

PENNEY INTERMEDIATE HOLDINGS LLC

Consolidated Financial Statements (Unaudited)

April 29, 2023 and April 30, 2022

Penney Intermediate Holdings LLC

Narrative Report

The following discussion, which presents results for the first quarter, should be read in conjunction with the accompanying Consolidated Financial Statements and notes thereto. Unless otherwise indicated, all references in Narrative are as of the date presented and the Company does not undertake any obligation to update these numbers, or to revise or update any statement being made related thereto.

First Quarter Update

Throughout the first quarter of Fiscal 2023, JCPenney continued to serve America's hard-working families while furthering its transformational efforts. Capital investments made to enhance both the digital and brick and mortar customer experiences, and the ever-changing, value-minded merchandise offering, resulted in an increase in customer frequency by 500 basis points over last year despite the ongoing economic challenges facing the JCPenney customer. The two most significant categories, Men's and Women's apparel, continued to outpace last year's results, demonstrating the customer's recognition of the value and style being offered by JCPenney. Additionally, customers continued to shift more of their purchases to private-label brands like Liz Claiborne and Stafford, further emphasizing the quality at a great value option that these brands provide. National brands continue to be an important part of the business and performed well in the period with several planned new brands being added later this year.

Although total sales were down in comparison to last year, digital sales further increased as a percent of sales and penetration rates were up over 200 basis points when compared to last year. Credit income declined, which reflects the health of the private-label card portfolio, as more and more consumers are choosing to pay off credit balances.

JCPenney Beauty store rollouts concluded with the final grand opening occurring in early May and ending the year-long transition of the beauty business. Excluding the impact of the beauty transition, comparable store sales for the quarter were down only slightly to last year, despite weaker traffic that has impacted the entire retail industry.

Merchandise gross profit rates improved 120 basis points for the period with margin expansion coming from both channels. Improving inventory efficiency remained a key area of focus and as a result, inventory was down 5% to last year.

Selling, general, and administrative costs declined year-over-year as the entire organization continues to drive greater efficiencies and reduce discretionary spend. SG&A increase as a percent of sales reflect the pressure created by top-line sales declines. Restructuring charges recorded in the period were one-time, non-cash charges specifically related to the transition of JCP Beauty and the final exit of the Sephora relationship.

During the quarter, the Company generated operating cash flow as measured by Adjusted EBITDA of \$56M, allowing for continued self-funding of capital investments aimed at driving long-term growth of the business. The Company recorded a net loss of \$17M during the period reflecting the impact of the \$17M in one-time, non-recurring, non-cash charges that were expensed during the period.

The Company continues to prioritize maintaining a very healthy balance sheet with significant liquidity of over \$1.6B available for use by the Company as of the end of the period and one of the lowest debt leverage ratios in the industry at less than 1.0x.

PENNEY INTERMEDIATE HOLDINGS LLC

Consolidated Financial Statements

(Unaudited)

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Table of Contents

	<u>Page</u>
Consolidated Statements of Comprehensive Income	3
Consolidated Balance Sheets	4
Consolidated Statements of Member's Equity	5
Consolidated Statements of Cash Flows	6
Notes to the Consolidated Financial Statements	7

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

<i>(In millions)</i>	Three Months Ended April 29, 2023	Three Months Ended April 30, 2022
Total net sales	\$ 1,489	\$ 1,654
Credit income	73	110
Total revenues	1,562	1,764
Costs and expenses/(income):		
Cost of goods sold (exclusive of depreciation and amortization shown separately below)	909	1,012
Selling, general and administrative	597	593
Depreciation and amortization	38	55
Real estate and other, net	—	(2)
Restructuring, impairment, store closing and other costs	17	2
Total costs and expenses	1,561	1,660
Operating income	1	104
Net interest expense	17	13
Income (loss) before income taxes	(16)	91
Income tax expense	1	2
Net income (loss)	\$ (17)	\$ 89
Other comprehensive income (loss):		
Currency translation adjustment	(1)	(1)
Comprehensive income (loss)	\$ (18)	\$ 88

See accompanying Notes to Consolidated Financial Statements (Unaudited).

PENNEY INTERMEDIATE HOLDINGS LLC
Consolidated Balance Sheets
(Unaudited)

<i>(In millions)</i>	April 29, 2023	April 30, 2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 107	\$ 147
Merchandise inventory	1,841	1,928
Prepaid expenses and other assets	251	318
Total current assets	2,199	2,393
Property and equipment, net	951	840
Operating lease assets	1,657	1,576
Financing lease assets	78	83
Other assets	287	305
Total assets	\$ 5,172	\$ 5,197
Liabilities and member's equity		
Current liabilities:		
Merchandise accounts payable	\$ 332	\$ 413
Other accounts payable and accrued expenses	480	559
Revolving credit facility borrowings	16	—
Current operating lease liabilities	67	46
Current financing lease liabilities	3	3
Current portion of long-term debt, net	11	4
Total current liabilities	909	1,025
Noncurrent operating lease liabilities	1,834	1,766
Noncurrent financing lease liabilities	84	86
Long-term debt	481	488
Other liabilities	146	157
Total liabilities	3,454	3,522
Member's equity		
Member's contributions	300	300
Profits interest plan	4	2
Accumulated other comprehensive loss	(5)	(3)
Reinvested earnings	1,419	1,376
Total member's equity	1,718	1,675
Total liabilities and member's equity	\$ 5,172	\$ 5,197

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	—	—	—	(30)	(30)
Net income	—	—	—	89	89
Currency translation adjustment	—	—	(1)	—	(1)
Profits interest plan grants	—	1	—	—	1
April 30, 2022	\$ 300	\$ 2	\$ (3)	\$ 1,376	\$ 1,675
January 28, 2023	\$ 300	\$ 3	\$ (4)	\$ 1,440	\$ 1,739
Member tax distributions	—	—	—	(4)	(4)
Net income (loss)	—	—	—	(17)	(17)
Currency translation adjustment	—	—	(1)	—	(1)
Profits interest plan grants	—	1	—	—	1
April 29, 2023	\$ 300	\$ 4	\$ (5)	\$ 1,419	\$ 1,718

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 April 29, 2023	Year-to-Date April 30, 2022
Cash flows from operating activities:		
Net income (loss)	\$ (17)	\$ 89
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Gain on asset disposition	—	(1)
Restructuring, impairment, store closing and other costs, non-cash	4	2
Gain on insurance proceeds received for damage to property	—	(1)
Depreciation and amortization	38	55
Change in cash from operating assets and liabilities:		
Merchandise inventory	(1)	(275)
Prepaid expenses and other assets	(42)	(41)
Merchandise accounts payable	68	100
Other accounts payable, accrued expenses and other liabilities	(43)	(131)
Net cash provided (used) by operating activities	7	(203)
Cash flows from investing activities:		
Capital expenditures	(61)	(25)
Proceeds from sale of real estate assets	1	8
Insurance proceeds received for damage to property and equipment	—	2
Net cash used by investing activities	(60)	(15)
Cash flows from financing activities:		
Payments of long-term debt	(2)	—
Proceeds from borrowings under the revolving credit facility	16	—
Member tax distributions	(4)	(30)
Repayments of principal portion of finance leases	(1)	(1)
Net cash provided (used) by financing activities	9	(31)
Net decrease in cash and cash equivalents	(44)	(249)
Cash and cash equivalents at beginning of period	151	396
Cash and cash equivalents at end of period	\$ 107	\$ 147

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 28, 2023. 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 its subsidiaries. All significant inter-company transactions and balances have been eliminated in consolidation. Certain amounts may have been reclassified to conform with current year presentation.

The company is currently impacted by uncertain economic conditions including inflation and labor shortages. 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. Every sixth year, the Company's fiscal year consists of 53 weeks ending on the Saturday closest to January 31. As used herein, "three months ended April 29, 2023" refers to the 13- week period ended April 29, 2023 and "three months ended April 30, 2022" refers to the 13- week period ended April 30, 2022. Fiscal 2023 and 2022 consist of the 53- week period ending February 3, 2024 and the 52- week period ending January 28, 2023, respectively.

2. Long-Term Debt

<i>(In millions)</i>	April 29, 2023	April 30, 2022
Issue:		
ABL Term Loan	338	340
ABL FILO Loan	160	160
Total debt	498	500
Unamortized debt issuance costs	(6)	(8)
Less: current maturities	(11)	(4)
Total long-term debt	<u>\$ 481</u>	<u>\$ 488</u>

3. Revolving Credit Facility

The Company is subject to a borrowing base under the \$1,750 million senior secured asset-based revolving credit facility ("Revolving Credit Facility"). As of April 29, 2023, the Company had \$1,650 million available for borrowing with \$16 million borrowed and \$200 million reserved for outstanding standby letters of credit. After taking into account minimum availability requirements, the Company had \$1,270 million available for future borrowings. Subsequent to April 29, 2023, the \$16 million borrowed under the revolving credit facility was repaid in full and there were no borrowings outstanding when the financial statements were issued.

4. Litigation and Other Contingencies

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

5. Subsequent Events

The Company has evaluated subsequent events from the balance sheet date through June 13, 2023, the date at which the financial statements were available to be issued.

PENNEY INTERMEDIATE HOLDINGS LLC
Statement of Consolidated Adjusted EBITDA
For the Three Months Ended April 29, 2023

(In millions)

Net income (loss)	\$	(17)
Plus:		
Net interest expense		17
Income tax expense		1
Depreciation and amortization		38
Restructuring, impairment, store closing and other costs		17
Minus:		
Real estate and other, net		—
Consolidated adjusted EBITDA	\$	56

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

6/6/2023

Fiscal Quarter Ended April 29, 2023 ^(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	111	14,501,036	\$16				1.4
Ground Lease	21	2,964,686	\$21				1.6
Total	132	17,465,722	\$17	\$48,716,239	\$33,892,934	\$14,823,304	1.4

Fiscal Quarter Ended April 29, 2023 ^(A)		
Rent Tier ^(B)	# of Properties	Square Feet
1 > \$ 2.3	33	4,172,279
2 > \$ 1.9	33	4,533,093
3 > \$ 1.7	33	4,233,192
4 < \$ 1.7	33	4,527,158
Total	132	17,465,722

^(A) Reflects financial activity from February 29, 2023 through April 29, 2023 (Fiscal Q1 2023)

^(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

6/6/2023

Fiscal Quarter Ended April 29, 2023 ^(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
> \$20.4	33	3,917,770	\$27		19.9%		2.0
> \$16.3	33	4,237,124	\$18		17.3%		1.5
> \$12.9	33	4,490,559	\$14		14.1%		1.1
< \$12.9	33	4,820,269	\$10		10.4%		0.8
Total	132	17,465,722	\$17	\$48,716,239	16.4%	14,823,304	1.4

Fiscal Quarter Ended April 29, 2023 ^(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	28	3,297,176	\$24		21.8%		2.6
> {1.0}x	67	8,344,178	\$18		16.8%		1.5
< ={1.0}x	37	5,824,368	\$12		9.8%		0.7
Total	132	17,465,722	\$17	\$48,716,239	16.4%	14,823,304	1.4

^(A) Reflects financial activity from January 29, 2023 through April 29, 2023 (Fiscal Q1 2023)

^(B) Stratifications consolidated due to insufficient store count

Quarterly Reporting Package

6/6/2023

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	111	14,501,036	\$81				1.7
Ground Lease	21	2,964,686	\$102				1.9
Total	132	17,465,722	\$84	\$230,325,102	\$135,436,533	\$94,888,569	1.7

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 > \$ 9.2	33	4,172,279	\$120				1.9
2 > \$ 7.4	33	4,333,021	\$85				1.8
3 > \$ 6.5	33	4,560,954	\$78				1.5
4 < \$ 6.5	33	4,399,468	\$55				1.4
Total	132	17,465,722	\$84	\$230,325,102	\$135,436,533	\$94,888,569	1.7

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

^(B) Reflects financial activity from May 1, 2022 through April 29, 2023 (TTM April 2023)

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

6/6/2023

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
> \$101.3	33	3,848,061	\$132		18.8%		2.2
> \$80.6	33	4,361,314	\$90		15.6%		1.7
> \$63.7	33	4,406,389	\$72		14.5%		1.4
< \$63.7	33	4,849,958	\$52		10.8%		1.1
Total	132	17,465,722	\$84	\$230,325,102	15.7%	\$94,888,569	1.7

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	42	4,806,584	\$106		19.3%		2.6
<= {2.0}x	90	12,659,138	\$76		13.7%		1.4
Total	132	17,465,722	\$84	\$230,325,102	15.7%	\$94,888,569	1.7

^(B) Reflects financial activity from May 1, 2022 through April 29, 2023 (TTM April 2023)

^(B) Stratifications consolidated due to insufficient store count

Quarterly Reporting Package

Master Lease Guarantor Operating Performance

Key Financial and Performance Metrics	Fiscal Quarter Ended April 29, 2023 ^(A)	Trailing 12 Months as of April 29, 2023 ^(C)
Comparable store sales percent increase/(decrease) for Master Lease Properties ^(B)	-9.4%	-6.2%
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)	\$1,605	N/A

Key Portfolio Metrics	Fiscal Quarter Ended April 29, 2023(A)	Trailing 12 Months as of April 29, 2023(C)
End of period number of stores - fee owned and ground leased	205	205
End of period number of stores - space leased	462	462
Gross square footage of stores (in millions)	81.3	81.3

^(A) Reflects financial activity from January 29, 2023 through April 29, 2023 (Fiscal Q1 2023)

^(B) Per Consolidated Financial Statements of Penney Intermediate Holdings LLC as of April 29, 2023

^(C) Reflects financial activity from May 1, 2022 through April 29, 2023 (TTM April 2023)