

PENNEY INTERMEDIATE HOLDINGS LLC

Consolidated Financial Statements (Unaudited)

May 4, 2024 and April 29, 2023

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

During first quarter of Fiscal 2024, JCPenney remained committed to serving America's hard-working families and advancing its transformation agenda. With continuing economic pressure weighing on discretionary income for middle income Americans, the Company focused its efforts on creating a more rewarding shopping experience while continuing to provide quality, affordable fashion and merchandise. Marketing collaborations during the period included an iHeart Radio Country Festival supporting the launch of a Walker Hayes apparel collection and an in-store 3-point shot contest with Shaquille O'Neal to promote the launch of the new rewards campaign announced late in the quarter. The relaunch of the Company's rewards program in late April allows customers new and faster ways to earn reward certificates and early results indicate a favorable response from customers. As a result of these and other marketing efforts, the Company saw an improvement in organic brand search volume trends on google search, drove double digit increases over prior year in rewards members and reported improvements in Net Promoter Scores.

Although overall sales remain under pressure, specific categories of merchandise continued to outperform and exceeded planned results. Overall Women's business was strong, particularly in the areas of apparel, handbags, and shoes. Customers continued to seek the quality and value provided by the Company's private label brands Liz Claiborne and J. Ferrar, with both brands posting strong results and exceeding the Company's first quarter expectations. Continued emphasis on greater availability of inclusive sizing resonated with consumers and all areas of inclusive sizing (big and tall, plus, and petite) outperformed during the period. Overall, the Company's gross profit rates were flat to last year. Improving inventory efficiency remained a key area of focus and as a result, inventory was down 9% to last year.

Selling, general, and administrative costs held flat year-over-year as the entire organization continues to drive greater efficiencies and reduce discretionary spend to offset ongoing sales pressure. Savings were achieved through lower store expenses, lower overall ecommerce expenses, and lower credit expenses. Credit income declined over last year, as a direct result of lower participation income and lower gain share from the profitability of the underlying portfolio.

During the quarter, the Company used cash of \$163M primarily to fund seasonal purchases of inventory and capital expenditures of \$52M for projects aimed at driving long-term growth of the business. The Company reported negative EBITDA of \$3M reflecting the impact of the sales declines that were mostly offset by margin improvement and ongoing cost saving efforts of the Company.

The Company continues to prioritize maintaining a very healthy balance sheet with significant liquidity of approximately \$1.6B as of the end of the period. The Company has less than \$500M of outstanding long-term debt and as of the end of the period had no outstanding borrowings on its line of credit.

PENNEY INTERMEDIATE HOLDINGS LLC

Consolidated Financial Statements

(Unaudited)

May 4, 2024 and April 29, 2023

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

<i>(In millions)</i>	Three Months Ended May 4, 2024	Three Months Ended April 29, 2023
Total net sales	\$ 1,368	\$ 1,489
Credit income	58	73
Total revenues	1,426	1,562
Costs and expenses/(income):		
Cost of goods sold (exclusive of depreciation and amortization shown separately below)	832	909
Selling, general and administrative	597	597
Depreciation and amortization	42	38
Restructuring, impairment, store closing and other costs	—	17
Total costs and expenses	1,471	1,561
Operating income (loss)	(45)	1
Net interest expense	17	17
Loss before income taxes	(62)	(16)
Income tax expense	1	1
Net loss	\$ (63)	\$ (17)
Other comprehensive income (loss):		
Currency translation adjustment	(1)	(1)
Comprehensive loss	\$ (64)	\$ (18)

See accompanying Notes to Consolidated Financial Statements (Unaudited).

PENNEY INTERMEDIATE HOLDINGS LLC
Consolidated Balance Sheets
(Unaudited)

<i>(In millions)</i>	May 4, 2024	April 29, 2023
Assets		
Current assets:		
Cash and cash equivalents	\$ 205	\$ 107
Merchandise inventory	1,674	1,841
Prepaid expenses and other assets	178	251
Total current assets	2,057	2,199
Property and equipment, net	1,085	951
Operating lease assets	1,708	1,657
Financing lease assets	78	78
Other assets	244	287
Total assets	\$ 5,172	\$ 5,172
Liabilities and member's equity		
Current liabilities:		
Merchandise accounts payable	\$ 391	\$ 332
Other accounts payable and accrued expenses	439	480
Revolving credit facility borrowings	—	16
Current operating lease liabilities	75	67
Current financing lease liabilities	3	3
Current portion of long-term debt, net	9	11
Total current liabilities	917	909
Noncurrent operating lease liabilities	1,891	1,834
Noncurrent financing lease liabilities	88	84
Long-term debt	474	481
Other liabilities	103	146
Total liabilities	3,473	3,454
Member's equity		
Member's contributions	300	300
Profits interest plan	6	4
Accumulated other comprehensive loss	(6)	(5)
Reinvested earnings	1,399	1,419
Total member's equity	1,699	1,718
Total liabilities and member's equity	\$ 5,172	\$ 5,172

See accompanying Notes to Consolidated Financial Statements (Unaudited).

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

Three Months Ended April 29, 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 29, 2023	\$ 300	\$ 3	\$ (4)	\$ 1,440	\$ 1,739
Member tax distributions	—	—	—	(4)	(4)
Net loss	—	—	—	(17)	(17)
Currency translation adjustment	—	—	(1)	—	(1)
Profits interest plan grants	—	1	—	—	1
April 29, 2023	\$ 300	\$ 4	\$ (5)	\$ 1,419	\$ 1,718

Three Months Ended May 4, 2024

<i>(In millions)</i>	Member's Contributions/ (Distributions)	Profits Interest Plan Grants/ (Distributions)	Accumulated Other Comprehensive Income/ (Loss)	Reinvested Earnings	Total Member's Equity
February 3, 2024	\$ 300	\$ 6	\$ (5)	\$ 1,462	\$ 1,763
Member tax distributions	—	—	—	—	—
Net loss	—	—	—	(63)	(63)
Currency translation adjustment	—	—	(1)	—	(1)
Profits interest plan grants	—	—	—	—	—
May 4, 2024	\$ 300	\$ 6	\$ (6)	\$ 1,399	\$ 1,699

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 May 4, 2024	Year-to-Date April 29, 2023
Cash flows from operating activities:		
Net loss	\$ (63)	\$ (17)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Restructuring, impairment, store closing and other costs, non-cash	—	4
Gain on insurance proceeds received for damage to property and equipment	(1)	—
Depreciation and amortization	42	38
Change in cash from operating assets and liabilities:		
Merchandise inventory	(84)	(1)
Prepaid expenses and other assets	(27)	(42)
Merchandise accounts payable	8	68
Other accounts payable, accrued expenses and other liabilities	16	(43)
Net cash provided (used) by operating activities	(109)	7
Cash flows from investing activities:		
Capital expenditures	(52)	(61)
Proceeds from sale of real estate assets	—	1
Insurance proceeds received for damage to property and equipment	1	—
Net cash used by investing activities	(51)	(60)
Cash flows from financing activities:		
Payments of long-term debt	(2)	(2)
Proceeds from borrowings under revolving credit facility	—	16
Member tax distributions	—	(4)
Repayments of principal portion of finance leases	(1)	(1)
Net cash provided (used) by financing activities	(3)	9
Net decrease in cash and cash equivalents	(163)	(44)
Cash and cash equivalents at beginning of period	368	151
Cash and cash equivalents at end of period	\$ 205	\$ 107

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 February 3, 2024. 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. 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 May 4, 2024" refers to the 13-week period ended May 4, 2024, and "three months ended April 29, 2023" refers to the 13-week period ended April 29, 2023. Fiscal 2024 and 2023 consist of the 52-week period ending February 1, 2025 and the 53-week period ending February 3, 2024, respectively.

2. Long-Term Debt

<i>(In millions)</i>	May 4, 2024	April 29, 2023
Issue:		
ABL Term Loan	327	338
ABL FILO Loan	160	160
Total debt	487	498
Unamortized debt issuance costs	(4)	(6)
Less: current maturities	(9)	(11)
Total long-term debt	<u>\$ 474</u>	<u>\$ 481</u>

3. 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 May 4, 2024, the Company had \$1.52 billion available for borrowing with none outstanding and \$0.17 billion reserved for outstanding standby letters of credit. After taking into account minimum availability requirements, the Company had \$1.20 billion available for future borrowings.

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 18, 2024, 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 Three Months Ended May 4, 2024

(In millions)

Net loss	\$	(63)
Plus:		
Net interest expense		17
Income tax expense		1
Depreciation and amortization		42
Restructuring, impairment, store closing and other costs		—
Minus:		
Real estate and other, net		—
Consolidated adjusted EBITDA	\$	(3)

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

6/18/2024

Fiscal Quarter Ended May 4, 2024 ^(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	106	13,999,932	\$15				1.0
Ground Lease	21	2,964,686	\$19				1.2
Total	127	16,964,618	\$16	\$35,453,916	\$33,339,244	\$2,114,671	1.1

Fiscal Quarter Ended May 4, 2024 ^(A)		
Rent Tier ^(B)	# of Properties	Square Feet
1 > \$ 2.3	32	4,100,176
2 > \$ 1.9	32	4,334,367
3 > \$ 1.7	31	4,096,146
4 < \$ 1.7	32	4,433,929
Total	127	16,964,618

^(A) Reflects financial activity from Feb 4, 2024 through May 4, 2024 (Fiscal Q1 2024)

^(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

6/18/2024

Fiscal Quarter Ended May 4, 2024 ^(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
> \$19.1	32	3,842,249	\$25		17.8%		1.6
> \$15.4	32	4,082,053	\$17		15.3%		1.3
> \$12	31	4,130,131	\$14		10.1%		0.7
< \$12	32	4,910,185	\$10		4.2%		0.3
Total	127	16,964,618	\$16	\$35,453,916	13.1%	2,114,671	1.1

Fiscal Quarter Ended May 4, 2024 ^(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	68	8,036,480	\$20		17.8%		1.7
<= {1.0}x	59	8,928,138	\$13		6.7%		0.5
Total	127	16,964,618	\$16	\$35,453,916	13.1%	2,114,671	1.1

^(A) Reflects financial activity from Feb 4, 2024 through May 4, 2024 (Fiscal Q1 2024)

^(B) Stratifications consolidated due to insufficient store count

Quarterly Reporting Package

6/18/2024

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	106	13,999,932	\$74				1.4
Ground Lease	21	2,964,686	\$95				1.6
Total	127	16,964,618	\$78	\$192,694,054	\$132,484,101	\$60,209,954	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	32	4,052,060	\$110				1.6
2 > \$ 7.3	32	4,445,105	\$77				1.4
3 > \$ 6.7	31	4,033,524	\$76				1.5
4 < \$ 6.7	32	4,433,929	\$51				1.0
Total	127	16,964,618	\$78	\$192,694,054	\$132,484,101	\$60,209,954	1.5

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

^(B) Reflects financial activity from April 30, 2023 through May 4, 2024 (TTM April 2024)

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

6/18/2024

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
> \$93.3	32	3,822,320	\$121		17.8%		2.0
> \$74.7	32	4,260,465	\$83		15.5%		1.5
> \$60.1	31	4,100,366	\$67		13.1%		1.2
< \$60.1	32	4,781,467	\$48		8.4%		0.7
Total	127	16,964,618	\$78	\$192,694,054	14.6%	\$60,209,954	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
> {1.0}x	91	11,254,140	\$89		16.5%		1.8
<= {1.0}x	36	5,710,478	\$56		8.6%		0.7
Total	127	16,964,618	\$78	\$192,694,054	14.6%	\$60,209,954	1.5

^(B) Reflects financial activity from April 30, 2023 through May 4, 2024 (TTM April 2024)

^(B) Stratifications consolidated due to insufficient store count

Quarterly Reporting Package

Master Lease Guarantor Operating Performance

Key Financial and Performance Metrics	Fiscal Quarter Ended May 4, 2024 ^(A)	Trailing 12 Months as of May 4, 2024 ^(C)
Comparable store sales percent increase/(decrease) for Master Lease Properties ^(B)	-6.3%	-7.5%
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)	\$1,586	N/A

Key Portfolio Metrics	Fiscal Quarter Ended May 4, 2024 ^(A)	Trailing 12 Months as of May 4, 2024 ^(C)
End of period number of stores - fee owned and ground leased	205	205
End of period number of stores - space leased	458	458
Gross square footage of stores (in millions)	81.1	81.1

^(A) Reflects financial activity from Feb 4, 2024 through May 4, 2024 (Fiscal Q1 2024)

^(B) Per Consolidated Financial Statements of Penney Intermediate Holdings LLC as of May 4, 2024

^(C) Reflects financial activity from April 30, 2023 through May 4, 2024 (TTM April 2024)