

PENNEY INTERMEDIATE HOLDINGS LLC

Consolidated Financial Statements (Unaudited)

October 28, 2023 and October 29, 2022

Third Quarter Narrative Report

The following discussion, which presents results for the third 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.

Third Quarter Update

During the quarter, the Company maintained its commitment to serving working families across America and to its transformation efforts. In early September, the Company formally introduced its 'Make It Count' brand proposition, which is a key strategic initiative designed to drive long-term growth and sustainable traffic and build customer loyalty. Customers responded favorably and as a result, customer frequency increased 300 bp in the period while digital sales as a percent of total sales improved 200 bp over last year. In addition to making trips more frequently, customers' average sales increased 11% in the quarter, a reflection of customers' confidence in the value and quality of the merchandise the Company offers. Investments in store environment yielded additional positive increases in net promoter scores and improved overall brand awareness. Over the quarter, the overall store traffic trend improved 160 bp. While all these improvements reflect the positive impact of the Company's transformational investments and efforts, macroeconomic challenges continued during the quarter and led to a decline in sales.

During the period, customer engagement continued to expand as the loyalty program saw significant increases in new enrollments and private-label credit card approval rates remained strong. Amid rising interest rates and declining consumer savings, the underlying credit card portfolio remained healthy, but declining late fees, cyclical rising losses and higher program costs reduced the Company share of credit income when compared to last year.

Merchandise gross profit rates improved 270 basis points for the quarter over last year with margin expansion coming from both national and private brand merchandise. Notable category margin improvements were seen in the areas of women's apparel, adult active, and footwear and handbags. Private brands continued to see selling margin improvements in brands like St John's Bay and Liz Claiborne, while national brand performance benefited from the reintroduction of brands like Adidas, Dickies and Wrangler. Strong performance in fragrances drove momentum increases for JCP Beauty, along with cross-shopping increases from Beauty customers. The exclusive cookware collaboration with celebrity chef Jenny Martinez, Mesa Mia, drove additional customer engagement both in store and online through personal appearances and digital events, which are planned to continue during the holiday season. Along with these important brand initiatives, ongoing discipline in promotional and markdown activities, supported by strategic investments in planning and allocation tools, resulted in bottom line benefits and further improved the inventory position for the Company. Overall inventory was down 12% over the same period last year.

Selling, general, and administrative costs increased slightly over prior year as the Company made additional strategic investments in employee wages, infrastructure and growth-minded activities. Strict expense control helped to mitigate the impact of lower sales. The Company generated positive operating cash flow and reported Adjusted EBITDA of \$181M for the first nine months of the year. Self-funded capital investments during the period totaled \$95M, expanding the efforts to transform the store and omni-channel experience for customers.

The Company continues to prioritize maintaining a very healthy balance sheet with significant liquidity. As a result of tight inventory management and improved working capital efficiencies, the Company decreased its required utilization of its working capital line of credit for the seasonal build in inventory. The outstanding balance on the line of credit at the end of the third quarter was \$102M compared to \$366M last year. The entire amount outstanding was repaid in November and the facility remains undrawn as of the issuance date of this report. At the end of the third quarter, the Company had available liquidity of over \$1.5B, long-term debt of less than \$500M, and continued to report one of the lowest debt leverage ratios in the retail industry.

PENNEY INTERMEDIATE HOLDINGS LLC
Consolidated Financial Statements
(Unaudited)
October 28, 2023 and October 29, 2022

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

<i>(In millions)</i>	Three Months Ended October 28, 2023	Three Months Ended October 29, 2022
Total net sales	\$ 1,533	\$ 1,717
Credit income	70	86
Total revenues	1,603	1,803
Costs and expenses/(income):		
Cost of goods sold (exclusive of depreciation and amortization shown separately below)	943	1,103
Selling, general and administrative	626	629
Depreciation and amortization	43	59
Restructuring, impairment, store closing and other costs	1	10
Total costs and expenses	1,613	1,801
Operating income (loss)	(10)	2
Net interest expense	18	18
Loss before income taxes	(28)	(16)
Income tax expense	2	1
Net loss	\$ (30)	\$ (17)
Other comprehensive income (loss):		
Currency translation adjustment	—	(1)
Comprehensive loss	\$ (30)	\$ (18)

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 28, 2023	Nine Months Ended October 29, 2022
Total net sales	\$ 4,632	\$ 5,161
Credit income	214	276
Total revenues	4,846	5,437
Costs and expenses/(income):		
Cost of goods sold (exclusive of depreciation and amortization shown separately below)	2,841	3,211
Selling, general and administrative	1,824	1,821
Depreciation and amortization	121	170
Real estate and other, net	(1)	(6)
Restructuring, impairment, store closing and other costs	15	16
Total costs and expenses	4,800	5,212
Operating income	46	225
Net interest expense	52	45
Income (loss) before income taxes	(6)	180
Income tax expense	5	4
Net income (loss)	\$ (11)	\$ 176
Other comprehensive income (loss):		
Currency translation adjustment	(1)	(3)
Comprehensive income (loss)	\$ (12)	\$ 173

See accompanying Notes to Consolidated Financial Statements (Unaudited).

PENNEY INTERMEDIATE HOLDINGS LLC
Consolidated Balance Sheets
(Unaudited)

<i>(In millions)</i>	October 28, 2023	October 29, 2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 106	\$ 121
Merchandise inventory	2,111	2,399
Prepaid expenses and other assets	194	283
Total current assets	2,411	2,803
Property and equipment, net	1,035	848
Operating lease assets	1,688	1,622
Financing lease assets	87	76
Other assets	258	283
Total assets	\$ 5,479	\$ 5,632
Liabilities and member's equity		
Current liabilities:		
Merchandise accounts payable	\$ 501	\$ 382
Other accounts payable and accrued expenses	528	589
Revolving credit facility borrowings	102	366
Current operating lease liabilities	71	48
Current financing lease liabilities	3	3
Current portion of long-term debt, net	11	9
Total current liabilities	1,216	1,397
Noncurrent operating lease liabilities	1,871	1,814
Noncurrent financing lease liabilities	96	80
Long-term debt	478	485
Other liabilities	97	142
Total liabilities	3,758	3,918
Member's equity		
Member's contributions	300	300
Profits interest plan	5	3
Accumulated other comprehensive loss	(5)	(5)
Reinvested earnings	1,421	1,416
Total member's equity	1,721	1,714
Total liabilities and member's equity	\$ 5,479	\$ 5,632

See accompanying Notes to Consolidated Financial Statements (Unaudited).

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

Nine Months Ended October 29, 2022

<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

Nine Months Ended October 28, 2023

<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 28, 2023	\$ 300	\$ 3	\$ (4)	\$ 1,440	\$ 1,739
Member tax distributions	—	—	—	(8)	(8)
Net loss	—	—	—	(11)	(11)
Currency translation adjustment	—	—	(1)	—	(1)
Profits interest plan grants	—	2	—	—	2
October 28, 2023	\$ 300	\$ 5	\$ (5)	\$ 1,421	\$ 1,721

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 28, 2023	Year-to-Date October 29, 2022
Cash flows from operating activities:		
Net income (loss)	\$ (11)	\$ 176
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Gain on asset disposition	(1)	(6)
Restructuring, impairment, store closing and other costs, non-cash	4	5
Gain on insurance proceeds received for damage to property and equipment	—	(1)
Depreciation and amortization	121	170
Change in cash from operating assets and liabilities:		
Merchandise inventory	(271)	(746)
Prepaid expenses and other assets	15	(10)
Merchandise accounts payable	237	69
Other accounts payable, accrued expenses and other liabilities	6	(105)
Net cash provided (used) by operating activities	100	(448)
Cash flows from investing activities:		
Capital expenditures	(232)	(129)
Proceeds from sale of real estate assets	2	14
Insurance proceeds received for damage to property and equipment	—	2
Net cash used by investing activities	(230)	(113)
Cash flows from financing activities:		
Payments of long-term debt	(6)	—
Proceeds from borrowings under revolving credit facility	118	366
Payments of borrowings under revolving credit facility	(16)	—
Member tax distributions	(8)	(77)
Repayments of principal portion of finance leases	(3)	(3)
Net cash provided by financing activities	85	286
Net decrease in cash and cash equivalents	(45)	(275)
Cash and cash equivalents at beginning of period	151	396
Cash and cash equivalents at end of period	\$ 106	\$ 121

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, if necessary.

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 October 28, 2023" refers to the 13- week period ended October 28, 2023, and "three months ended October 29, 2022" refers to the 13- week period ended October 29, 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>	October 28, 2023	October 29, 2022
Issue:		
ABL Term Loan	334	340
ABL FILO Loan	160	160
Total debt	494	500
Unamortized debt issuance costs	(5)	(6)
Less: current maturities	(11)	(9)
Total long-term debt	\$ 478	\$ 485

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 October 28, 2023, the Company had \$1,730 million available for borrowing, with \$102 million outstanding and \$179 million reserved for outstanding standby letters of credit. After taking into account minimum availability requirements, the Company had \$1,276 million available for future borrowings. Subsequent to October 28, 2023, the \$102 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 December 12, 2023, the date at which the financial statements were available to be issued.

STATEMENT OF CONSOLIDATED ADJUSTED EBITDA
(follows this page)

PENNEY INTERMEDIATE HOLDINGS LLC
Statement of Consolidated Adjusted EBITDA
For the Nine Months Ended October 28, 2023

(In millions)

Net loss	\$	(11)
Plus:		
Net interest expense		52
Income tax expense		5
Depreciation and amortization		121
Restructuring, impairment, store closing and other costs		15
Minus:		
Real estate and other, net		(1)
Consolidated adjusted EBITDA	\$	181

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

12/11/2023

Fiscal Quarter Ended October 28, 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	110	14,401,504	\$16				1.0
Ground Lease	21	2,964,686	\$21				1.0
Total	131	17,366,190	\$17	\$31,977,077	\$33,583,460	(\$1,606,383)	1.0

Fiscal Quarter Ended October 28, 2023(A)		
Rent Tier ^(B)	# of Properties	Square Feet
1 > \$ 2.3	33	4,177,071
2 > \$ 1.8	33	4,607,409
3 > \$ 1.6	32	4,077,330
4 < \$ 1.6	33	4,504,380
Total	131	17,366,190

(A) Reflects financial activity from July 30, 2023 through October 28, 2023 (Fiscal Q3 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

12/11/2023

Fiscal Quarter Ended October 28, 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	3,995,680	\$26		12.7%		1.2
> \$16.6	33	4,022,211	\$18		12.3%		1.1
> \$13.7	32	4,573,344	\$15		9.8%		0.8
< \$13.7	33	4,774,955	\$11		5.9%		0.5
Total	131	17,366,190	\$17	\$31,977,077	10.8%	(1,606,383)	1.0

Fiscal Quarter Ended October 28, 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
> {1.0}x	62	7,420,776	\$20		15.2%		1.5
< ={1.0}x	69	9,945,414	\$15		6.3%		0.5
Total	131	17,366,190	\$17	\$31,977,077	10.8%	(1,606,383)	1.0

(A) Reflects financial activity from July 30, 2023 through October 28, 2023 (Fiscal Q3 2023)

(B) Stratifications consolidated due to insufficient store count

Quarterly Reporting Package

12/11/2023

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	110	14,401,504	\$76				1.4
Ground Lease	21	2,964,686	\$98				1.6
Total	131	17,366,190	\$80	\$199,115,844	\$134,264,088	\$64,851,756	1.5

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	4,128,156	\$112				1.6
2 > \$ 7.4	33	4,425,682	\$80				1.5
3 > \$ 6.5	32	4,412,884	\$77				1.5
4 < \$ 6.5	33	4,399,468	\$52				1.2
Total	131	17,366,190	\$80	\$199,115,844	\$134,264,088	\$64,851,756	1.5

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

^(B) Reflects financial activity from October 30, 2022 through October 28, 2023 (TTM October 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

12/11/2023

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
> \$96.4	33	3,941,830	\$124		17.4%		2.0
> \$77.2	33	4,465,787	\$85		14.9%		1.5
> \$60.7	32	4,154,698	\$68		12.8%		1.3
< \$60.7	33	4,803,875	\$49		9.1%		0.8
Total	131	17,366,190	\$80	\$199,115,844	14.4%	\$64,851,756	1.5

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	30	3,352,219	\$109		19.1%		2.6
>= {1.0}x	70	9,082,535	\$82		14.3%		1.5
< {1.0}x	31	4,931,436	\$56		8.4%		0.7
Total	131	17,366,190	\$80	\$199,115,844	14.4%	\$64,851,756	1.5

(B) Reflects financial activity from October 30, 2022 through October 28, 2023 (TTM October 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 October 28, 2023(A)	Trailing 12 Months as of October 28, 2023(C)
Comparable store sales percent increase/(decrease) for Master Lease Properties ^(B)	-11.9%	-8.4%
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)	\$1,608	N/A

Key Portfolio Metrics	Fiscal Quarter Ended October 28, 2023(A)	Trailing 12 Months as of October 28, 2023(C)
End of period number of stores - fee owned and ground leased	205	205
End of period number of stores - space leased	459	459
Gross square footage of stores (in millions)	81.1	81.1

(A) Reflects financial activity from July 30, 2023 through October 28, 2023 (Fiscal Q3 2023)

(B) Per Consolidated Financial Statements of Penney Intermediate Holdings LLC as of October 28, 2023

(C) Reflects financial activity from October 30, 2022 through October 28, 2023 (TTM October 2023)