

## JCPENNEY REPORTS FIRST QUARTER 2018 FINANCIAL RESULTS

*Delivered Positive Sales Comp and Operating Income*

*Retired \$190 Million of Long-Term Debt at Maturity*

**PLANO, Texas - (May 17, 2018)** - J. C. Penney Company, Inc. (NYSE: JCP) today announced financial results for its fiscal first quarter ended May 5, 2018.

Marvin R. Ellison, chairman and chief executive officer said, "During the first quarter, we achieved a positive sales comp of 0.2 %, which was impacted in large part by a very late start to Spring where we experienced cooler than normal temperatures in April. Although our overall top line sales results came in below our expectations for the quarter, we were encouraged by the strong positive comp performance throughout February and March, as well as the last two weeks of April, when temperatures began to normalize."

Ellison continued, "Overall, we believe that our strategies are beginning to take hold, as we are seeing improvement in a number of areas. Apparel categories performed well during seasonable weather periods, and our beauty and home refresh initiatives performed well above our total comp sales performance for the quarter. The strength in sales performance early in the quarter, our investments in enhancing our apparel categories, continued strength in our beauty and home refresh initiatives and a focus on taking market share from ailing retailers all give us confidence in our annual comp sales guidance of flat to up 2%. Our teams remain committed to improving our core apparel business and executing on our strategic growth initiatives. I would like to thank our nearly 100,000 associates around our company for their hard work and commitment to JCPenney."

Starting in the first quarter of fiscal 2018, the Company adopted new accounting standards which relate to revenue recognition and pension accounting. Accordingly, the Company has changed the current year and prior year presentation in its financial statements to reflect the requirements of the new standards.

For the first quarter ended May 5, 2018, total net sales decreased 4.3 % to \$2.58 billion compared to \$2.70 billion for the first quarter ended Apr. 29, 2017. The decline in total net sales was primarily the result of the 141 stores that closed in the second and third quarters of fiscal 2017. Comparable sales increased 0.2 % for the first quarter. Credit income, which was previously reflected as a reduction to SG&A, was \$87 million for the first quarter this year compared to \$83 million in the first quarter last year.

Jewelry, Sephora, Men's and Salon were the Company's top performing divisions and categories during the quarter. Geographically, the Gulf Coast and Southeast were the best performing regions of the country.

Cost of goods sold, which excludes depreciation and amortization, was \$1.71 billion, or 66.3 % of sales, compared to \$1.73 billion, or 63.9 % of sales in the same period last

year. The increase as a rate of sales was primarily driven by increased online clearance selling and continued growth in the mix of the Company's online business, markdown and pricing actions taken in the quarter to clear slow-moving seasonal inventory and ongoing growth in major appliances.

SG&A expenses for the first quarter were \$826 million, or 32.0 % of sales compared to \$938 million, or 34.7 % of sales in the first quarter last year. The improvement to last year was primarily driven by lower controllable costs and marketing spend and a reduction in lease expense associated with the remaining amortization of a gain on the sale of a leasehold interest last year.

For the first quarter, the Company's net loss was \$78 million, or (\$0.25) per share, compared to a net loss of \$187 million, or (\$0.60) per share in the same period last year.

Adjusted net loss was \$69 million, or (\$0.22) per share, for the first quarter this year compared to adjusted net income of \$2 million, or \$0.01 per share, for the first quarter last year. Adjusted net loss/income for the first quarter of 2018 and 2017 included the sale of operating assets, which totaled \$17 million, or \$0.05 per share, and \$117 million, or \$0.38 per share, respectively. In addition, adjusted net loss/income for 2018 and 2017 included the following items:

- \$7 million, or approximately (\$0.02) per share, of restructuring and management transition charges in the first quarter this year compared to \$100 million, or (\$0.32) per share in the first quarter last year; and
- \$19 million, or \$0.06 per share, benefit this year related to other components of net periodic pension income compared to \$106 million expense, or (\$0.34) per share, of net periodic pension costs primarily associated with the Company's voluntary early retirement program last year.

A reconciliation of GAAP to non-GAAP financial measures is included in the schedules accompanying the consolidated financial statements in this release.

Inventory at the end of the first quarter was \$2.95 billion, a decrease of 1.4 % compared to the end of the first quarter last year, and up 2.6 % on a comp store basis. Capital expenditures for the first quarter, net of landlord allowances, were \$103 million.

Cash and cash equivalents at the end of the first quarter were \$181 million. During the quarter, the Company utilized available cash on hand to retire \$190 million principal amount of outstanding secured notes that matured in February. The Company also issued \$400 million in senior secured second priority notes due 2025, utilizing the net proceeds of the offering to successfully complete its tender offer for \$375 million aggregate principal amount of its outstanding 2019 and 2020 bonds. The Company ended the quarter with liquidity of approximately \$2 billion.

## **Outlook**

The Company has revised its 2018 full year guidance, which reflects only the impact of the adoption of new revenue recognition and pension accounting standards, as follows:

- Comparable store sales: expected to remain at 0.0 % to 2.0 %; and
- Adjusted earnings per share<sup>1</sup>: now expected to be (\$0.07) to \$0.13.

<sup>[1]</sup> A reconciliation of non-GAAP forward-looking projections to GAAP financial measures is not available as the nature or amount of potential adjustments, which may be significant, cannot be determined at this time.

### **First Quarter Earnings Conference Call Details**

At 8:30 a.m. ET today, the Company will host a live conference call conducted by Chairman and Chief Executive Officer Marvin R. Ellison and Chief Financial Officer Jeffrey Davis. Management will discuss the Company's performance during the quarter and take questions from participants. To access the conference call, please dial (844) 243-9275, or (225) 283-0394 for international callers, and reference 9768329 conference ID or visit the Company's investor relations website at <http://ir.jcpenny.com>. Supplemental slides will be available on the Company's investor relations website approximately 10 minutes before the start of the conference call.

Telephone playback will be available for seven days beginning approximately two hours after the conclusion of the conference call by dialing (855) 859-2056, or (404) 537-3406 for international callers, and referencing 9768329 conference ID.

Investors and others should note that we currently announce material information using SEC filings, press releases, public conference calls and webcasts. In the future, we will continue to use these channels to distribute material information about the Company and may also utilize our website and/or various social media to communicate important information about the Company, key personnel, new brands and services, trends, new marketing campaigns, corporate initiatives and other matters. Information that we post on our website or on social media channels could be deemed material; therefore, we encourage investors, the media, our customers, business partners and others interested in our Company to review the information we post on our website as well as the following social media channels:

Facebook (<https://www.facebook.com/jcp>) and Twitter (<https://twitter.com/jcpnews>).

Any updates to the list of social media channels we may use to communicate material information will be posted on the Investor Relations page of the Company's website at [www.jcpenny.com](http://www.jcpenny.com).

### **Media Relations:**

(972) 431-3400 or [jcpnews@jcp.com](mailto:jcpnews@jcp.com); Follow us [@jcpnews](https://twitter.com/jcpnews)

### **Investor Relations:**

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### **About JCPenny:**

J. C. Penney Company, Inc. (NYSE: JCP), one of the nation's largest apparel and home retailers, combines an expansive footprint of over 860 stores across the United States and Puerto Rico with a powerful e-commerce site, [jcp.com](http://jcp.com), to deliver style and value for all hard-working American families. At every touchpoint, customers will discover stylish

merchandise at incredible value from an extensive portfolio of private, exclusive and national brands. Reinforcing this shopping experience is the customer service and warrior spirit of approximately 98,000 associates across the globe, all driving toward the Company's mission to help customers find what they love for less time, money and effort. For additional information, please visit [jcp.com](http://jcp.com).

### **Forward-Looking Statements**

This release may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "expect" and similar expressions identify forward-looking statements, which include, but are not limited to, statements regarding sales, cost of goods sold, selling, general and administrative expenses, earnings, cash flows and interest expense. Forward-looking statements are based only on the Company's current assumptions and views of future events and financial performance. They are subject to known and unknown risks and uncertainties, many of which are outside of the Company's control that may cause the Company's actual results to be materially different from planned or expected results. Those risks and uncertainties include, but are not limited to, general economic conditions, including inflation, recession, unemployment levels, consumer confidence and spending patterns, credit availability and debt levels, changes in store traffic trends, the cost of goods, more stringent or costly payment terms and/or the decision by a significant number of vendors not to sell us merchandise on a timely basis or at all, trade restrictions, the ability to monetize assets on acceptable terms, the ability to implement our strategic plan including our omnichannel initiatives, customer acceptance of our strategies, our ability to attract, motivate and retain key executives and other associates, the impact of cost reduction initiatives, our ability to generate or maintain liquidity, implementation of new systems and platforms, changes in tariff, freight and shipping rates, changes in the cost of fuel and other energy and transportation costs, disruptions and congestion at ports through which we import goods, increases in wage and benefit costs, competition and retail industry consolidations, interest rate fluctuations, dollar and other currency valuations, the impact of weather conditions, risks associated with war, an act of terrorism or pandemic, the ability of the federal government to fund and conduct its operations, a systems failure and/or security breach that results in the theft, transfer or unauthorized disclosure of customer, employee or Company information, legal and regulatory proceedings and the Company's ability to access the debt or equity markets on favorable terms or at all. There can be no assurances that the Company will achieve expected results, and actual results may be materially less than expectations. Please refer to the Company's most recent Form 10-K for a further discussion of risks and uncertainties. Investors should take such risks into account and should not rely on forward-looking statements when making investment decisions. Any forward-looking statement made by us in this press release is based only on information currently available to us and speaks only as of the date on which it is made. We do not undertake to update these forward-looking statements as of any future date.

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**J. C. PENNEY COMPANY, INC.**  
**SUMMARY OF OPERATING RESULTS**  
(Unaudited)  
(Amounts in millions except per share data)

	<b>Three Months Ended</b>		
	<b>May 5, 2018</b>	<b>April 29, 2017</b>	<b>% Inc. (Dec.)</b>
<b>Statements of Operations:</b>			
Total net sales	\$ 2,584	\$ 2,701	(4.3 )%
Credit income and other	87	83	4.8 %
Total revenues	<u>\$ 2,671</u>	<u>\$ 2,784</u>	(4.1 )%
<b>Costs and expenses/(income):</b>			
Cost of goods sold (exclusive of depreciation and amortization shown separately below)	1,712	1,725	(0.8 )%
Selling, general and administrative (SG&A)	826	938	(11.9 )%
Depreciation and amortization	141	145	(2.8 )%
Real estate and other, net	(18 )	(118 )	(84.7 )%
Restructuring and management transition	7	100	(93.0 )%
Total costs and expenses	<u>2,668</u>	<u>2,790</u>	(4.4 )%
Operating income/(loss)	3	(6 )	100.0 % +
Other components of net periodic pension cost/(income)	(19 )	106	100.0 % +
(Gain)/loss on extinguishment of debt	23	-	100.0 % +
Net interest expense	78	87	(10.3 )%
Income/(loss) before income taxes	(79 )	(199 )	60.3 %
Income tax expense/(benefit)	(1 )	(12 )	91.7 %
Net income/(loss)	<u>\$ (78 )</u>	<u>\$ (187 )</u>	58.3 %
Earnings/(loss) per share - basic and diluted	\$ (0.25 )	\$ (0.60 )	58.3 %
<b>Financial Data:</b>			
Comparable store sales increase/(decrease) <sup>(1)</sup>	0.2 %	(3.5 )%	
Ratios as a percentage of total net sales:			
Cost of goods sold	66.3 %	63.9 %	
SG&A expenses	32.0 %	34.7 %	
Operating income/(loss)	0.1 %	(0.2 )%	
Effective income tax rate	(1.3 )%	(6.0 )%	

**Common Shares Data:**

Issued and outstanding shares at end of period	314.3	309.8
Weighted average shares - basic	313.9	309.6
Weighted average shares - diluted	313.9	309.6

- Comparable store sales include sales from all stores, including sales from services, that have been open for 12 consecutive full fiscal months and Internet sales. Stores closed for an extended period are not included in comparable store sales calculations, while stores remodeled and minor expansions not requiring store closure remain in the calculations. Certain items, such as sales return estimates and store liquidation sales, are excluded from the Company's calculation. Our definition and calculation of comparable store sales may differ from other companies in the retail industry.*

**SUMMARY BALANCE SHEETS**

(Unaudited)

(Amounts in millions)

<b>Summary Balance Sheets:</b>	<b>May 5, 2018</b>	<b>April 29, 2017</b>
Current assets:		
Cash in banks and in transit	\$ 170	\$ 157
Cash short-term investments	11	206
Cash and cash equivalents	181	363
Merchandise inventory	2,948	2,991
Prepaid expenses and other	223	228
Total current assets	3,352	3,582
Property and equipment, net	4,200	4,437
Prepaid pension	74	-
Other assets	679	610
<b>Total assets</b>	<b>\$ 8,305</b>	<b>\$ 8,629</b>

**Liabilities and stockholders' equity**

Current liabilities:

Merchandise accounts payable	\$ 933	\$ 893
Other accounts payable and accrued expenses	957	1,078
Current portion of capital leases, financing obligation and note payable	7	12
Current maturities of long-term debt	42	307

Total current liabilities	1,939	2,290
Long-term capital leases, financing obligation and note payable	210	217
Long-term debt	4,142	4,066
Deferred taxes	142	203
Other liabilities	557	649
<b>Total liabilities</b>	<b>6,990</b>	<b>7,425</b>
<b>Stockholders' equity</b>	<b>1,315</b>	<b>1,204</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 8,305</b>	<b>\$ 8,629</b>

### SUMMARY STATEMENTS OF CASH FLOWS

(Unaudited)  
(Amounts in millions)

	Three Months Ended	
	May 5, 2018	April 29, 2017
<b>Statements of Cash Flows:</b>		
Cash flows from operating activities:		
Net income/(loss)	\$ (78 )	\$ (187 )
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:		
Restructuring and management transition	(3 )	77
Asset impairments and other charges	1	1
Net gain on sale of operating assets	(17 )	(117 )
(Gain)/loss on extinguishment of debt	23	-
Depreciation and amortization	141	145
Benefit plans	(19 )	111
Stock-based compensation	7	7
Deferred taxes	(2 )	(18 )
Change in cash from:		
Inventory	(145 )	(95 )
Prepaid expenses and other assets	(33 )	(71 )
Merchandise accounts payable	(40 )	(84 )
Income taxes	(3 )	5
Accrued expenses and other	(186 )	(120 )
Net cash provided by/(used in) operating activities	(354 )	(346 )
Cash flows from investing activities:		

Capital expenditures	(106 )	(83 )
Proceeds from sale of operating assets	39	136
Joint venture return of investment	-	8
Net cash provided by/(used in) investing activities	<u>(67 )</u>	<u>61</u>
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	400	-
Proceeds from borrowings under the credit facility	977	-
Payments of borrowings under the credit facility	(626 )	-
Premium on early retirement of long-term debt	(20 )	-
Payments of capital leases, financing obligation and note payable	(2 )	(6 )
Payments of long-term debt	(576 )	(230 )
Financing costs	(7 )	-
Proceeds from stock issued under stock plans	1	-
Tax withholding payments for vested restricted stock	(3 )	(3 )
Net cash provided by/(used in) financing activities	<u>144</u>	<u>(239 )</u>
Net increase/(decrease) in cash and cash equivalents	<u>(277 )</u>	<u>(524 )</u>
Cash and cash equivalents at beginning of period	458	887
Cash and cash equivalents at end of period	<u>\$ 181</u>	<u>\$ 363</u>

### Reconciliation of Non-GAAP Financial Measures

(Unaudited)

(Amounts in millions except per share data)

We report our financial information in accordance with generally accepted accounting principles in the United States (GAAP). However, we present certain financial measures and ratios identified as non-GAAP under the rules of the Securities and Exchange Commission (SEC) to assess our results. We believe the presentation of these non-GAAP financial measures and ratios is useful in order to better understand our financial performance as well as to facilitate the comparison of our results to the results of our peer companies. In addition, management uses these non-GAAP financial measures and ratios to assess the results of our operations. It is important to view non-GAAP financial measures in addition to, rather than as a substitute for, those measures and ratios prepared in accordance with GAAP. We have provided reconciliations of the most directly comparable GAAP measures to our non-GAAP financial measures presented.

The following non-GAAP financial measures are adjusted to exclude restructuring and management transition charges, other components of net periodic pension cost/(income), the (gain)/loss on extinguishment of debt, the proportional share of net income from our joint venture formed to develop the excess property adjacent to our home office facility in Plano, Texas (Home Office Land Joint Venture) and the tax impact for the allocation of income taxes to other comprehensive income items related to our pension plans and interest rate swaps. Unlike other operating expenses, restructuring and management



transition charges, other components of net periodic pension cost/(income), the (gain)/loss on extinguishment of debt, the proportional share of net income from the Home Office Land Joint Venture and the tax impact for the allocation of income taxes to other comprehensive income items related to our pension plans and interest rate swaps are not directly related to our ongoing core business operations. Further, other components of net periodic pension cost/(income) is determined using numerous complex assumptions about changes in pension assets and liabilities that are subject to factors beyond our control, such as market volatility. We believe it is useful for investors to understand the impact of restructuring and management transition charges, other components of net periodic pension cost/(income), the (gain)/loss on extinguishment of debt, the proportional share of net income from the Home Office Land Joint Venture and the tax impact for the allocation of income taxes to other comprehensive income items related to our pension plans and interest rate swaps on our financial results and therefore are presenting the following non-GAAP financial measures: (1) adjusted net income/(loss) before net interest expense, income tax (benefit)/expense and depreciation and amortization (adjusted EBITDA); (2) adjusted net income/(loss); and (3) adjusted earnings/(loss) per share-diluted.

#### **ADJUSTED EBITDA, NON-GAAP FINANCIAL MEASURE:**

The following table reconciles net income/(loss), the most directly comparable GAAP measure, to adjusted EBITDA, a non-GAAP financial measure:

	<b>Three Months Ended</b>	
	<b>May 5, 2018</b>	<b>April 29, 2017</b>
Net income/(loss)	\$ (78 )	\$ (187 )
Add: Net interest expense	78	87
Add: (Gain)/loss on extinguishment of debt	23	-
Add: Income tax expense/(benefit)	(1 )	(12 )
Add: Depreciation and amortization	141	145
Add: Restructuring and management transition charges	7	100
Add: Other components of net periodic pension cost/(income)	(19 )	106
Less: Proportional share of net income from the home office land joint venture	-	(1 )
<i>Adjusted EBITDA (non-GAAP)</i>	<u>\$ 151</u>	<u>\$ 238</u>

#### **ADJUSTED NET INCOME/(LOSS) AND ADJUSTED EARNINGS/(LOSS) PER SHARE-DILUTED, NON-GAAP FINANCIAL MEASURES:**

The following table reconciles net income/(loss) and earnings/(loss) per share-diluted, the most directly comparable GAAP measures, to adjusted net income/(loss) and adjusted earnings/(loss) per share-diluted, non-GAAP financial measures:

**Three Months Ended**

	<b>May 5, 2018</b>	<b>April 29, 2017</b>
Net income/(loss)	\$ (78 )	\$ (187 )
Earnings/(loss) per share-diluted	\$ (0.25 )	\$ (0.60 )
Add: Restructuring and management transition charges (1)	7	100
Add: Other components of net periodic pension cost/(income) (1)	(19 )	106
Add: (Gain)/loss on extinguishment of debt (1)	23	-
Less: Proportional share of net income from the home office land joint venture (1)	-	(1 )
Less: Tax impact resulting from other comprehensive income allocation (2)	(2 )	(16 )
<b>Adjusted net income/(loss) (non-GAAP)</b>	<b>\$ (69 )</b>	<b>\$ 2</b>
<b>Adjusted earnings/(loss) per share-diluted (non-GAAP)</b>	<b>\$ (0.22 )</b>	<b>\$ 0.01</b>

1. Reflects no tax effect due to the impact of the Company's tax valuation allowance.
2. Represents the net tax benefit that resulted from our other comprehensive income allocation between our Operating loss and Accumulated other comprehensive income.

**Reconciliation of Non-GAAP Financial Measures**  
(Unaudited)  
(Amounts in millions)

Free cash flow is a key financial measure of our ability to generate additional cash from operating our business and in evaluating our financial performance. We define free cash flow as cash flow from operating activities, less capital expenditures, plus the proceeds from the sale of operating assets. Free cash flow is a relevant indicator of our ability to repay maturing debt, revise our dividend policy or fund other uses of capital that we believe will enhance stockholder value. Free cash flow is considered a non-GAAP financial measure under the rules of the SEC. Free cash flow is limited and does not represent remaining cash flow available for discretionary expenditures due to the fact that the measure does not deduct payments required for debt maturities, payments made for business acquisitions or required pension contributions, if any. Therefore, it is important to view free cash flow in addition to, rather than as a substitute for, our entire statement of cash flows and those measures prepared in accordance with GAAP.

**FREE CASH FLOW, NON-GAAP FINANCIAL MEASURE:**

The following table sets forth a reconciliation of cash flow from operating activities, the most directly comparable GAAP measure, to free cash flow, a non-GAAP financial measure, as well as information regarding net cash provided by/(used in) investing activities and net cash provided by/(used in) financing activities:

	<b>Three Months Ended</b>	
	<b>May 5, 2018</b>	<b>April 29, 2017</b>
Net cash provided by/(used in) operating activities	\$ (354 )	\$ (346 )
Add: Proceeds from sale of operating assets	39	136
Less: Capital expenditures	(106 )	(83 )
<i>Free cash flow (non-GAAP)</i>	<u>\$ (421 )</u>	<u>\$ (293 )</u>
Net cash provided by/(used in) investing activities (1)	\$ (67 )	\$ 61
Net cash provided by/(used in) financing activities	\$ 144	\$ (239 )

(1) *Net cash provided by/(used in) investing activities includes capital expenditures and proceeds from sale of operating assets, which are also included in our computation of free cash flow.*

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*Source: J. C. Penney Company, Inc. via Globenewswire*