

## JCPENNEY REPORTS A \$39 MILLION INCREASE IN OPERATING INCOME FOR THE THIRD QUARTER 2016; A 140 BASIS POINT RATE IMPROVEMENT OVER THE PRIOR YEAR

*Net Loss improves 42 percent over the same period last year*

*Company reaffirms its full year earnings and \$1 billion EBITDA guidance*

**PLANO, Texas - (Nov. 11, 2016)**- J. C. Penney Company, Inc. (NYSE: JCP) today announced financial results for its third quarter ended Oct. 29, 2016. Comparable sales were (0.8) % for the third quarter, providing a two-year stack of 5.6 %. Net loss improved 42 % versus the prior year to \$(67) million.

"We are pleased to see strong sales performance in the growth initiatives we discussed at our most recent analyst meeting. The results of these initiatives are reflected in a positive sales comp in the month of October, driven by over 200 basis points of comp benefit from our 500 new appliance showrooms. We view our October sales results - specifically our acceleration in the last two weeks of the month - and the benefit from appliances as examples of what we expect for the balance of the fourth quarter. Despite experiencing softness in apparel sales, we are continuing to improve the bottom line of our business thanks to the commitment and hard work of our over 100,000 Associates."

Ellison continued, "We are excited about the initiatives we have in place to drive incremental growth during the Holiday Season with our increased appliance penetration, new Sephora locations, free same day pick up for online orders, a strong cadence of promotional events and our new lowest price guarantee. We are also thrilled about delivering a 200 basis point improvement in our private label credit card penetration in the third quarter, which led to our highest penetration in many years. These and other initiatives reinforce our confidence in our ability to achieve \$1 billion in EBITDA for 2016."

For the quarter, Sephora, Home, Salon and Fine Jewelry were the Company's top performing divisions. Geographically, the Pacific and Northwest were the best performing regions of the country.

For the third quarter, gross margin was 37.2 % of sales, a 10 basis point decline compared to the same period last year.

SG&A expenses for the quarter decreased \$59 million to \$888 million, or 31.1 % of sales, representing a 160 basis point improvement from last year. These savings were primarily driven by lower corporate overhead, incentive compensation and store controllable costs.

For the third quarter, the Company delivered a 42 % improvement in net loss over the prior year to \$(67) million or \$(0.22) per share. Adjusted earnings per share improved 54 % to a

loss of \$(0.21) per share for the third quarter this year compared to a loss of \$(0.46) per share last year

EBITDA improved \$36 million to \$172 million for the quarter, a 26 % improvement from the same period last year. Adjusted EBITDA improved 57 % to \$174 million, a \$63 million improvement from the same period last year.

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

## **Outlook**

The Company has updated its 2016 full year guidance as follows:

- Comparable store sales: expected to now increase 1% to 2%;
- Gross margin: expected to now be flat versus 2015;
- SG&A dollars: expected to decrease versus 2015;
- EBITDA<sup>1</sup>: expected to be \$1 billion;
- Adjusted earnings per share<sup>1</sup>: expected to be positive;
- Free cash flow<sup>1</sup>: expected to improve versus 2015.

<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.

## **Third 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 Ed Record. 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 7715351 conference ID or visit the Company's investor relations website at <http://ir.jcpenney.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 7715351 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.jcpenney.com](http://www.jcpenney.com).

**Media Relations:**

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

**Investor Relations:**

(972) 431-5500 or [jcpinvestorrelations@jcpenney.com](mailto:jcpinvestorrelations@jcpenney.com)

**About JCPenney:**

J. C. Penney Company, Inc. (NYSE:JCP), one of the nation's largest apparel and home furnishings retailers, is on a mission to ensure every customer's shopping experience is worth her time, money and effort. Whether shopping [jcp.com](http://jcp.com) or visiting one of over 1,000 store locations across the United States and Puerto Rico, she will discover a broad assortment of products from a leading portfolio of private, exclusive and national brands. Supporting this value proposition is the warrior spirit of over 100,000 JCPenney associates worldwide, who are focused on the Company's three strategic priorities of strengthening private brands, becoming a world-class omnichannel retailer and increasing revenue per customer. 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, gross margin, selling, general and administrative expenses, earnings and cash flows.

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 non-core 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 including EMV chip technology, 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-Q 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>Statements of Operations:</b>	<b>Three Months Ended</b>			<b>Nine Months Ended</b>		
	<b>October 29, 2016</b>	<b>October 31, 2015</b> <sup>(1)</sup>	<b>% Inc. (Dec.)</b>	<b>October 29, 2016</b>	<b>October 31, 2015</b> <sup>(1)</sup>	<b>% Inc. (Dec.)</b>
Total net sales	\$ 2,857	\$ 2,897	(1.4 )%	\$ 8,586	\$ 8,629	(0.5 )%
Cost of goods sold	1,795	1,815	(1.1 )%	5,422	5,441	(0.3 )%
Gross margin	1,062	1,082	(1.8 )%	3,164	3,188	(0.8 )%
Operating expenses/(income):						
Selling, general and administrative (SG&A)	888	947	(6.2 )%	2,613	2,813	(7.1 )%
Pension	1	(17 )	(100.0 )% +	5	(52 )	(100.0 )% +
Depreciation and amortization	149	152	(2.0 )%	456	459	(0.7 )%
Real estate and other, net	(1 )	2	100.0 % +	(48 )	(14 )	100.0 % +
Restructuring and management transition	2	14	(85.7 )%	17	53	(67.9 )%
Total operating expenses	1,039	1,098	(5.4 )%	3,043	3,259	(6.6 )%
Operating income/(loss)	23	(16 )	100.0 % +	121	(71 )	100.0 % +
(Gain)/loss on extinguishment of debt	-	-	- %	30	-	100.0 % +
Net interest expense	87	102	(14.7 )%	275	303	(9.2 )%
Income/(loss) before income taxes	(64 )	(118 )	(45.8 )%	(184 )	(374 )	(50.8 )%
Income tax expense/(benefit)						
(2)	3	(3 )	100.0 % +	7	8	(12.5 )%
Net income/(loss)	\$ (67 )	\$ (115 )	(41.7 )%	\$ (191 )	\$ (382 )	(50.0 )%

Earnings/(loss) per share - basic and

diluted	\$ (0.22 )	\$ (0.38 )	(42.1 )%	\$ (0.62 )	\$ (1.25 )	(50.4 )%
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**Financial Data:**

Comparable store sales increase/(decrease) (3)

(0.8 )%	6.4 %	0.3 %	4.6 %
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Ratios as a percentage of sales:

Gross margin	37.2 %	37.3 %	36.9 %	36.9 %
SG&A expenses	31.1 %	32.7 %	30.4 %	32.6 %
Total operating expenses	36.4 %	37.9 %	35.4 %	37.8 %
Operating income/(loss)	0.8 %	(0.6 )%	1.4 %	(0.8 )%
Effective income tax rate <sup>(2)</sup>	4.7 %	(2.5 )%	3.8 %	2.1 %

**Common Shares**

**Data:**

Issued and outstanding shares at end of period	307.8	305.5	307.8	305.5
Weighted average shares - basic	308.3	306.0	307.8	305.8
Weighted average shares - diluted	308.3	306.0	307.8	305.8

1. *Prior year amounts have been adjusted to reflect the retrospective application of accounting policy change for recognizing pension expense.*
2. *For the three and nine months ended October 29, 2016, the Company increased its net valuation allowance by \$30 million and \$62 million, respectively, against certain federal and state net operating loss carry forward assets. For the three and nine months ended October 31, 2015, the Company increased its net valuation allowance by \$41 million and \$131 million, respectively, against certain federal and state net operating loss carry forward assets.*
3. *Comparable store sales include sales from all stores, including sales from services and commissions earned from our in-store licensed departments, 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)

**Summary Balance Sheets:**

	<u>October 29, 2016</u>	<u>October 31, 2015</u> <sup>(1)</sup>
Current assets:		
Cash in banks and in transit	\$ 172	\$ 152

Cash short-term investments	11	486
Cash and cash equivalents	183	638
Merchandise inventory	3,691	3,669
Deferred taxes	208	208
Prepaid expenses and other	254	218
Total current assets	4,336	4,733
Property and equipment, net	4,651	4,905
Prepaid pension	-	289
Other assets	608	623
<b>Total assets</b>	<b>\$ 9,595</b>	<b>\$ 10,550</b>

#### Liabilities and stockholders' equity

##### Current liabilities:

Merchandise accounts payable	\$ 1,493	\$ 1,453
Other accounts payable and accrued expenses	1,170	1,246
Current maturities of capital leases and note payable	15	26
Current maturities of long-term debt	263	106
Total current liabilities	2,941	2,831
Long-term capital leases and note payable	9	14
Long-term debt	4,509	5,147
Deferred taxes	406	395
Other liabilities	590	616
<b>Total liabilities</b>	<b>8,455</b>	<b>9,003</b>
<b>Stockholders' equity</b>	<b>1,140</b>	<b>1,547</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 9,595</b>	<b>\$ 10,550</b>

1. *Prior year amounts have been adjusted to reflect the retrospective application of accounting policy change for recognizing pension expense.*

### SUMMARY STATEMENTS OF CASH FLOWS

(Unaudited)

(Amounts in millions)

	Three Months Ended		Nine Months Ended	
	October 29, 2016	October 31, 2015 <sup>(1)</sup>	October 29, 2016	October 31, 2015 <sup>(1)</sup>
<b>Statements of Cash Flows:</b>				
Cash flows from operating activities:				
Net income/(loss)	\$ (67 )	\$ (115 )	\$ (191 )	\$ (382 )
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:				
Restructuring and management transition	-	(1 )	(1 )	3
Asset impairments and other charges	-	4	2	6
Net gain on sale of non-operating assets	-	(1 )	(5 )	(9 )
Net gain on sale of operating assets	-	(1 )	(10 )	(9 )
(Gain)/loss on extinguishment of debt	-	-	30	-
Depreciation and amortization	149	152	456	459
Benefit plans	(14 )	(25 )	(41 )	(73 )
Stock-based compensation	7	12	27	33
Deferred taxes	3	(8 )	3	(5 )
Change in cash from:				
Inventory	(710 )	(664 )	(970 )	(1,017 )
Prepaid expenses and other assets	(19 )	(22 )	(87 )	(33 )

Merchandise accounts payable	399	331	568	456
Current income taxes	(1 )	4	(5 )	10
Accrued expenses and other	60	102	(177 )	145
Net cash provided by/(used in) operating activities	<u>(193 )</u>	<u>(232 )</u>	<u>(401 )</u>	<u>(416 )</u>
Cash flows from investing activities:				
Capital expenditures	(122 )	(93 )	(282 )	(234 )
Proceeds from sale of non-operating assets	-	-	2	13
Proceeds from sale of operating assets	-	1	16	6
Joint venture return of investment	-	-	15	-
Net cash provided by/(used in) investing activities	<u>(122 )</u>	<u>(92 )</u>	<u>(249 )</u>	<u>(215 )</u>
Cash flows from financing activities:				
Proceeds from issuance of long-term debt	-	-	2,188	-
Credit facility proceeds	259	-	259	-
Credit facility payments	(97 )	-	(97 )	-
Payments of capital leases and note payable	(5 )	(4 )	(24 )	(27 )
Payments of long-term debt	(89 )	(7 )	(2,339 )	(20 )
Financing costs	-	-	(49 )	-
Proceeds from stock options exercised	1	-	2	-
Other changes in stockholders' equity	-	-	(7 )	(2 )
Net cash provided by/(used in) financing activities	<u>69</u>	<u>(11 )</u>	<u>(67 )</u>	<u>(49 )</u>
Net increase/(decrease) in cash and cash equivalents	<u>(246 )</u>	<u>(335 )</u>	<u>(717 )</u>	<u>(680 )</u>
Cash and cash equivalents at beginning of period	429	973	900	1,318
Cash and cash equivalents at end of period	<u>\$ 183</u>	<u>\$ 638</u>	<u>\$ 183</u>	<u>\$ 638</u>

1. *Prior year amounts have been adjusted to reflect the retrospective application of accounting policy change for recognizing pension expense.*

### **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, the impact of our qualified defined benefit pension plan (Primary Pension Plan), the (gain)/loss on extinguishment of debt, the net gain on the sale of non-operating assets and 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). Unlike other operating expenses, restructuring and management transition charges, the (gain)/loss on extinguishment of debt, the net gain on the sale of non-operating assets and the proportional share of net income from the Home Office Land Joint

Venture are not directly related to our ongoing core business operations. Primary Pension Plan expense/(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. Accordingly, we eliminate our Primary Pension Plan expense/(income) in its entirety as we view all components of net periodic benefit expense/(income) as a single, net amount, consistent with its presentation in our Consolidated Financial Statements. We believe it is useful for investors to understand the impact of restructuring and management transition charges, Primary Pension Plan expense/(income), the (gain)/loss on extinguishment of debt, the net gain on the sale of non-operating assets and the proportional share of net income from the Home Office Land Joint Venture to other comprehensive income 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.

In addition, we believe that EBITDA is a useful measure in assessing our operating performance and are therefore presenting this non-GAAP financial measure in addition to the non-GAAP financial measures listed above.

#### **EBITDA AND ADJUSTED EBITDA, NON-GAAP FINANCIAL MEASURES:**

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

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>October 29, 2016</u>	<u>October 31, 2015</u> <sup>(1)</sup>	<u>October 29, 2016</u>	<u>October 31, 2015</u> <sup>(1)</sup>
Net income/(loss)	\$ (67 )	\$ (115 )	\$ (191 )	\$ (382 )
Add: Net interest expense	87	102	275	303
Add: (Gain)/loss on extinguishment of debt	-	-	30	-
Total interest expense	87	102	305	303
Add: Income tax expense/(benefit)	3	(3 )	7	8
Add: Depreciation and amortization	149	152	456	459
<i>EBITDA (non-GAAP)</i>	<u>172</u>	<u>136</u>	<u>577</u>	<u>388</u>
Add: Restructuring and management transition charges	2	14	17	53
Add: Primary pension plan expense/(income)	-	(19 )	-	(57 )
Less: Net gain on the sale of non-operating assets	-	(1 )	(5 )	(9 )
Less: Proportional share of net income from the home office land joint venture	-	(19 )	(29 )	(41 )
<i>Adjusted EBITDA (non-GAAP)</i>	<u>\$ 174</u>	<u>\$ 111</u>	<u>\$ 560</u>	<u>\$ 334</u>

1. *Prior year amounts have been adjusted to reflect the retrospective application of accounting policy change for recognizing pension expense.*

#### **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:



	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>October 29, 2016</u>	<u>October 31, 2015</u> <sup>(1)</sup>	<u>October 29, 2016</u>	<u>October 31, 2015</u> <sup>(1)</sup>
Net income/(loss)	\$ (67 )	\$ (115 )	\$ (191 )	\$ (382 )
Earnings/(loss) per share-diluted	\$ (0.22 )	\$ (0.38 )	\$ (0.62 )	\$ (1.25 )
Add: Restructuring and management transition charges <sup>(2)</sup>	2	14	17	53
Add: Primary pension plan expense/(income) <sup>(2)</sup>	-	(19 )	-	(57 )
Add: (Gain)/loss on extinguishment of debt <sup>(2)</sup>	-	-	30	-
Less: Net gain on the sale of non-operating assets <sup>(2)</sup>	-	(1 )	(5 )	(9 )
Less: Proportional share of net income from the home office land joint venture <sup>(2)</sup>	-	(19 )	(29 )	(41 )
<i>Adjusted net income/(loss) (non-GAAP)</i>	<u>\$ (65 )</u>	<u>\$ (140 )</u>	<u>\$ (178 )</u>	<u>\$ (436 )</u>
<i>Adjusted earnings/(loss) per share-diluted (non-GAAP)</i>	\$ (0.21 )	\$ (0.46 )	\$ (0.58 )	\$ (1.43 )

1. *Prior year amounts have been adjusted to reflect the retrospective application of accounting policy change for recognizing pension expense.*
2. *Reflects no tax effect due to the impact of the Company's tax valuation allowance.*

**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, pay-down of off-balance sheet pension debt, and other obligations or payments made for business acquisitions. 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:

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>October 29, 2016</u>	<u>October 31, 2015</u>	<u>October 29, 2016</u>	<u>October 31, 2015</u>
Net cash provided by/(used in) operating activities	\$ (193 )	\$ (232 )	\$ (401 )	\$ (416 )

Add: Proceeds from sale of operating assets	-	1	16	6
Less: Capital expenditures	(122 )	(93 )	(282 )	(234 )
<i>Free cash flow (non-GAAP)</i>	<u>\$ (315 )</u>	<u>\$ (324 )</u>	<u>\$ (667 )</u>	<u>\$ (644 )</u>

Net cash provided by/(used in) investing activities <sup>(1)</sup>	\$ (122 )	\$ (92 )	\$ (249 )	\$ (215 )
Net cash provided by/(used in) financing activities	\$ 69	\$ (11 )	\$ (67 )	\$ (49 )

(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.*