4	12
Net income	\$ 176	\$ 312
Other comprehensive income (loss):		
Currency translation adjustment	(3)	—
Comprehensive income	\$ 173	\$ 312

See accompanying Notes to Consolidated Financial Statements (Unaudited).

PENNEY INTERMEDIATE HOLDINGS LLC
Consolidated Balance Sheets
(Unaudited)

<i>(In millions)</i>	October 29, 2022	October 30, 2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 121	\$ 354
Merchandise inventory	2,399	2,077
Prepaid expenses and other assets	283	418
Total current assets	2,803	2,849
Property and equipment, net	848	870
Operating lease assets	1,622	1,586
Financing lease assets	76	92
Other assets	283	334
Total assets	\$ 5,632	\$ 5,731
Liabilities and member's equity		
Current liabilities:		
Merchandise accounts payable	\$ 382	\$ 441
Other accounts payable and accrued expenses	589	738
Revolving credit facility borrowings	366	—
Current operating lease liabilities	48	49
Current financing lease liabilities	3	3
Current portion of long-term debt, net	9	20
Total current liabilities	1,397	1,251
Noncurrent operating lease liabilities	1,814	1,765
Noncurrent financing lease liabilities	80	93
Long-term debt	485	765
Other liabilities	142	200
Total liabilities	3,918	4,074
Member's equity		
Member's contributions	300	300
Profits interest plan	3	—
Accumulated other comprehensive loss	(5)	(1)
Reinvested earnings	1,416	1,358
Total member's equity	1,714	1,657
Total liabilities and member's equity	\$ 5,632	\$ 5,731

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	—	—	—	(77)	(77)
Net income	—	—	—	176	176
Currency translation adjustment	—	—	(3)	—	(3)
Profits interest plan grants	—	2	—	—	2
October 29, 2022	\$ 300	\$ 3	\$ (5)	\$ 1,416	\$ 1,714

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 October 29, 2022	Year-to-Date October 30, 2021
Cash flows from operating activities:		
Net income	\$ 176	\$ 312
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Gain on asset disposition	(6)	(13)
Restructuring, impairment, store closing and other costs, non-cash	5	—
Gain on insurance proceeds received for damage to property	(1)	(1)
Depreciation and amortization	170	153
Change in cash from operating assets and liabilities:		
Merchandise inventory	(746)	(557)
Prepaid expenses and other assets	(10)	(47)
Merchandise accounts payable	69	290
Other accounts payable, accrued expenses and other liabilities	(105)	157
Net cash provided (used) by operating activities	(448)	294
Cash flows from investing activities:		
Capital expenditures	(129)	(41)
Proceeds from sale of real estate assets	14	10
Insurance proceeds received for damage to property and equipment	2	4
Net cash used by investing activities	(113)	(27)
Cash flows from financing activities:		
Net borrowings under revolving credit facility	366	—
Payments of long-term debt	—	(21)
Member tax distributions	(77)	(166)
Repayments of principal portion of finance leases	(3)	(1)
Net cash used by financing activities	286	(188)
Net increase (decrease) in cash and cash equivalents	(275)	79
Cash and cash equivalents at beginning of period	396	275
Cash and cash equivalents at end of period	\$ 121	\$ 354

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.

The company is currently impacted by uncertain economic conditions including inflation, COVID-19, labor shortages, and potential supply chain disruption. Because of these uncertain economic conditions and 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 October 29, 2022" refers to the 13- week period ended October 29, 2022 and "three months ended October 30, 2021" refers to the 13- week period ended October 30, 2021. Fiscal 2022 and 2021 consist of the 52-week periods ending January 28, 2023 and January 29, 2022, respectively.

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 nine months ended October 29, 2022 and October 30, 2021 were as follows:

	Nine Months Ended October 29, 2022	Nine Months Ended October 30, 2021
Women's apparel, accessories and footwear	35 %	33 %
Men's apparel, accessories and footwear	25 %	25 %
Jewelry, Handbags, and Beauty	13 %	16 %
Home, services and other	18 %	16 %
Kid's apparel, footwear and toys	9 %	10 %
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>	October 29, 2022	January 29, 2022	October 30, 2021	January 30, 2021
Gift cards	\$ 70	\$ 95	\$ 97	\$ 110
Loyalty rewards	33	32	33	33
Total contract liability	\$ 103	\$ 127	\$ 130	\$ 143

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. During the nine months ended October 29, 2022 and October 30, 2021, the Company recorded \$44 million and \$36 million, respectively, in revenue that was previously included in the contract liability balances of \$127 million and \$143 million at January 29, 2022 and January 30, 2021, respectively.

3. Long-Term Debt

<i>(In millions)</i>	October 29, 2022	October 30, 2021
Issue:		
2020 Term Loan Due 2026	\$ —	\$ 506
ABL FILO Facility Due 2026	160	—
ABL Term Loan Due 2026 (FILO Facility in Fiscal 2021)	340	292
Total debt	500	798
Unamortized debt issuance costs	(6)	(13)
Less: current maturities	(9)	(20)
Total long-term debt	\$ 485	\$ 765

4. Revolving Credit Facility

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 October 29, 2022, the Company had \$1.75 billion available for borrowing with \$366 million borrowed and \$0.20 billion reserved for outstanding standby letters of credit. After taking into account minimum availability requirements, the Company had \$1.01 billion available for future borrowings. Subsequent to October 29, 2022, the \$366 million borrowed under the revolving credit facility was repaid in full and there were no borrowings outstanding when the financial statements were issued.

5. 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.

6. Subsequent Events

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

NARRATIVE REPORT

(follows this page)

Penney Intermediate Holdings LLC

Narrative Report

<i>(In millions)</i>	Three Months ended October 29, 2022	Three Months ended October 30, 2021	Increase/ (Decrease)
Total net sales	\$ 1,717	\$ 1,804	\$ (87)
Credit income and other	86	109	(23)
Total revenues	1,803	1,913	(110)
Costs and expenses/(income):			
Cost of goods sold (exclusive of depreciation and amortization shown separately below)	1,103	1,127	(24)
Selling, general and administrative	629	601	28
Depreciation and amortization	59	51	8
Real estate and other, net	—	(11)	11
Restructuring, impairment, store closing and other costs	10	8	2
Total costs and expenses	1,801	1,776	25
Operating income	2	137	(135)
Net interest expense	18	27	(9)
Income (loss) before income taxes	(16)	110	(126)
Income tax expense	1	4	(3)
Net income (loss)	\$ (17)	\$ 106	\$ (123)
Other comprehensive income (loss):			
Currency translation adjustment	(1)	1	(2)
Comprehensive income (loss)	\$ (18)	\$ 107	\$ (125)

Summary Results of Operations for Quarter Ended October 29, 2022

Total net sales were \$1.7 billion for the quarter ended October 29, 2022 and were \$87 million unfavorable from prior year. Total revenues were \$1.8 billion or \$110 million unfavorable when compared to the prior year.

Cost of goods sold as a percent of total net sales were 64.2% and 62.5% for the three months ended October 29, 2022 and October 30, 2021, respectively. Selling, general and administrative expenses were \$629 million or 36.6% of total net sales compared to \$601 million, or 33.3% for the prior year. Depreciation and amortization were \$59 million compared to \$51 million the prior year.

Financial Condition and Liquidity

As of October 29, 2022, the Company had \$1.75 billion available for borrowing with \$366 million borrowed and \$0.20 billion reserved for outstanding standby letters of credit. After taking into account minimum availability requirements, the Company had \$1.01 billion available for future borrowings.

Penney Intermediate Holdings LLC
Narrative Report

<i>(In millions)</i>	Nine Months Ended October 29, 2022	Nine Months Ended October 30, 2021	Increase/ (Decrease)
Total net sales	\$ 5,161	\$ 5,292	\$ (131)
Credit income and other	276	283	(7)
Total revenues	5,437	5,575	(138)
Costs and expenses/(income):			
Cost of goods sold (exclusive of depreciation and amortization shown separately below)	3,211	3,268	(57)
Selling, general and administrative	1,821	1,732	89
Depreciation and amortization	170	153	17
Real estate and other, net	(6)	(11)	5
Restructuring, impairment, store closing and other costs	16	31	(15)
Total costs and expenses	5,212	5,173	39
Operating income	225	402	(177)
Net interest expense	45	78	(33)
Income (loss) before income taxes	180	324	(144)
Income tax expense	4	12	(8)
Net income (loss)	\$ 176	\$ 312	\$ (136)
Other comprehensive income (loss):			
Currency translation adjustment	(3)	—	(3)
Comprehensive income (loss)	\$ 173	\$ 312	\$ (139)

Summary Results of Operations for Nine Months Ended October 29, 2022

Total net sales were \$5.2 billion for the nine months ended October 29, 2022 and were \$131 million unfavorable from prior year. Total revenues were \$5.4 billion or \$138 million unfavorable when compared to the prior year.

Cost of goods sold as a percent of total net sales were 62.2% and 61.7% for the nine months ended October 29, 2022 and October 30, 2021, respectively. Selling, general and administrative expenses were \$1.8 billion or 35.3% of total net sales compared to \$1.7 billion, or 32.7% for the prior year. Depreciation and amortization were \$170 million compared to \$153 million the prior year.

STATEMENT OF CONSOLIDATED ADJUSTED EBITDA
(follows this page)

PENNEY INTERMEDIATE HOLDINGS LLC
Statement of Consolidated Adjusted EBITDA
For the Nine Months Ended October 29, 2022

(In millions)

Net Income	\$	176
Plus:		
Net interest expense		45
Income tax expense		4
Depreciation and amortization		170
Restructuring, impairment, store closing and other costs		16
Minus:		
Real estate and other, net		(6)
Consolidated adjusted EBITDA	\$	405

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

11/29/2022

Fiscal Quarter Ended October 29, 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	115	15,021,182	\$18				1.2
Ground Lease	21	2,964,686	\$23				1.4
Total	136	17,985,868	\$19	\$44,040,423	\$34,852,262	\$9,188,161	1.3

Fiscal Quarter Ended October 29, 2022 ^(A)		
Rent Tier ^(B)	# of Properties	Square Feet
1 > \$ 2.3	34	4,149,751
2 > \$ 1.8	34	4,735,700
3 > \$ 1.6	34	4,374,382
4 < \$ 1.6	34	4,726,035
Total	136	17,985,868

^(A) Reflects financial activity from July 31, 2022 through October 29, 2022 (Fiscal Q3 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

11/29/2022

Fiscal Quarter Ended October 29, 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
> \$23	34	4,033,033	\$29		15.5%		1.6
> \$18.6	34	4,165,036	\$21		13.9%		1.4
> \$15.3	34	4,843,018	\$17		11.2%		1.0
< \$15.3	34	4,944,781	\$12		7.9%		0.7
Total	136	17,985,868	\$19	\$44,040,423	12.7%	9,188,161	1.3

Fiscal Quarter Ended October 29, 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
> {1.0}x	88	11,018,995	\$22		15.1%		1.6
< {1.0}x	48	6,966,873	\$15		7.4%		0.6
Total	136	17,985,868	\$19	\$44,040,423	12.7%	9,188,161	1.3

^(A) Reflects financial activity from July 31, 2022 through October 29, 2022 (Fiscal Q3 2022)

^(B) Stratifications consolidated due to insufficient store count in the top 2 stratifications.

Quarterly Reporting Package

11/29/2022

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	115	15,021,182	\$83				2.1
Ground Lease	21	2,964,686	\$103				2.3
Total	136	17,985,868	\$86	\$305,552,927	\$143,142,617	\$162,410,311	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 > \$ 9.6	34	4,147,980	\$125				2.4
2 > \$ 7.6	34	4,703,932	\$86				2.1
3 > \$ 6.8	34	4,407,921	\$81				2.0
4 < \$ 6.8	34	4,726,035	\$58				1.8
Total	136	17,985,868	\$86	\$305,552,927	\$143,142,617	\$162,410,311	2.1

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

^(B) Reflects financial activity from October 31, 2021 through October 29, 2022 (TTM October 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

11/29/2022

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
> \$104.4	34	3,948,705	\$133		22.9%		2.7
> \$83.2	34	4,336,576	\$94		20.1%		2.3
> \$66.8	34	4,880,150	\$74		18.1%		1.8
< \$66.8	34	4,820,437	\$55		14.5%		1.5
Total	136	17,985,868	\$86	\$305,552,927	19.6%	\$162,410,311	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	79	9,372,371	\$103		21.6%		2.6
< {2.0}x	57	8,613,497	\$69		16.5%		1.5
Total	136	17,985,868	\$86	\$305,552,927	19.6%	\$162,410,311	2.1

^(A) Reflects financial activity from October 31, 2021 through October 29, 2022 (TTM October 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 October 29, 2022 ^(A)	Trailing 12 Months as of October 29, 2022 ^(C)
Comparable store sales percent increase/(decrease) for Master Lease Properties ^(B)	-6.0%	6.6%
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)	\$1,601	N/A

Key Portfolio Metrics	Fiscal Quarter Ended October 29, 2022 ^(A)	Trailing 12 Months as of October 29, 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 July 31, 2022 through October 29, 2022 (Fiscal Q3 2022)

^(B) Per Consolidated Financial Statements of Penney Intermediate Holdings LLC as of October 29, 2022

^(C) Reflects financial activity from October 31, 2021 through October 29, 2022 (TTM October 2022)