May 19, 2020

J. C. Penney (JCP)

$0.18 (As of 05/18/20)

Price Target (6-12 Months): **$0.25**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 12/10/19) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: A | Growth: A | Momentum: A	**3-Hold** VGM:A

Summary

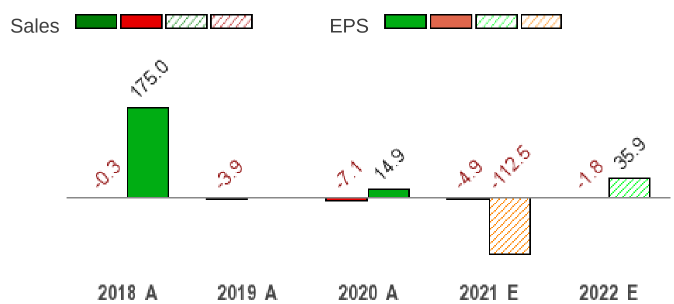
Shares of J. C. Penney have slid and lagged the industry in the past three months. The company has been hit hard by the coronavirus-led store closures. This compelled the retailer to file for bankruptcy protection. It has $500 million in cash and has received financing commitments of $900 million from lenders. The company has long been grappling with dwindling sales due to tough competition. Also, failure to bring in fashionable and trendy brands has been a deterrent. Nonetheless, it remains focused on implementing Plan for Renewal strategy to drive gross margin, lower inventory and eliminate inefficient costs. The company also intends to lower its store count gradually as part of its store optimization strategy. The company informed that stores will be shuttered in phases throughout the Chapter 11 process.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$1.26 - $0.14**
20 Day Average Volume (sh)	**57,515,796**
Market Cap	**$58.4 M**
YTD Price Change	**-83.8%**
Beta	**1.38**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Retail - Regional Department Stores**
Zacks Industry Rank	**Top 31% (80 out of 254)**
Last EPS Surprise	**262.5%**
Last Sales Surprise	**1.5%**
EPS F1 Est- 4 week change	**10.1%**
Expected Report Date	**05/19/2020**
Earnings ESP	**0.0%**
P/E TTM	**NA**
P/E F1	**NA**
PEG F1	**NA**
P/S TTM	**0.0**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2022					10,437 E
2021	2,365 E	2,507 E	2,403 E	3,349 E	10,624 E
2020	2,555 A	2,619 A	2,500 A	3,493 A	11,167 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022					-$1.09 E
2021	-$1.04 E	-$0.08 E	-$0.23 E	$0.11 E	-$1.70 E
2020	-$0.46 A	-$0.18 A	-$0.30 A	$0.13 A	-$0.80 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/18/2020. The reports text is as of 05/19/2020.

Overview

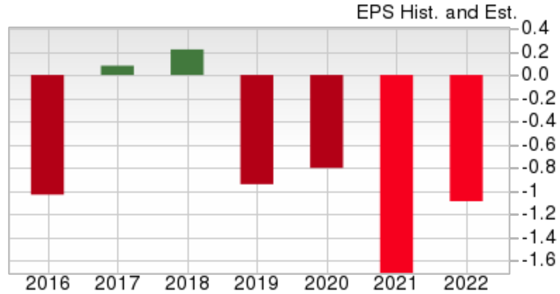
Founded in 1902 and based in Plano, TX, J. C. Penney Company, Inc. through its wholly-owned subsidiary J. C. Penney Corporation, Inc. offers merchandise and services to customers through its department stores, catalogs and website.

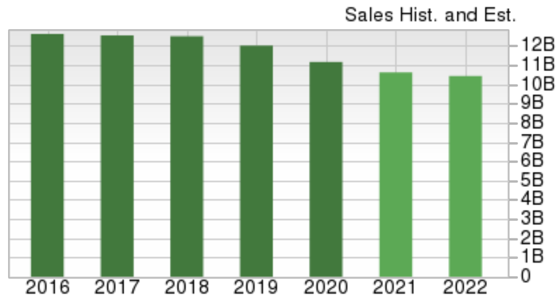
Meanwhile, the company fulfills online customer purchases by direct shipment to the customer from its distribution facilities and stores or from its suppliers' warehouses and by in store customer pick up.

The company operates stores at both mall and off-mall locations. The company sells family apparel, footwear, accessories, fine and fashion jewelry, and home furnishings. It also offers beauty products through Sephora shops, which are located inside the J. C. Penney stores.

Furthermore, the company's department stores also offer a variety of other services, which include optical, portrait photography, styling salon, and custom decorating.

Through its integrated channels, the company provides a wide range of national and private brands. J. C. Penney operates approximately 850 stores across the United States and Puerto Rico. In addition, the company runs one of the largest apparel and home furnishing site, jcp.com.





Reasons To Buy:

> J. C. Penney has been making strategic efforts to drive traffic. Its partnership with thredUP to offer second-hand women's clothing and handbags is also impressive.

▲ **Q4 Highlights & FY20 View:** J. C. Penney reported better-than-expected results for fourth-quarter fiscal 2019. While the bottom line marked the company's third straight beat, the top line reverted to positive surprise after three consecutive misses. In addition, the quarter witnessed improvement in cost of goods sold and gross margin expansion. Notably, gross margin expanded 200 basis points (bps) in the fiscal fourth quarter, marking the third straight quarter of significant growth. Management expects strength in the women's apparel business to continue. The company's turnaround efforts, including the implementation of Plan for Renewal, bode well. For fiscal 2020, management projects an improvement of 100-130 bps in cost of goods sold (as a percentage of net sales), which is likely to result in gross margin expansion by an equivalent basis point. Moreover, it expects adjusted EBITDA growth of 5-10% over $583 million recorded in fiscal 2019. Management estimates positive free cash flow for the fiscal year.

▲ **Efforts to Aid Turnaround Process Bodes Well:** J. C. Penney has been undertaking a slew of initiatives in a bid to make a turnaround. Recently, the company plans to expand curbside pickup services to 50 additional stores across the United States. J. C. Penney Style on the Go Curbside Pickup allows customers to grab online orders directly. This expansion follows a successful pilot at the company's brand-defining store, for which it received positive customer response. Further, in a bid to lure customers, it is testing a new store format, which includes yoga studio, videogame lounge and lifestyle workshops. Additionally, the company has been expanding its key national brands — Instant Pot, Keurig and Sharper Image — to boost the top line. Also, J. C. Penney has launched an in-house brand — St. John's Bay Outdoor — within the men's department in its stores along with an Outdoor Shop featuring St. John's Bay Outdoor along with three new product lines namely American Threads, The American Outdoorsman and HI-TEC. Management noted that consumers have been responding positively to this initiative.

Prior to this, it had teamed up with thredUP to offer second-hand women's clothing and handbags. Through such a move, management expects to cash in on the growing demand for high-quality second-hand products, provided at lower prices. This new in-store experience is likely to cater to consumers who crave for sustainable apparel options. The company launched a store checkout process, which is expected to streamline tasks and enhance customer experience. In this regard, it has tested a centralized pickup in returns to improve the in-store experience, and in turn, omni-channel customer experience. Also, it has been shutting down underperforming stores and revamping existing ones to revive sales.

▲ **Merchandise Endeavors:** J. C. Penney is reaping benefits from its merchandise initiatives. Despite a decline in the company's overall comparable store sales (comps), it continued to experience strength in Women's and Men's apparel and footwear businesses in the fourth quarter of fiscal 2019. Moreover, the company's denim business has been performing well. In addition, six of the company's eight merchandize divisions' comps improved in the second half of fiscal 2019 over the first half. Categories such as women's apparel, women's accessories, footwear and home witnessed notable improvement. In addition, the company has enhanced partnerships with bigwigs like Nike, Adidas, Champion and Puma, and seeks to increase the number of stores carrying such brands. Furthermore, the company has integrated Fit Bit in its assortments of health and wellness products. It is also taking initiatives to boost sales with special size offerings. The company also unveiled Shaquille O`Neal XLG brand specially designed for big & tall customers. Earlier, it had launched fashion tween brand, Obsess and redesigned Okie Dokie children's private brand. Further, the company has launched Fanatics shops designed to attract sports fans to purchase the newest and popular team apparel inside their local JCPenney store.

▲ **Excellent Performance of Sephora Continues:** Recently, J. C. Penney reaffirmed its 14-year partnership with Sephora. This is likely to maintain the availability of exclusive beauty experience across select J. C. Penney stores, with a curated selection of makeup, skin and haircare brands. The in-store Sephora department continues to outperform by drawing more customers. Since Sephora is part of J. C. Penney's long-term growth strategy, the company not only intends to add more stores but has also started selling Sephora products online. During the nine months of fiscal 2019, the company made investments in 27 new Sephora inside J. C. Penney stores. At the end of 2018, the total count of Sephora locations inside J. C. Penney was 668 stores. These shops are part of J. C. Penney's strategy to gain a competitive advantage over other beauty product retailers and drugstores, which have significantly enhanced their cosmetics sections in the recent years.

Reasons To Sell:

J. C. Penney's exit from major appliance and in-store furniture categories hurt comps by 230 bps in fourth quarter. The metric is expected to decline in the range of 3.5-4.5% in fiscal 2020.

- **Dismal Stock Performance:** Shares of J. C. Penney have lost 76.3% in the past three months, wider than the industry's 62.1% decline. The company has been hit hard by the coronavirus-led store closures. This compelled the retailer to file for bankruptcy protection. The company has long been grappling with dwindling sales due to tough competition. Also, failure to bring in fashionable and trendy brands has been a deterrent. Moreover, in its recent SEC filing, the retailer said that it expects to close roughly 242 stores between the current fiscal year and next fiscal.

- **Top and Bottom Lines Fall Y/Y in Q4:** Despite reporting better-than-expected results for fourth-quarter fiscal 2019, both revenues and earnings declined year over year. Earnings declined 27.8% on lower sales and adjusted EBITDA. In addition, the company continues to witness soft comps. Adjusted EBITDA fell 8.6% year over year. As a percentage of net sales, SG&A expenses increased 220 bps to 29.7%.

- **Declining Y/Y Sales Trend a Worry:** In fourth-quarter fiscal 2019, J. C. Penney's top line deteriorated 7.7% year over year. The metric had declined 8.5%, 7.4% and 4.3% in the fiscal third, second and first quarter, respectively. Also, total quarterly net sales fell 7.7% year over year owing to a soft comps performance. We note that the company had made aggressive promotions to liquidate slow-moving and aged inventory in the year-ago quarter. Comps in the quarter declined 7% year over year. This can be attributed to the company's exit from major appliance and in-store furniture categories, which impacted comps to the tune of 230 bps. Excluding these exits, adjusted comps declined 4.7% in the quarter under review. We note that the company made aggressive promotions to liquidate slow-moving and aged inventory in the year-ago quarter. Persistence of such trends is hurting the company's profitability. Moreover, J. C. Penney has repeatedly failed to bring fashionable and trendy brands, thereby losing customers. Consequently, management issued a dismal comps view for fiscal 2020, calling for a decline of 3.5-4.5%.

- **Debt Analysis & Other Issues:** Although J. C. Penney's long-term debt (including operating lease liabilities) of $4,682 million as of Feb 1, 2020, shows a sequential decline of 8.6%, its debt-to-capitalization ratio of 0.86 is much higher than that of the industry's 0.60. Again, the company's "times interest earned" ratio of 0.1 is far below that of the industry's ratio of 2.5. Undoubtedly, the company has been grappling with dwindling revenues and the pandemic has just made the situation worse for the retailer. The company has furloughed its staff, curtailed spending, extended vendor payments and canceled orders to save money. In April, Moody's downgraded J. C. Penney's Corporate Family Rating to Caa3 from Caa1 and its Probability of Default rating to Caa3-PD from Caa1-PD. The credit rating agency also downgraded the company's senior secured ABL Revolving Credit Facility to Caa1 from B2, its senior secured term loan and senior secured notes to Caa2 from B3. The rating outlook for J.C. Penney has been revised to negative from stable. According to Moody's, the company's EBITDA could fall more than 80% in fiscal 2020, per reports.

Last Earnings Report

J. C. Penney Posts Q4 Earnings Beat

Quarter Ending	01/2020
Report Date	Feb 27, 2020
Sales Surprise	1.48%
EPS Surprise	262.50%
Quarterly EPS	0.13
Annual EPS (TTM)	-0.81

J. C. Penney reported better-than-expected results for fourth-quarter fiscal 2019. We note that both revenues and earnings declined year over year. Also, the company continues to witness soft comparable store sales (comps). Management issued a dismal comps view for fiscal 2020, calling for a decline of 3.5-4.5%.

Nevertheless, some of the highlights of the fourth quarter include improvement in cost of goods sold and gross margin expansion. Notably, gross margin expanded 200 basis points (bps) in fiscal fourth quarter, marking the third straight quarter of significant growth. Management expects strength in the women's apparel business to continue. Moving on, the company's turnaround efforts, including the implementation of Plan for Renewal, bode well.

Let's Analyze the Results

The company posted adjusted earnings of 13 cents in the fiscal fourth quarter against the Zacks Consensus Estimate of a loss of 8 cents. However, the reported figure showcases a decline of 27.8% from 18 cents earned in the year-ago quarter.

Total revenues (including total net sales, and credit income and other) in the quarter were $3,493 million, down 7.7% from the prior-year quarter. However, the metric beat the Zacks Consensus Estimate of $3,442 million. This marked a sales beat after three consecutive quarters of a miss. Moreover, total quarterly net sales of $3,384 million fell 7.7% year over year owing to soft comps performance. We note that the company made aggressive promotions to liquidate slow-moving and aged inventory in the year-ago quarter.

Comps in the quarter declined 7% year over year. This can be attributed to the company's exit from major appliance and in-store furniture categories, which impacted comps to the tune of 230 basis points (bps). These exits were carried out as part of the company's turnaround initiatives to focus on profitable areas. Further, adjusted comps declined 4.7% in the quarter under review.

Nevertheless, six of the company's eight merchandize divisions' comps improved in the second half of fiscal 2019 over the first half. Further, credit income and others totaled $109 million, down 9.9% on a year-over-year basis.

Cost of goods sold was $2,257 million, down 10.4% from the prior-year quarter's figure. As a percentage of net sales, the metric improved 200 bps to 66.7%, courtesy of improved shrink performance and higher enterprise clearance selling margins from lower permanent markdowns as well as the exit of major appliance and in-store furniture categories this year.

Furthermore, adjusted EBITDA fell 8.6% to $243 million. However, SG&A expenses dropped 0.2% to $1,005 million. We note that the company realized savings in controllable expenses, which compensated higher incentive compensation and home office lease costs. As percentage of net sales, SG&A expenses increased 220 bps to 29.7%.

Other Financial Details

J. C. Penney ended fiscal 2019 with cash and cash equivalents of $386 million compared with $333 million in the year-ago period. Meanwhile, long-term debt was $3,574 million, down 3.8% from the year-ago quarter's figure. Shareholders' equity totaled $829 million at the end of fiscal 2019. Merchandise inventory levels declined 11.1% to $2,166 million.

During fiscal 2019, the company repaid debt of $97 million, which included $50 million of unsecured notes paid at maturity. The company had free cash flow of $145 million in fiscal 2019. Further, during this period it incurred capital expenditure of $309 million.

Store Update

J. C. Penney ended fiscal 2019 with 846 stores. Of these, roughly 72% are mall-based while the balance 28% is off-mall locations. Moreover, the company closed 18 full-line stores this fiscal.

During the next fiscal, management expects to shut down a minimum of six stores. Including these stores, the company has shuttered 173 stores since the start of fiscal 2017.

Outlook

Management issued a view for fiscal 2020, which includes the impact of the currently-imposed China tariff but excludes the effect of coronavirus. J. C. Penney projects an improvement of 100-130 bps in cost of goods sold (as a percentage of net sales), which is likely to result in gross margin expansion by an equivalent basis point. Depreciation and amortization is likely to be roughly $515 million for fiscal. It anticipates net interest expense of about $290 million.

Moving on, the company expects adjusted EBITDA growth of 5-10% over $583 million recorded in fiscal 2019. Management estimates positive free cash flow for the fiscal year. Capital expenditures for fiscal 2020 are forecasted at $300 million.

Recent News

J. C. Penney Enters Restructuring Support Agreement - May 16, 2020

J. C. Penney entered into a restructuring support agreement (“RSA”) with lenders holding roughly 70% of its first lien debt to lower outstanding indebtedness. This is expected to reinforce its financial position. The RSA is based on terms for a pre-arranged financial restructuring plan, which is likely to aid the company lower debt and boost financial flexibility amid the coronavirus crisis as well as position the company for long-term growth.

For the implementation of the aforesaid plan, J. C. Penney has filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code. Notably, the company received approvals from the Court for the ‘First Day’ motions with respect to the company’s voluntary Chapter 11 petitions. Also, J. C. Penney obtained approval to access and utilize roughly $500 million in cash collateral. Moreover, the Court has authorized J. C. Penney to continue paying non-furloughed employees’ wages, some benefits to all its associates and pay vendor partners for the goods and services provided on or after the Chapter 11 filing date.

Meanwhile, J. C. Penney is looking to seek authorization at its second day hearing in order to access $900 million in debtor-in-possession (“DIP”) financing. The company received DIP financing from its current first lien lenders. Driven by the DIP commitment from its existing lenders, the company will continue to cash in on opportunities to maximize value, with a third-party sale process.

Valuation

J. C. Penney shares are down 83.8% in the year-to-date period and 84.2% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 65.6% but those in the Zacks Retail-Wholesale sector is up 6.1% in the year-to-date period. Over the past year, the sub-industry is down 71.6% but the sector is up 17%.

The S&P 500 index is down 8.2% in the year-to-date period but up 3.8% in the past year.

The stock is currently trading at 0.01X forward 12-month sales, which compares to 0.12X for the Zacks sub-industry, 1.06X for the Zacks sector and 3.34X for the S&P 500 index.

Over the past five years, the stock has traded as high as 0.28X and as low as 0.01X, with a 5-year median of 0.09X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $0.25 price target reflects 0.01X forward 12-month sales.

The table below shows summary valuation data for JCP

Valuation Multiples - JCP

		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	0.01	0.12	1.06	3.34
	5-Year High	0.28	0.69	1.11	3.44
	5-Year Low	0.01	0.1	0.8	2.53
	5-Year Median	0.09	0.4	0.93	3.01
P/B TTM	Current	0.07	0.47	6.89	4.03
	5-Year High	2.9	3.4	6.89	4.56
	5-Year Low	0.08	0.36	3.6	2.83
	5-Year Median	0.95	2.11	4.89	3.65
EV/EBITDA TTM	Current	8.35	4.49	17.39	10.91
	5-Year High	13.76	7.98	17.39	12.86
	5-Year Low	4.15	4.27	10.91	8.26
	5-Year Median	8.7	6.19	12.58	10.78

As of 05/18/2020

Industry Analysis **Zacks Industry Rank:** Top 31% (80 out of 254)

Top Peers

Company (Ticker)	Rec	Rank
Costco Wholesale Corporation **(COST)**	Neutral	3
Dillards, Inc. **(DDS)**	Neutral	3
Dollar General Corporation **(DG)**	Neutral	3
Dollar Tree, Inc. **(DLTR)**	Neutral	3
Kohls Corporation **(KSS)**	Neutral	3
Macys, Inc. **(M)**	Neutral	3
Target Corporation **(TGT)**	Neutral	4
Burlington Stores, Inc. **(BURL)**	Underperform	5

Industry Comparison Industry: Retail - Regional Department Stores

Industry Peers

	JCP	X Industry	S&P 500	DDS	KSS	M
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	A	B	B
Market Cap	58.39 M	1.68 B	20.09 B	654.06 M	2.92 B	1.68 B
# of Analysts	3	6	14	5	9	7
Dividend Yield	0.00%	1.13%	2.1%	2.27%	14.96%	0.00%
Value Score	A	-	-	A	A	A
Cash/Price	5.09	0.43	0.07	0.43	0.27	0.42
EV/EBITDA	7.61	3.95	12.13	2.41	3.97	3.93
PEG Ratio	NA	17.64	2.72	NA	17.64	NA
Price/Book (P/B)	0.07	0.40	2.75	0.40	0.54	0.26
Price/Cash Flow (P/CF)	0.20	1.75	10.86	1.98	1.75	0.89
P/E (F1)	NA	141.15	20.10	NA	141.15	NA
Price/Sales (P/S)	0.01	0.10	2.05	0.12	0.15	0.07
Earnings Yield	-944.44%	-21.94%	4.77%	-34.10%	0.69%	-9.78%
Debt/Equity	5.65	1.05	0.76	0.37	1.07	1.03
Cash Flow ($/share)	0.90	6.12	7.01	13.37	10.77	6.12
Growth Score	A	-	-	B	B	B
Hist. EPS Growth (3-5 yrs)	NA%	-1.84%	10.87%	-7.68%	7.34%	-1.84%
Proj. EPS Growth (F1/F0)	-112.91%	-108.36%	-10.31%	-316.64%	-97.26%	-118.31%
Curr. Cash Flow Growth	10.38%	-10.84%	5.51%	-16.01%	-10.84%	-15.88%
Hist. Cash Flow Growth (3-5 yrs)	28.85%	-3.55%	8.55%	-10.66%	-0.78%	-6.32%
Current Ratio	1.41	1.55	1.28	1.99	1.68	1.18
Debt/Capital	84.96%	51.18%	44.46%	26.96%	51.74%	50.63%
Net Margin	-2.40%	-0.01%	10.59%	-2.31%	3.46%	2.30%
Return on Equity	-27.83%	3.00%	16.29%	-8.18%	14.17%	14.47%
Sales/Assets	1.34	1.34	0.55	1.56	1.35	1.15
Proj. Sales Growth (F1/F0)	-4.86%	-17.35%	-2.49%	-20.93%	-15.55%	-19.14%
Momentum Score	A	-	-	F	F	F
Daily Price Chg	-23.02%	2.25%	5.21%	2.44%	7.30%	2.07%
1 Week Price Chg	39.00%	-2.37%	-4.56%	-8.53%	-3.63%	-1.12%
4 Week Price Chg	-27.27%	5.45%	4.12%	7.38%	10.32%	2.07%
12 Week Price Chg	-73.74%	-55.27%	-16.39%	-54.17%	-56.36%	-64.92%
52 Week Price Chg	-84.18%	-61.98%	-5.84%	-53.87%	-70.08%	-74.88%
20 Day Average Volume	57,515,796	5,858,579	2,651,378	854,340	10,862,818	34,677,576
(F1) EPS Est 1 week change	11.10%	-23.21%	0.00%	-179.17%	-46.43%	0.00%
(F1) EPS Est 4 week change	10.07%	-223.41%	-4.48%	-1,566.79%	-91.35%	-355.48%
(F1) EPS Est 12 week change	-95.34%	-109.42%	-16.39%	-331.34%	-97.06%	-121.78%
(Q1) EPS Est Mthly Chg	80.49%	-128.30%	-9.90%	-96.89%	-159.70%	-177.17%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	A
Momentum Score	A
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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