Think Big

May 16, 2012

Pershing Square Capital Management, L.P.
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Agenda

✓ Business Overview
✓ History of JCP
✓ Transformation Under New Management
  ✓ Sales opportunity
  ✓ Cost opportunity
✓ Valuation
✓ Think Big
Business Overview
J.C. Penney

- Founded in 1902, JCP has grown into one of the largest retailers in America
  - $17.3bn of sales in 2011
  - 1,103 stores nationwide, 2/3rds of sqft is “on-mall”
  - $1.5bn revenue internet business
- Wide-assortment of apparel, accessory, and home merchandise
- Affordable price points, average price per item is ~$14
- Undergoing complete transformation under new management

Source: Company Data
Products

JCP sells a wide assortment of both exclusive and national brand merchandise

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**Category**

- Women's apparel, 25%
- Men's, 20%
- Home, 15%
- Women's accessories, 12%
- Children's, 12%
- Other, 16%

**Brands**

- National Brands, 45%
- Private Label, 55%

Source: Company Data (2011 10k)
## JCP Real Estate

### Nationwide store base is split across three types of formats:

<table>
<thead>
<tr>
<th>Format</th>
<th>Units</th>
<th>Sq ft/Box</th>
<th>Total Sq ft</th>
</tr>
</thead>
<tbody>
<tr>
<td>On-Mall</td>
<td>544</td>
<td>145k</td>
<td>79mm</td>
</tr>
<tr>
<td>Off-Mall</td>
<td>135</td>
<td>101k</td>
<td>14mm</td>
</tr>
<tr>
<td>“Legacy”</td>
<td>424</td>
<td>45k</td>
<td>19mm</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,103</td>
<td><strong>101k</strong></td>
<td><strong>112mm</strong></td>
</tr>
</tbody>
</table>

> ~80% of Penney’s on-mall stores are in shopping centers with sales >$300 per sf. For Macy’s, this figure is roughly ~75%

Source: Company data
History of JCP
Origins of Initial Success

JCP’s early success was largely due to its founder’s innovations:

- **Fair Prices** – “Golden Rule”, no haggling

- **Aligned Management Incentives** – Store managers were allowed to buy a 1/3rd stake in their store

- **Great Products** – Imported popular East Coast product to the West

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Source: Company Data
Successful Transition to a Department Store

- In the 1980s, in response to competition from emerging mass discounters like Wal-Mart, CEO W. R. Howell transitioned JCP from being a mass-merchant to an apparel-focused department store.

- While the shift to apparel was initially successful, it created complexity that eventually overwhelmed JCP’s outdated infrastructure.

**JCP - Stock Price under Howell**

Source: Bloomberg
Late 1990s: JCP Begins to Decline

- Under Oesterreicher (1995-2000), the difficulty of running a fashion retailer without modern planning and allocation systems caught up with JCP.
- Between 1997 and 2000, weak sales and lower gross margins pushed EBIT in the core retail business down ~80%.
- The company also suffered from too much leverage and a poorly planned expansion of its drug store business (bought Eckerd in 1996 for ~$3.3bn).

**JCP - Stock Price under Oesterreicher**

By early 2000, JCP was pushed to the edge of financial distress.

Source: Bloomberg
Early 2000s: Saved from Financial Distress

- Oesterreicher was forced out; Allen Questrom was hired in 2001
- Performance improved under his strategy of shedding non-core businesses, centralizing planning and allocation, and modernizing systems, but many core problems remained

JCP - Stock Price under Questrom

Source: Bloomberg
Late 2000s: Core Problems Remain

Mike Ullman replaced Questrom as CEO in 2005

- Under Ullman, JCP failed to right size its uncompetitive cost structure despite a severe consumer recession
- Invested >$1bn to expand the off-mall store base with inadequate return on capital
- Sales track record of new products was mixed:

<table>
<thead>
<tr>
<th>Success</th>
<th>Sephora</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moderate Success</td>
<td>Liz Claiborne</td>
</tr>
<tr>
<td>Failure</td>
<td>American Living</td>
</tr>
</tbody>
</table>
Late 2000s: Progress Stalls

JCP - Stock Price under Ullman

During the Ullman era the stock fell 14%, despite a ~20% buyback

Source: Bloomberg
Through 6/13/2011 – The day before Ron Johnson’s hiring was announced
JCP Has Been Chronically Mismanaged

Over the past twenty years, JCP has failed to create value for shareholders

Source: Bloomberg
The Competitors Have Been Winning

While the consumer environment has been challenging, JCP has vastly underperformed

<table>
<thead>
<tr>
<th>JCP Rank</th>
<th>Last</th>
<th>Last</th>
<th>Last</th>
<th>Last</th>
</tr>
</thead>
<tbody>
<tr>
<td>% Total Shareholder Return</td>
<td>-54%</td>
<td>-56%</td>
<td>-13%</td>
<td>9%</td>
</tr>
<tr>
<td>% Revenue Growth</td>
<td>-18%</td>
<td>0%</td>
<td>15%</td>
<td>14%</td>
</tr>
<tr>
<td>% EBIT Growth</td>
<td>-22%</td>
<td>14%</td>
<td>12%</td>
<td>17%</td>
</tr>
<tr>
<td>2011 EBITDAR Margin (%)</td>
<td>98%</td>
<td>26%</td>
<td>68%</td>
<td>17%</td>
</tr>
</tbody>
</table>

Source: Company Data
Nordstrom: Excludes credit card business; JCP: EBIT and EBITDAR exclude restructuring charges, markdowns related to new pricing strategy, and qualified pension expense
Shareholder returns are through 6/13/2011 – the day before Ron Johnson’s hiring was announced
Why Have The Competitors Been Winning?

The company has made a lot of mistakes:

- Commodity product
- No price integrity
- Tired brand image
- Cluttered stores bulging with inventory
- Bloated cost structure
- Culture of complacency
Underperformance Despite Competitive Advantages

JCP is not fundamentally broken. In fact, the company has many competitive advantages, but has suffered from years of mismanagement.

Real Estate: 49% of retail sf is owned, balance is leased at avg. of ~$4/sf

- “On-Mall”: 80% of malls have average sales of >$300/sf
- “Legacy Off-Mall”: High free cash flow, limited competition
- “Prototype Off-Mall”: All built in the last 10 years

Scale: ~$17bn of sales in 2011

- Advertising: Historically >$1bn in annual spend
- Sourcing: Large enough to directly source from factories in Asia
- National Brands: Bargaining power to get best product at the lowest cost

Early mover: Brand legacy, direct marketing capability, dominant in many small town markets
Transformation Under New Management
New CEO: Ron Johnson (Nov. 2011)

Ron Johnson’s record of retailing success makes him the ideal leader to fix JCP

Retail is an industry where the right leader can make a big impact: Drexler, Ulrich, Walton, Wexner, etc...

1984 - 1999

TARGET

VP Merchandising – Credited in part with Target’s transformation into a “chic discounter”

2000 - 2011

APPLE

Head of Retail – Built Apple retail from scratch into an ~$18bn business

2011 - ?

JCP

CEO – Complete transformation of JCP
New Management is Motivated to Win

Ron Johnson has personally invested a material portion of his net worth in JCP warrants purchased at market value.

Ron Johnson’s Warrant Terms

- **Price:** $50mm
- **Amount:** 7.3mm shares
- **Strike:** $29.92
- **Maturity:** 7.5 years, may not hedge or sell for 6 years

Source: Company Data (Proxy Statement, March 30th, 20112)
Assembling a Dream Team

Since joining JCP in November, Ron Johnson has assembled a dream team of 41 managers to help him turnaround the company.

- **Michael Francis**, President, 22-year veteran of Target and most recently head of marketing.

- **Michael Kramer**, COO, previously CEO of Kellwood and CFO of Abercrombie & Fitch and Apple Stores.

- **Ken Hannah**, CFO, brings operational and finance expertise from MEMC, Home Depot, Boeing, and GE.

- **Daniel Walker**, Chief Talent Officer, former senior HR executive at Apple and Gap.

- **Kristen Blum**, Chief Technology Officer, a former senior executive at Pepsico, Abercrombie & Fitch, and Apple.
What’s wrong?

- Sales are too low
- Expenses are too high
The Sales Opportunity
Sales per SF Near Mid-1990s Levels

Retail merchandise sales per gross sf (ex-internet & catalog) -

CEO:
Howell  Oesterreicher  Questrom  Ullman

Source: Company Data
Why?

- Excessive promotions
- Commodity product
- Poor store-experience
- Limited customer universe
Promotional Pricing Strategy

The old model was excessively promotional, which hurt the JCP brand and complicated the company.

2011 JCP Sales Discount Distribution

Observations

Initial mark-ups were too high:

>72% of revenue at 50% off or more

She knows the right price:

>75% of revenue is in a 20% price band

Source: Company Data (Analyst Day Presentation, January 25th, 2012)
JCP Struggled to Attract Good Product

JCP had difficulty attracting high quality brands into its store

Why good brands would not come to JCP:

- No price integrity; Excessively promotional
- JCP’s image had become outdated
- Cluttered stores made product look cheap
Old Strategy – Summary

Because good brands would not come to JCP, the company sold lower quality commodity product and competed on price.

On-line merchants are the low-cost providers, making competing on price a losing strategy for the company.
Extreme Makeover

Changes across all aspects JCP’s retail model

- ✔ Pricing & Promotion
- ✔ Personality
- ✔ Presentation & Place
- ✔ Product
Pricing & Promotion -

**Old Model**
- High initial price
- Final sales price at an average ~60% discount
- Highly promotional, 590 events a year

**New Model**
- “Everyday” initial price close to where she normally buys
- One, month-long, seasonal promotion each month
- Friday clearance; corresponds with payday
- Dynamic implementation; continuous improvement

Source: Company Data (Analyst Day Presentation, January 25th, 2012)
## Pricing & Promotion -

**Advantages of the New Model**

- Strengthens JCP’s brand equity
- Frees merchants to focus on product, not promotional cadence
- Eliminates unproductive advertising expense
- Reduces store labor hours
Personality -

JCP’s outdated image needed to be refreshed

New Logo:

New Advertising:

Monthly “Book”  

Television

Spokesperson
Presentation & Place -

**New Model**
- Reduce clutter; more product on walls, less on the floor
- Build 100 brand focused “shops within a shop”
- Introduce 10 shops in 2012, starting in August
- 2 to 3 shops/month through end of 2015

**Advantages of the New Model**
- Improved shopping experience
- Brands are competing to have their own shop – vendors will help fund construction
- Monthly build-out cadence creates constant “newness”

**Cost Effective Engineering – Return on Capital is a Priority**

**Replicate Success of Existing Shops**

Source: Company Data (Analyst Day Presentation, January 25th, 2012)
First Shops Recently Announced
Product Initiatives

Getting the right product in the store is a critical factor in driving higher sales and better gross margin

Changes to the model will attract the best product to the store:

- **Pricing & Promotion:**
  - Improved price integrity strengthens the brands sold at JCP

- **Personality:**
  - An updated look improves JCP and associated brands

- **Presentation & Place:**
  - Branded shops and less clutter will help vendors build their brands

- **Vendor Economics:**
  - Bringing vendors into partnership with the store will ensure that they send their best product to JCP
Recent Product Announcements

New brands:

Revamping existing brands:
JCP had to fix the brand, price, promotion, place, and presentation before it could get the new product.

The consequence is an initial sales decline.
How We Expect Sales To Develop

Sequence of the sales model transformation

- **Immediate (February 2012):**
  - Implement every day low pricing, fewer promotions
  - Change personality (logo, advertising)
  - Improve presentation by reducing clutter

- **August 2012:**
  - Major brand announcements and introduction of the first shops
  - 50% of product will be new or revamped brands

- **Year-end 2012:**
  - First 10 shops complete

- **Year-end 2015**
  - Build out of all 100 shops completed at a pace of 2 to 3 per month
  - Increase national brands from 45% of sales to 75% - 80%
Sales are under pressure today, but we believe better product from existing new brands and the shop build-out will lead to meaningful sales growth.
The Cost Opportunity
Eliminating Waste

JCP has an extremely inefficient cost structure. Management is quickly and effectively addressing the issue.

**SG&A as a percent of revenue, 2010 (ex-D&A and rent)**

- **31%** for JCP
- **21%** for Kohl’s

Source: Company data

**Approaching Kohl’s SG&A spend represents a $1.8bn opportunity for JCP**

2010 Revenue:
- JCP: $17.8bn
- Kohl’s: $18.4bn
Eliminating Waste

At its core, JCP is a simple business – it has one segment and no international sales. Unfortunately, years of mismanagement bloated the cost structure.

Management has identified at least $900mm/yr of net savings by 2012

- Home Office (management target = $200+mm)
- Stores ($400+mm)
- Advertising ($300+mm)

Source: Company Data (Analyst Day Presentation, January 25th, 2012)
The Magnitude of the Cost Opportunity is Large

The $900mm cost opportunity is ~120% of 2011 EBIT

Adj. EBIT vs. Cost Opportunity

EBIT excludes restructuring charges, markdowns related to pricing strategy, and qualified pension expense
Home Office (management target = $200+mm)

Historic dysfunction at JCP’s home office in Plano is symptomatic of an organization which was not focused on cost control

Illustrative Initiatives:

- Executing planned layoffs on-schedule
- Within six weeks, the new vice president of IT was able to reduce her run-rate budget (ex-special projects) by 25% for 2012

Cost Structure Issues

- Out of ~5,900 home office employees (pre-layoffs), ~700 were assistants
- JCP spends 2x benchmarks on IT
- Merchandise, Planning & Allocation teams were staffed ~35% above competition
- The average “manager” had only 4 direct reports

Work or Play? – Cultural Issues

- Netflix, consumed 20% of corporate internet bandwidth during work hours
- The average employee made 1,000 clicks on youtube per month

Source: Company data
Stores (management target = $400+mm)

JCP’s stores require ~25% more labor hours than Kohl’s. Management will use technology to narrow this gap.

Illustrative Initiatives:

- **Headcount** -
  - 40% more supervisors per store than competitors
  - 15% more employees per store than competitors

- **Reducing clerical tasks** -
  - New pricing strategy requires fewer price changes, reducing store labor hours
  - Simplifying stocking and merchandise receiving processes
  - Eliminating layers of management to bring staff closer to the customer
  - Shrinking the number of cash registers and using technology on the floor to assist with checkout

Source: Company Data (Analyst Day Presentation, January 25th, 2012)
Advertising (management target = $300+mm)

The former promotional strategy and corporate inefficiency led to over-spending in advertising

**Correcting Inefficiency**

- Fewer, better promotions will make advertising more efficient

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**Advertising Spend as a % of Rev. (2011)**

- **JCP**: 6.0%
- **Kohl's**: 5.1%
- **Macy's**: 4.3%

*$300mm opportunity for JCP*

Source: Company Data (10K Filings, 2011)
Other Operational Opportunities

Management’s $900mm target is only half the gap with Kohl’s. Given opportunities uncovered so far, we expect more progress to come.

Assorted potential sources of additional value creation:

- **Inventory**
  - JCP carries too much inventory
  - In 2012 alone, JCP expects to eliminate $500+mm of unproductive inventory

- **Supply Chain**
  - Zero base budgeting the supply chain and distribution center rationalization
  - Goal to reduce store truck deliveries from 3-5x per week to 1-2x

- **Capital Allocation**
  - Historically, store capex spend based on sf not productivity

Source: Company Data
Turnaround Summary
All of the Requirements for a Turnaround are in Place

✓ Solid core business with natural competitive advantages
✓ New, high-quality management team
✓ Management incentives are aligned with shareholder returns
✓ High potential new sales strategy
✓ Abundant “low-hanging fruit” in the cost structure to fund sales opportunity
# JCP Reminds us of Another Retail Turnaround...

<table>
<thead>
<tr>
<th>Mid-1980s</th>
<th>Today</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expensive real estate; commodity product</td>
<td>Excessively promotional, weak product selection</td>
</tr>
<tr>
<td>Drexler’s leadership attracted top talent</td>
<td>Johnson’s leadership has attracted top talent</td>
</tr>
<tr>
<td>Drexler made ~$350mm on Gap stock(^1)</td>
<td>Johnson’s net worth is levered to JCP stock</td>
</tr>
<tr>
<td>Eliminated national brands and focused on the “GAP” label</td>
<td>Fairer pricing, better product, improved store environment</td>
</tr>
<tr>
<td>Net income fell 43%(^2)</td>
<td>Sales will be challenged in 2012</td>
</tr>
<tr>
<td>Under Drexler, Gap stock rose ~60x</td>
<td></td>
</tr>
</tbody>
</table>

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Source:  
\(^1\)WSJ magazine, June 2010  
\(^2\)The GAP – Company history, Fundinguniverse.com
Thoughts on the First Quarter

Costs
- Identified and executing on $650mm of opportunity
- Management pulled their $900mm cost target forward to year-end 2012

Sales
- Disappointing SSS (-19%) and gross margin (-120bps)
- Management is responding; expect sales progress in the second half
- Many new and revamped brands announced
- Vendors are enthusiastic and have submitted 110 shop applications
- Long-term, we believe JCP will grow sales and achieve ~40% gross margins

Dividend cut has caused forced selling by yield investors

Gross margin is shown before markdown charges related to new pricing strategy
Ron has been CEO for 106 days
Valuation
What Sales Could the New JCP Generate?

Within several years we believe JCP’s sales per square foot will recover to the 2007 peak of $177, with potential for substantial upside.

Sales Build:

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales per foot</td>
<td>$154</td>
<td>$177</td>
</tr>
<tr>
<td>Gross Square Ft. (mm)</td>
<td>112</td>
<td>112</td>
</tr>
<tr>
<td>Sales</td>
<td>$17,260</td>
<td>$19,824</td>
</tr>
</tbody>
</table>

% increase vs. 2011: 15%

Sales Per Gross SF Comparison:

<table>
<thead>
<tr>
<th>Store</th>
<th>Sales/Ft</th>
<th>vs. JCP 2011</th>
<th>vs. JCP Peak</th>
</tr>
</thead>
<tbody>
<tr>
<td>JCP ('07 Peak)</td>
<td>$177</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>Macy's</td>
<td>174</td>
<td>13%</td>
<td></td>
</tr>
<tr>
<td>Kohl's</td>
<td>194</td>
<td>26%</td>
<td>10%</td>
</tr>
<tr>
<td>TJ Maxx</td>
<td>285</td>
<td>85%</td>
<td>61%</td>
</tr>
<tr>
<td>Nordstrom</td>
<td>431</td>
<td>180%</td>
<td>144%</td>
</tr>
</tbody>
</table>

Meaningful opportunity to grow sales versus 2011 levels and peak.

Notes: Sales per sqft is both Stores and E-Commerce; Nordstrom - excludes credit card business; TJ Maxx – includes only Marshals and Maxx in US, estimated gross sqft.
What Could the New JCP Earn?

We believe JCP could earn ~$6.00 per share in 2015

Illustrative P&L

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$19,824</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>7,930</td>
</tr>
<tr>
<td>% Margin</td>
<td>40%</td>
</tr>
<tr>
<td>SG&amp;A</td>
<td>4,850</td>
</tr>
<tr>
<td>% of Sales</td>
<td>24%</td>
</tr>
<tr>
<td>D&amp;A</td>
<td>700</td>
</tr>
<tr>
<td>% of Sales</td>
<td>4%</td>
</tr>
<tr>
<td>EBIT</td>
<td>2,379</td>
</tr>
<tr>
<td>% Margin</td>
<td>12%</td>
</tr>
<tr>
<td>2015 EPS</td>
<td>$6.00</td>
</tr>
</tbody>
</table>

Assumptions:
- SG&A Inflation: $(5,144-900)\times(1.02^4-1)
  Conservatively assumes inflation does not benefit revenue
- (New Sales - 2011 Sales)\times.10 = SG&A impact of higher sales
  Implies that ~40% of SG&A is variable

Additional Notes:
- All EPS dilution assumes $50/share
- EPS excludes: Real estate and other, and qualified pension expense
- $230mm of interest expense and 37% tax rate
- Management’s long-term guidance: 1/25/2012 analyst day presentation
What Could the New JCP Earn?

Leverage to additional improvement

- Every 5% increase in sales adds ~80c of EPS
- Every $100mm of SG&A reduction adds ~30c to EPS

<table>
<thead>
<tr>
<th></th>
<th>Mid-Case</th>
<th></th>
<th>Upside</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales/sf</td>
<td>$177</td>
<td></td>
<td>$200</td>
<td></td>
</tr>
<tr>
<td>Cost Saves</td>
<td>900</td>
<td></td>
<td>1,250</td>
<td></td>
</tr>
<tr>
<td><strong>2015 EPS</strong></td>
<td>$6.00</td>
<td></td>
<td>$9.25</td>
<td></td>
</tr>
</tbody>
</table>

Notes:
All EPS dilution assumes $50/share
EPS excludes: Real estate and other, and qualified pension expense
$230mm of interest expense and 37% tax rate
We think JCP is cheap under a variety of operating outcomes:

Mid-Case

- $900mm Cost saves
- +GM to 40%, -SG&A inflation, - D&A lift

Upside

- Sales lift to $200/ft
- $350mm Incremental Cost saves

2011 EPS: $1.49

2015 EPS:
- Mid-Case: $6.00
- Upside: $9.25

NTM Multiple:
- Mid-Case: 13x
- Upside: 14x

2014 Stock Price:
- Mid-Case: $77
- Upside: $125

All EPS dilution assumes $50/share; all stock prices adj. for option and warrant dilution; earnings adj. for restructuring charges, qualified pension expense, real estate and other, and markdowns related to new pricing strategy

Stock price includes $1/share for REIT interests and other non-core real estate
### Good Downside Protection

**Cost Opportunity:**

| The $900mm cost opportunity alone generates ~$2.50 of EPS or $30 per share of value at 12x EPS |

**Real Estate:**

| JCP controls 112mm sf of high quality real estate through long-dated, low-cost leases at ~$4/sf (51%), as well as outright ownership (49%) |
| $11+bn replacement cost |
Think Big
What Will the New JCP Look Like?

JCP will become a mall within a mall, with 100 high-quality, branded tenants:

The model works: JCP’s Sephora shops generate $600+ of sales per square foot
**What Will the New JCP Look Like?**

What’s the sales potential?

- Specialty stores in 80% of JCP’s malls earn an average of $300+ in sales per square foot

- *If JCP becomes a collection of specialty stores, why can’t its sales approach specialty store levels?*

<table>
<thead>
<tr>
<th>Old</th>
<th>New</th>
</tr>
</thead>
<tbody>
<tr>
<td>GAP</td>
<td></td>
</tr>
<tr>
<td>American Eagle</td>
<td>JCPenney</td>
</tr>
<tr>
<td>AÉROPOSTALE</td>
<td></td>
</tr>
</tbody>
</table>

2011 in-store merchandise sales per gross sf:

<table>
<thead>
<tr>
<th>Old</th>
<th>New</th>
</tr>
</thead>
<tbody>
<tr>
<td>$337</td>
<td>$132</td>
</tr>
<tr>
<td>$436</td>
<td>?</td>
</tr>
<tr>
<td>$561</td>
<td></td>
</tr>
</tbody>
</table>
What is the Potential Upside?

JCP has high sales potential plus a major cost advantage

![Logos of GAP, American Eagle, Aéropostale, JCPenney, and JCP](image)

<table>
<thead>
<tr>
<th>2011 Rent as a Percent of In-Store Sales:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Old</td>
</tr>
<tr>
<td>9%</td>
</tr>
<tr>
<td>7%</td>
</tr>
<tr>
<td>&lt;2%</td>
</tr>
</tbody>
</table>

Other advantages:

- JCP will have a flexible, diversified portfolio of 100 brands, reducing fashion risk
- Even at its current sales level, JCP has greater scale than nearly all other specialty stores
### Think Big

**How much would JCP be worth if it had sales per square foot approaching that of a specialty store?**

<table>
<thead>
<tr>
<th>In-Store Merchandise Sales/sf</th>
<th>$250</th>
<th>$300</th>
<th>$350</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Sales</td>
<td>$31,000</td>
<td>$36,600</td>
<td>$42,200</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Gross Profit</th>
<th>12,400</th>
<th>14,640</th>
<th>16,880</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Margin</td>
<td>40%</td>
<td>40%</td>
<td>40%</td>
</tr>
<tr>
<td>SG&amp;A</td>
<td>5,968</td>
<td>6,528</td>
<td>7,088</td>
</tr>
<tr>
<td>% of Revenue</td>
<td>19%</td>
<td>18%</td>
<td>17%</td>
</tr>
<tr>
<td>D&amp;A</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EBIT</th>
<th>$5,432</th>
<th>$7,112</th>
<th>$8,792</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of Revenue</td>
<td>18%</td>
<td>19%</td>
<td>21%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EPS</th>
<th>$14</th>
<th>$18</th>
<th>$22</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multiple</td>
<td>14.0x</td>
<td>14.0x</td>
<td>14.0x</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Share Price</th>
<th>$191</th>
<th>$253</th>
<th>$315</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multiple of today’s share price ($26)</td>
<td>7x</td>
<td>10x</td>
<td>12x</td>
</tr>
</tbody>
</table>

**Additional upside:**
- Store growth, buybacks, dividends

Assumes: 240mm shares outstanding, $3bn of internet and non-merchandise sales, $230mm of interest expense, 37% tax rate, SG&A: $900 of cost saves, SG&A increases by 10% of incremental revenue, 4yrs of 2% inflation, ex- RE and other, and qualified pension expense.