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EDITED TRANSCRIPT

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PRESENTATION

Mike Ullman *- J.C. Penney Co., Inc. - CEO*

Good morning, welcome. We are glad you are with us today.

We have a very full morning plan. You're going to hear from nine speakers, so the pace will be quite quick.

So the last few years people have sometimes asked, why JCPenney? What makes JCPenney different and important in the fundamentally changing retail landscape, not only for today's highly competitive environment but for increasing digital future as well?

After 18 months of extremely hard work getting the Company back on track and moving in the right direction, we are delighted to be in a position today to answer that question and share some of our long-term goals as well as our plans for restoring sustainable profitable growth. Our goal is to earn a market position of loyalty beyond reason, to become the preferred shopping choice for middle America. That's what JCPenney should be and we see a great deal of opportunity for growth under that strategy.

At a high level here is what we are going to do today. We are going to lay out our customer proposition, the fundamental elements which uniquely offer the customer and how we communicate with them. That's the foundation that makes us a strong competitor in the marketplace.

Then we will take you through our key incremental growth initiatives, how we are going to grow our top line. Then you'll hear about our financial position and our objectives including how we expect to continue to drive sales and margins while keeping our costs down.

Finally, many of you will be heading over to the Brooklyn Gateway store. You will see some of the new elements we will be discussing with you this morning firsthand.

So with that I would like to take a few minutes to tell you about the state of the Company as I see it, in terms of our own performance and the environment in which we operate. I came back to JCPenney exactly 18 months ago today. What I believed then was the Company was down but not anywhere near out.

And no one could keep us down. We are back. We are driven and we are once again competing effectively.

We have made significant progress in the phases of our turnaround. We needed to move quickly to stabilize and strengthen our financial position and we accomplished that. We were back in stock in key items and in the business of offering great brands with compelling promotions and we are definitely back in the consumers' mindset.

We have restored and enhanced our private brands, which are integral to making the JCPenney customer a destination and delivering strong margins for the Company. We discontinued a number of brands and merchandise that clearly didn't resonate with the customer. We re-merchandised and relaunched 505 Home Stores.

There is still much work to be done in this business, as Liz Sweney will discuss later on today. Considering where we were almost out of business 18 months ago in Home, the turnaround has been strong and consistent and we continue to believe there is significant opportunity here for additional improvement.

We have garnered the strong support from our suppliers including those that source our products in Asia. As you know, this has been a historical strength of JCPenney.

We have built our dot-com business and the organization to restore a very positive trajectory. JCP.com is back and growing each quarter.

Then there's the broader omnichannel strategy. You are going to hear this morning a great deal about it. Omnichannel is critical to our growth and we are very excited about the opportunities we have to better serve customers and drive sales to our omnichannel capabilities.

We have also reinvigorated our marketing. Today the customer knows that we like her, we want her here and we have the merchandise she and her family need as well as the value and promotions that allow her to afford it. Because of these actions our core customers have returned.

As a matter of fact in July we had virtually the same number of active customers we had in 2011. We will discuss that more this morning. We are proud of that, particularly in the overall environment as we will discuss in a moment.

Another crucial part of our turnaround has been the strengthening of our leadership team. It is our Executive Board, as we call it. As you will see today we have an exceptional senior team in place.

The group is experienced, knowledgeable and aggressively focused on restoring growth and profitability by doing what is right for our customer. We are all working together closely not only to develop and execute our customer proposition but also to ensure our cost structure is in line with our plans for the future.

With the foundational work of the turnaround behind us we are entering a new phase, one marked with a focus on sustainable profitable growth. We are taking steps both large and small to continue to evolve JCPenney to reflect how customers shop. Because how customers shop is changing in real time through not only the advent of new technology but also the speed at which fashion is changing, the cycle which promotions happen and so much more.

Retail is not the industry it was five years ago or even one year ago. The smartphone is getting smarter and the tools we have at our disposal to serve the customer are getting more complex. But it is not just technology.

For many years apparel and fast fashion were the focus of our industry. Fast fashion is here to stay and the speed is only accelerating. But apparel is met in importance by center core, shoes, beauty and accessories.

You are going to hear that today as we are meeting customer demand for the very strong offering in these areas. With all that said our customers' needs have not fundamentally changed. They need to dress their family and themselves, make a comfortable home and celebrate holidays and occasions all within a budget that has very little cushion.

We've all seen the reports that despite the fact that consumer confidence is increasing, consumer spending is still flat. And it is not clear when this will change. Moderate wage growth and a desire to increase savings are certainly at play here.

We are fortunate that given our size, history and the dramatic improvements we've made over the last 18 months we continue to count half of America's families as our customers. That speaks to our mission, which is to be the preferred choice for all the categories we offer. We are there, people know us, they shop with us, we need to increase the share of wallet they spend with us.

Here's how we believe to do that. First and foremost, we have to live up to our customer proposition.

Let me outline the components of our customer proposition. First, 50% of our assortment needs to be our compelling private brands.

Second, national brands. We have an outstanding representative of some of the most desired brands in the country, brands like Nike and Levi's and many many more.

Importantly, third, are exclusives and attractions. These are reasons to come uniquely to JCPenney. Sephora inside JCPenney, Modern Bride, MNG by Mango, Call It Spring by Aldo and others, there are many good reasons to visit JCPenney.

We will become a leader in omnichannel for the middle American customer. We have the functionality our customer wants and needs and it is only getting better. We are committed to digital excellence to make sure our mobile experience is quick, easy and fun and make customers lives more convenient.

And finally, there's our customer experience driven by our associates. The numbers tell us that we can never be taken for granted. Given what we've been through as an organization, our associate engagement scores are truly incredible.

We will spend the first part of our day together talking to the components of our customer proposition and how it sets the foundation for the next phase of our sustainable profitable growth. Today we will also introduce a range of growth initiatives. These will enable us to increase our share of the customer's wallet, attract new customers and people who appreciate the unique blend of style, quality and value that we offer.

The first big growth initiative is our center core. Going back to what I said earlier, fashion accessories, beauty, footwear, intimates, these are more critical than ever as part of our assortment. These emotive categories drive up more trips, more cross shopping and to shop more often.

So in addition to opening new Sephora's in our stores, we are turning our center core section into hubs of fashion, style and fun with a focus on intimates, footwear, fashion and fine jewelry and women's accessories. For those of you visiting our new Brooklyn Gateway Store today and those of you who have seen it already, I encourage you to take a look specifically at the center core as an example of how the changes are going to be coming in the future.

The second growth opportunity is our Home Store. In short, this part of the store needed to be overhauled. The model that was established two years ago just simply was not the right one for our customer.

And we've made enormous strides in not only addressing these issues but in rethinking Home and what are customer really wants today. Merchandise ordered by classifications with strong promotions and brands that they know and love.

It is important to understand that while we've made great progress in Home there's still a lot of room to grow here. Big productivity and sales improvements are indeed possible.

And finally the third growth initiative is our omnichannel engine for growth. The teams are working with intensity and focus to leverage our omnichannel strengths and generate an omnichannel opportunity that sets us apart from the other mid-tier operators in this space. We intend to deliver a seamless shopping experience across all channels and devices.

We also give you some insight into our most important asset, our people. They are the driving spirit to fight, they have a spirit to win and to have fun while they are doing it.

Last summer we began celebrating the warrior spirit that has invaded our Company. I suggest you not take it lightly.

Turning around a ship like JCPenney can't happen from the top down. It is our warriors on the ground that have made it happen.

So before I wrap up I want to look forward to hearing about the Company's financial objectives especially sales and profit and opportunities for JCPenney going forward. Our CFO, Ed Record, will share all of that including the key drivers to enhance our sustainable profitability and growth EBITDA as we work to create significant value for our shareholders. After that there will be an opportunity for us to answer questions.

So let's get started. First I'd like to introduce our chief marketing officer, Deb Berman.

Deb joined us about 15 months ago from Kraft. She is a marketing strategist. And what she really offered us was an opportunity to balance how we looked at our customer, how we understand our customer with the sales promotion that our customers expect.

Deb has made a huge impact and she is going to share some of her ideas with you. Deb?

Deb Berman - *J.C. Penney Co., Inc. - SVP, Marketing*

Good morning, everyone. I thought today there's a lot I could share but I would focus on how we are reconnecting with our customer after a period of time that you all know prompted such an outcry against JCPenney for having changed.

You have probably either experienced this for yourself firsthand or at least heard this expression of there being a fine line between love and hate. We know that that exists when you remain invested in that very thing that you are busy hating because you actually have deep feelings of love.

This is what came to JCPenney as our customers remained invested in JCPenney. And now we've been able to tap this passion once again and turn it in JCPenney's favor.

As a result, we are moving on. We realize that the path to recovery was to recognize that what we really had on our hands was an issue of trust, of broken trust. And like any good marriage counselor will tell you the path back is going to start with reclaiming intimacy, in this case customer intimacy.

And that starts with listening. So we set out listening to our customers in a way that is unique for retailers and then we let our customer as muse direct our marketing. As a result, we successfully are moving on from filling the funnel with customers to now assuring that they repeat.

We are connecting to their motivation to drive that next visit. And with our very best customers there's opportunity for growth in building basket. The value proposition for JCPenney has now been restored and is consistent across the store which helps us move our customers and engage them in the cross-shop opportunity that exists throughout the store.

So we are listening to our customers. She directs our marketing, she is multicultural, she has two little kids, too little time and too little money and she deserves to be included and supported. And this is a change in events for JCPenney of the chapter that just preceded us.

So once we knew how we were connecting to her we did the hard work of looking at our self, rethinking our history in the context of the present. We are proud to be asserting what has always been true for JCPenney, which is JCPenney is distributed across America because JCPenney has always flexed with the changing American landscape. This empathy is once again present in our products, in our promotions, our messaging.

So we like to say we are fitting the diversity of America's shapes, colors, wallet, styles and occasions, this is our right to win. Internally we say fit is our superpower. Every part of our capacity to deliver on this is delivered throughout the organization and grounded in the golden rule that our Company was founded on.

We say we fight to fit others as we wish to be fit ourselves. We hold the whole business accountable with competitive advantage in our design and in our merchant organization. There will be no gap between trend and quality that the customer demands.

As a result, we appeal to the value-minded customer; whether her budget is big and bold or constrained, she is wise with her money. Now there is a lot of marketing voodoo and clarity of course that goes into getting to this in this moment but what helps you move fast is when the principle that drives it is so so clear and the principle that drives us every day is that our marketing should greet, respect and thank our customer.

So our imagery and our messaging are statements of respect as are our promotion strategy that puts goods at price points that are accessible. And of course, a loyalty program that knows how to say thank you.

We aim to do what Marilyn Monroe suggested, give a girl a great pair of shoes and she will conquer the world. This is a path back to being a lovemark. This is work of insights-driven marketing; this is very different than others who compete in our sector.

It understands that at the end of the day the customer when things don't fit her, whether it's clothes on the proportions of her body or a gift that she is giving, she blames herself. She has friction in the world around her, but when things do fit she will slay the day.

The story is told through messaging, merchandise store associates and price points quite simply that are seeking to earn the customer saying wow, she loves us, have to love her back. We hold all of the business accountable for it and it is the simplicity of that and this truthfulness of that brand connection that has allowed JCPenney to move so quickly in such a short period of time to reengage our customer.

On behalf of our customers we fight for fit and fashion coming together. We remind ourselves that we don't let body size or budget be a barrier on any given day for our customer.

So what I have done is I have thought the best way to bring that to light, you are going to see and experience a lot of that in the store, but to bring that customer experience we have pulled together some video for you. And I would like to share that with you now.

(video playing)

Mike Ullman - *J.C. Penney Co., Inc. - CEO*

As you can see, Deb and her team are doing a great job of balancing, understanding the customer and fitting her lifestyle to the promotion she values. So we are now going to move into our customer proposition as we start with merchandising.

I want to introduce Ken Mangone. Ken with almost 40 years experience at JCPenney left the Company during the change in strategy. And the first phone call I made after I was asked to come back is to call Ken and say we need you to come back. We only invited several people back and Ken was one of the most important rehires.

Ken is responsible for building our design capability. We have hired about 200 designers over the last five or seven years. And that design team is really what has differentiated our private brands from just being a labels.

And Ken also has responsibility for all our sourcing all over the world. So he's got a big responsibility, a big team but we think the value and style and quality we deliver is superior to anybody else in the industry. So, Ken, welcome and share what you are doing.

Ken Mangone - *J.C. Penney Co., Inc. - EVP, Product Development, Design and Sourcing*

Good morning. I get to spend a few minutes with you and talk to you about some of the initiatives of what we have done to actually restore the private brands and actually even enhance those.

So as many of you know, it's been a big part of JCPenney's heritage. If you think back actually this is the year where it is the 100th anniversary of the first private label. And that was Marathon Hats, which you see in the slide that Mr. Penney started.

And at the time there was a business reason for private labels. There were some brands that the Company didn't have access to.

So to get the right products in the store at the quality level that we were looking for we started to do some private-label business. You can see some of those labels through the years really were part of JCPenney's heritage.

So what happened then is the world changed, obviously, and we got into the 1990s and specialty stores were developing vertical brands as well as the wholesale market, which was there. But then this whole vertical integration happening at retail started to drive us to the next point.

So how did we use this capability we have in sourcing and product and enhance that capability to create a vertical organization? So we added product management, we added sourcing centralization, we added design. So that's really what forms the JCPenney private brand organization today.

The big mission is to deliver style, quality and value. We will tell you a little bit about how we are doing that as we go through.

So part of this I going to do you the why, which I am doing now. We're going to show you later the how so you can see the capabilities that the Company has, which is an advantage for us.

The other thing we did was we had to start to target and build brands, brands that customers actually prefer. So we built brand profiles targeted to brand lifestyles. So we treat these brands as something that is precious, you want to build equity in, because they are consistent and the customer knows they can count on Worthington for career wear, or Stafford for men's tailored clothing.

So they are very focused and very pointed in terms of how we strategize, develop and designers. Ultimately then, too, because you are doing a vertical operation, you get a gross margin advantage. So we are sourcing these goods on our own, we are designing them, we are specifying them, so that gives us the capability to drive a higher margin.

So we assign design teams by brand. We want our teams to think about their brands, understand the consumer's lifestyle. In some cases the design team is actually much like the lifestyle, in other cases they are not but their job is to observe, understand, do research and understand what the customer wants for that brand.

It is also very collaborative process. So it is integrated through the vertical part of the organization of design, sourcing, brand management but also with the merchants. So the merchants can really set up and they do set up a strategy with the design team on what they are trying to accomplish for that season.

Designs bring in the trend ideas, they bring in the new ideas in. And the merchant's sitting there and trying to figure out how they're going to manage those and what the big ideas are how we are really going to get those together. And then sourcing goes out and finds the best place to make them and get the best cost on them.

Also we are integrated with suppliers. We narrowed our matrix several years ago so that we have key suppliers that really are deep into understanding our business.

They understand our brands, they are partners with us, we actually sit down and develop business plans together, talk about country of origin. So there's a very organized approach to each brand to understand how it is going to really execute the best for the Company and the customer ultimately.

We also have the ability to develop exceptional value. So when there is a hot category that we want to really drive business in we want to get something that is really a disruptive kind of value into the market by planning ahead, working with the merchants team design and sourcing we can really get some incredible values, and that is part of the structure of the brands as well. So we can drive a lot of units out there, get the brand out there without compromising the quality and the value and the style.

And then the execution piece is also a very important part of it. We have to execute consistently when you have this much going on with this many brands, this many suppliers.

It's a very strong organization that has to really do that. I will tell you about that in a minute.

The other thing is compliance and quality. JCPenney has had a long history of quality products dating back to even J.C. Penney himself. He was actually testing products in his hotel room, washing out fabrications to see how they would actually do after laundering.

As that evolved through the years we had a very good core competency in the testing and the quality control and it is again part of the heritage of our business. Today things are changing. The world is changing.

There is factories in new countries coming up. There is a due diligence process that we go through to make sure those factors are compliant and make sure that everything is up to standards for both legal as well as our principles to how we do business with suppliers.

And then the product testing and audits, we actually last year did 2,800 factory audits between the social audits, the factory assessments and the security audits. We did 30,000 inspections of our product. Everything gets inspected before it leaves the country of origin, and we did 15,000 product tests to make sure that the product was going to really not disappoint the customer and live up to the quality standards that we set.

So that rigorous inspection is important. How do we do this? In the sourcing organization we have eight offices globally in addition to Dallas.

These are owned offices. We've been doing it for 55 years, so since 1959 we've been importing products around the world. Those owned offices give us a great advantage.

First of all, the priority is only for JCPenney product to make sure that we are actually living up to the standard and their focus is on JCPenney. Secondly, owning those offices with the competency we have with many experienced people over the years gives us a very deep insight into the relationships of the suppliers as well as understanding what is going on with the world and how it is changing.

Now the other piece of it is lower cost structure. If you use an outside agency the cost structure is typically higher than what we would be looking at internally.

So it is a big competitive advantage for us. You will hear a little bit about that later on.

And then the partnership with suppliers, we work with suppliers like they were sitting here in New York or in Dallas. Just because it's a global organization doesn't mean that we don't communicate consistently and keep them very close to us.

So we treat those suppliers as partners. They've been partners with us, and as Mike said they have really supported us as well.

And also we have direct visibility into compliance. As we talked about a minute ago, this is a really big issue today and it is very near and dear to our hearts in terms of how we ensure that we are compliant.

So, I think that kind of covers the whole organization. I think the thing that I would like to do now is we have a brief video to show you how the teams actually work together. So we talked about the why but I think they can tell you better than what I could even tell you as to how we do it.

(video playing)

Mike Ullman - *J.C. Penney Co., Inc. - CEO*

As Ken said, our product development teams are totally integrated with our merchandising teams and our two biggest businesses are women's apparel and men's apparel.

Siiri Dougherty has been with JCPenney 12 years, joined us from The Limited. She has a very talented team that covers the entire range of women's apparel.

John Tighe joined us 12 years ago from Filene's. He runs our men's business, which has also been quite successful.

So they continue to add to the customer proposition. And they are going to talk about our private brands from their perspective.

Siiri Dougherty - *J.C. Penney Company, Inc. - SVP, GMM, Women's Apparel*

Think you, Mike. Good morning.

So women's apparel represents more than 25% of the total Company sales. And private brands account for two-thirds of the women's apparel business.

They also deliver gross profit that is 300 to 400 basis points higher than their national brand counterparts. So not only are they important obviously from a business perspective but they also provide a significant competitive advantage.

There are more than 30 million women's customers who shop JCPenney. And what they expect from us in simple, great style, brands they love, all at exceptional value. And private brands help ensure that we deliver these expectations.

It is no secret that the women's apparel industry can be very volatile and who is winning constantly changes. Specialty stores and department stores represent the largest segments of the industry at 70%.

So private brands give us the leverage to compete within our own department stores set as well as within the larger specialty store said. In fact, out of the top 20 brands for women 15 of them are specialty store brands.

So on the competitive front we are constantly evaluating our brand portfolio across lifestyles as well as pricing tiers. And when we do see an opportunity we can either distort one of our existing brands or in some cases even create a new one.

For example, at the entrance to our store we have our two big modern brands. We have Worthington for our modern career women and for her more casual side we have A&A. We have our beloved St. John's Bay for the more traditional casual woman.

And to compete with youth denim retailers we have got our highly recognized brand, Arizona. And when the influx of the acid brands started several years ago we recognized an opportunity in our assortment and worked very closely with our design and sourcing partners and created our very own brand, Xersion, which has been widely received and has been a huge success.

Women make their purchasing decisions on three primary factors. First on value, second on style and third on quality.

And the video you just saw did a great job illustrating how our private brands really allow us to deliver on these three attributes and brands that she loves. We offer style that is authentic and exclusive as it is designed by our internal design team and an in-store experience that is unique to each brand. With our sourcing capabilities and expertise we are able to offer tremendous value at unsurpassed quality.

And since we control the pricing of the goods, the timing of the markdowns and the distribution of the merchandise it allows us to maximize our profit. So essentially I would say private brands allow us to control our own destiny but more importantly the customer views them as real brands and not labels.

John Tighe *- J.C. Penney Company, Inc. - SVP, GMM, Men's Apparel*

Good morning. The men's business at JCPenney is very important. It is almost 25% of the store sales.

And men at JCPenney is also important to the industry. We own the number four marketshare at 4.4% and growing.

And men trust JCPenney. The customer loves coming to our store for their unique assortment of national brands and private brands.

How do men shop? We like to say JCPenney that men are hunters not gatherers and they enjoy our assortment that has everything from socks, suits all the way to activewear. They can come in and get everything for the wardrobe.

We merchandise the store he likes. Some things are by shop like important brands like St. John's Bay and Arizona where they can come in and see the full lifestyle affect. Or they also go to classifications where they can find everything in that one zone whether it's the full assortment of dress shirts, underwear or men's suits.

He also likes brands and our private brands are true brands and we treat them as such. We execute to specific profiles and to customer needs and really from the start of the development all the way to writing orders. Private brands and men's represents 50% of our business and direct sourcing allows us to offer unmatched quality, style and value that we can really control great margins also.

For example, the clothes that I am wearing today -- this suit is a Stafford suit, a Super 130s yarn and 100% wool for under $150. The dress shirt I am wearing is 100% cotton no iron dress shirt from Stafford and 100% silk tie.

You can buy all three for less than $175 at JCPenney. Direct sourcing allows us to have that ability to deliver that kind of value and at great quality.

The end-to-end process that we call from start to finish allows us to have tremendous flexibility in the supply chain. If business is good we can go get more, if we need to back off we can pull back, or if we need to change the assortment we can because we have full flexibility and visibility to the whole supply chain.

We also capitalize on very hard to do and unique opportunities. For example, in our men's clothing department we offer everything from a 36 slim suit all the way to a size 60. And some of those things are just online but they are opportunities that allow us to cater to our customers' needs.

In fact, online 40% of the men's business done in unique or special things that are not available in the store but we help the customer get there by having the assortment. So what are our private brands?

Stafford, which is traditional tailored clothing and furnishings, it is the fourth biggest tailored clothing brand in the United States. And it is merchandised that classification; all suits are together, all dress shirts are together, all ties are together.

JF J. Ferrar is our modern lifestyle brand for the millennial. The average age for the JF guy is 34 years old and year to date it is running up double digits. Great suits at amazing value for young guys who are dressing up.

We are also relaunching sportswear this fall. And it is in the store that you will see this afternoon in Brooklyn.

Next we have Arizona, which is merchandise in a beautiful shop, as you see a picture here and you will see again in Brooklyn. It is our denim youth brand. It is merchandised as a shop I described and we really compete with the youth specialty stores -- and great value and style.

And of course there is St. John's Bay, which is for our traditional casual customer it is a customer favorite. And you can see here our shop and you'll see it again in Brooklyn.

And lastly I'm going to talk about the Foundry Supply Company. JCPenney owns the number two market share in the big and tall business in the United States. And we execute a beautiful lifestyle casual brand called the Foundry Supply Company that offers, again, great value that is designed specifically for the big and tall man.

Okay. Thank you.

Ken Mangone - *J.C. Penney Co., Inc. - EVP, Product Development, Design and Sourcing*

Thanks John and Siiri. So I think we gave you an overview of kind of what is happening but what we are really excited about is product.

That's what we do, that's what we sell, that's what we are in love with. So we are going to take a few minutes and treat you to a fashion show of fall and holiday goods that are in the stores, or coming into the stores now and kind of give you an overview of really how this all comes to life.

(Live Fashion Show)

Mike Ullman - *J.C. Penney Co., Inc. - CEO*

It is a key opportunity for us. We believe we have a very strong position in the marketplace, particularly in the mid-tier by designing our own brands. This doesn't happen without a lot of leadership.

I would like to introduce the guy who is the architect of building our design team over the last seven or eight years, Geoffrey Henning. Geoffrey, I know you didn't plan to come out here but this is Jeffrey Henning, our Vice President of Design.

The conventional wisdom was that the best design students wouldn't come to Dallas. The fact is we get kids from SCAD, from FIT, from Parsons, from Cincinnati, Rhode Island School of Design. Pretty much everybody that has great graduates we retain them, we put them to work right away.

As opposed to being on 7th Avenue they may take four or five years to get into key design positions, our kids work in merchandise teams right away. And Geoffrey makes that all happen with a very talented team. So thanks a lot Geoffrey.

So we're still talking about our compelling customer proposition. We have talked about our private brands, and we are now going to talk about our national brands.

Before I do that I want to introduce Liz Sweeney. Liz has been with the Company 14 years coming from Kellwood. It is not just that Liz has been here 14 years, she was really the architect of centralizing merchandising at JCPenney when we changed completely from a completely decentralized model back around year 2000 and she has been also one of our great developers of people.

We have seven GMMs. You're going to see all of that in the store this afternoon. Half of them have been in their job less than two years so it is an important initiative to obviously getting back into our business is to get great talent at those positions.

We have recruited several from the outside and promoted several from the inside. But Liz does a terrific job and she is going to share our national brand strategy.

Liz Sweney - *J.C. Penney Company, Inc. - EVP, Chief Merchant*

That's great. Thank you, Mike. Good morning, everyone.

Well, first of all I hope you enjoyed the fashion show. It is just really a small selection of our great styles for fall from our private brands.

And I should just note that hair and make-up was done by Sephora inside JCPenney as well as our great salon did the hair. So I think they did a great job.

And I hope you took away from that last session, from both Ken and John and Siiri, that merchandising and design and sourcing teams are completely aligned to deliver style, quality and value to our customer. And I'd also like to just point out one other organization, which is our planning team and it is led by Frank Lucania. They are wonderful business partners to the merchants.

So you did have an opportunity to meet Siiri and John. They do run the two biggest businesses in our store as our GMMs and as Mike said all seven GMMs will be on the Brooklyn tour. They are conducting the tour today and I think you'll find them a knowledgeable group.

So with that we are going to move on to our national brands. And JCPenney offers the most wanted and expected national brands with the best presentations and assortments both in-store and online.

And we support it with very impactful marketing. Our national brand partners are really pleased with our performance and they are incredibly supportive as we work together to drive sales and profit.

Now our commitment to our brand suppliers is to have the best representation of the brands that our customers want and expect. It is important that we fit her wallet, her style, her occasion and her size. Our merchants keep a really -- keep our customer in mind as we develop a highly edited assortment.

And this editing of the assortment allows us to develop the right space and location for each of the brands both in our stores and online. And I will just tell you during our toughest times our national brand suppliers were so supportive of JCPenney. We have long-term relationships and partnerships with our national brands and we work together to grow our business.

One of our largest national brand partners is Levi's. Levi's is the number one men's jeans brand and our shops shown here showcases our young men's and guy's fit.

We also offer a full women's and kids presentation both in-store and online. Levi's recently commented as recently as this week that this Denim Barn Shop is the best expression of Levi's in retail today.

Nike, and we are also growing our Nike partnership and have created dominant statements in apparel and footwear in men's, as you see here. We are really pleased with the assortment we have built with the Nike team and our assortment today features more quality and benefits than ever before. This is also true in our women's business and you will see that today in our Brooklyn store.

And just as Nike is our largest activewear brand, Carter's is our largest national brand in kid's. And we continue to invest with Carter's in stores, online and in marketing to grow this important business.

In men's, JCPenney has been the destination for IZOD, a PVH-owned brand for many years. We present IZOD in beautifully merchandised environment that provides a shopping experience to our customers and is really second to none in our industry.

And when it comes to brands like Dockers and Hager, we always ask ourselves the same question: how can we have the best assortment and presentation from the brands our guys love? Our branded partners assure us that we do and you will see this in our Brooklyn store later today.

Our national brands are a key component of the lingerie department, as we merchandise lingerie to create a strong brand statement that are easy to shop. So with help from our suppliers we updated all stores this spring. We have elevated these presentations and treat the brands with the respect that they deserve and here is just an example from Warners, which is a PVH company.

Another example is from Vanity Fair, a Berkshire Hathaway company, and Vanity Fair for us is a key volume driver for our full figure customer. And Maidenform, which is out of the HanesBrand group, is another most wanted brand in our lingerie department, appealing to a modern youthful figure.

In addition to impactful store brand presentations, how we market our national brands to consumers is really important. So next week our Columbus Day ad features Levi's for the family.

So our strong Levi national brand marketing is also complemented by equally engaging dot-com experience. We offer a huge assortment of Levi's online, as you can see, with a wide variety of fits, sizes and color and a fit finder developed by Levi's.

Here is an example of our Nike marketing focused on key categories with a dominant shoe spread and athletic apparel for men and women. And our Nike Experience on dot-com mirrors our strong in-store and marketing. And as you can see we call out style, performance and categories for ease of shopping.

And as we talked earlier, Carter's is our biggest partner in kid's and our marketing supports making JCPenney the destination for Carter's especially during our really important baby sales. How cute is this guy, this latest -- I just love this guy.

Anyway, in dot-com we also just recently got together with Carter's. We've had both of our teams together in Atlanta.

We work through how can we bring this experience to life for our moms and make them easy to shop. And here is our new landing page in our new Carter's experience online.

We also partner with IZOD and use their creative assets to best communicate the brand online and in marketing. And I'm going to just flash through some of the logos of the other brands that we carry in our stores because it is really important that when we think about it, we think about our customer and we think about what national brands we should put in our store.

So in women's I have already spoken about Warners and Maidenform and Vanity Fair. But Lee from VF, Lee Jeans is a very important women's denim brand as is Bally, also in lingerie. And then Alfred Dunner, which is our conservative collection brand for women.

In men's, I already mentioned a lot of these brands like IZOD and Nike, Levi's, Dockers, Hager. And then certainly Van Heusen from the PVH Corporation as well as Hanes are important in our men's world.

And a lot of the kid's brands actually marry the adult counterpart. So IZOD and Nike and Levi's, Hanes, and I've already spoken about Carter's, are just terrific brands within our kid's assortment.

I'm going to get up here later talk and talk a bunch about Home. But just for the purposes of the most wanted national brands, brands like Samsonite in luggage, or Bally in blinds, certainly Cuisinart and Keurig and Calphalon in housewares are all critical to our success in Home.

Footwear is a very branded business. So we talked about Nike a bit but Sketchers or New Balance, Adidas, Converse, which is owned by Nike and Vans from VF are all really important brands to us in our footwear business and Clarks in both men's and women's.

And I will tell you we are going to talk about our watch shop later on. But in our fine watch business like Seiko, Citizen and Bulova, these brands are really supportive of JCPenney. And they are important in our watch shop.

So I'd just like to end this section by telling you that JCPenney offers the most wanted and expected national brands. We believe we have the best presentations and assortments both online and in stores supported by impactful marketing.

Our national brand partners are pleased with our business and they tell us that our performance is at or above our competitors. We continually also hear from our national brand partners that our store associates execute their brands at a very consistent and high level. And we will continue to work together to drive sales and profit because that's what this is all about.

So thank you. I'm going to turn it back over to Mike.

Mike Ullman - *J.C. Penney Co., Inc. - CEO*

Thanks, Liz. So following the customer proposition of our private brands about half of our business, the national brands the next biggest component is national brands. And the third component very important is our exclusive and attractive opportunities for people to come to the store.

People ask what is going to be the future of bricks and mortar retail? Well beginning back in 2005 we made it quite clear to the market, to our investors that we felt it was important for a true department store to have attractions and exclusives in the store to differentiate ourselves from the mid-tier other opportunities for customers.

So probably the biggest competitive event we would have is to get a compelling beauty idea. So our early results of 2006, we put five prototype stores of Sephora and obviously Sephora, as you probably know at this point, is the most important beauty concept in the world today. And only JCPenney has it in a department store.

From that early day of five stores I am pleased to say we have almost 500 locations now for the Sephora. Our original objective was to have the look and feel of a Sephora, have the compelling assortments of a Sephora and have customer service superior to anybody else in the beauty space.

I am pleased to say as a result of our hard work by our associates and the rollout over the last seven or eight years, today the stores opening most recently have opened at even higher levels than their early stores. So the attraction is getting better as it becomes more and more prevalent. We are encouraged.

We initially thought we would have a lot 5% of our store sales with Sephora when Sephora is in a store. Today it is in high single digits, much higher than our original expectation and it is growing.

So we intend to open more stores going forward. Originally we thought we would stop around 500 but frankly the smaller stores that are now opening are opening even at a higher rate than the bigger stores when we began and we are starting to expand some of the early stores into bigger spaces.

The customer service is a true competitive advantage. Our Sephora customer comes more often, is the second most cross-shopped customer in the store, so she shops other categories. So we truly believe that Sephora is a differentiator.

It is currently comping double digits. So we are very proud of the performance despite all the things that are going on in the marketplace, Sephora is a true winner.

Our second attraction honestly in the center core is our fine jewelry business. We believe that we have one of the strongest fine jewelry offers in the marketplace largely because of our assortments and our customer service. Our promotional strategy changed dramatically during the previous strategy and frankly it didn't resonate with the customer.

We have returned back to the promotions that she knows and loves, she understands the way we promote our fine jewelry and those events are quite successful and quite profitable for us. The average retail for us at fine jewelry in terms of engagement jewelry is $1,000.

So we have branded our fine jewelry engagement business a number of years ago as Modern Bride. By rebranding and partnering with Conde Nast we've increased our fine jewelry business and the consumer sees Modern Bride is a true brand.

And as a matter of fact we just recently had an upscale version of Modern Bride called the Modern Bride Signature Collection at somewhat higher price points because the customer really were looking for higher price points. We also have what is called the Diamond Vault where a customer can go online and design their own fine jewelry assortment.

The third thing we want to talk about in terms of attractions and exclusives, we have worked with Aldo Group, Call It Spring is a brand within the Aldo Group. We put it in our poolwear department in 2010.

We have women's and men's footwear as well as handbags for women. These exclusive shops in JCPenney are in fact an attraction and younger customers seem to migrate toward the Aldo Call It Spring brand. It is because of our value driven price points and the customer service that we have in the department as well as the fact that it is on style and at the right fashion element for our customer.

The next concept is really Liz Claiborne. Many of you know in 2011 we purchased the Liz Claiborne brand. And that brand is one of the most recognized women's apparel and men's apparel brands in the industry.

It is the only available JCPenney in our store or online. We have a very talented design group that is based here in Soho. And frankly you're going to see an extension of handbags in Home, other Liz Claiborne elements as we continue to build the brand attributes of Liz Claiborne.

MNG by Mango, we are the only department store that really has a legitimate fashion brand in the store. Mango, based in Barcelona, has eight or nine stores of their own in the United States but we have almost 600 locations with Mango.

Mango offers fast fashion at a price. It is brands like Forever 21, they are competitive on the terms of price point and the offer but we have much higher quality at a better price. So the customer -- it has really resonated with Mango.

Disney, last October we installed Disney stores in about 500 locations. We are the only retailer aside from Disney themselves that have the full assortment of Disney product. And needless to say with Frozen and a number of opportunities that we have going forward with Disney, this is a huge attraction in our kid's store.

It is basically the only major brand that was done during the previous strategy that has survived and prospered. We are way over our original plan. We are now up against that because it is starting to comp from last year.

But the breadth and depth of the assortments has brought customers back in terms of incremental visits. We just agreed with Disney to open an additional 116 locations as the result of our success. We will be up to 680 stores for Disney.

So, you probably don't know that we have 900 JCP beauty salons. We are the largest beauty salon operator under one name in the United States. A beauty customer tends to come to the store eight times a year and she spends twice as much per visit as the average customer, so it is twice as many visits, twice as much spending when they are in the store.

If you look at what we have done with Sephora in terms of the attraction of Sephora, the fact that you have to go to the store to really fully experience the brand, we believe we have the same opportunity in our salon business. So you are going to see us commit to an upgrade of our salon experience, an upgrade in terms of the environment and the training and skills we have within our stylists.

We are going to brand the salon so much like Modern Bride it has the aesthetic that is appropriate to the environment and what the customer expects. So we see the salon business as something that will attract not only our current customers but be accretive in terms of new customers coming to the store for their beauty.

One thing that is probably obvious, you can't get your hair done online. So we think the salon business is an opportunity for us to get additional visits in bricks-and-mortar and store visits are challenging for the industry. So there's certainly be more later to talk about so why don't we just show you this brief video.

We right now are winning awards in terms of our current salon. We'll give you some sense of what we have going on.

(video playing)

So a lot of the issues that happened during the previous strategy we kind of lost our way in the salon, lost a lot of our key stylists, the kids' haircuts for free. It's all about the stylist to be quite honest.

So we offer education for the stylist, we pay them while they are being educated. Most other salons they have to basically get their education on their own or they have to be educated without being compensated.

We have rehired and now are re-staffed up to 11,000 stylists. The customer really follows the stylist.

So to the extent that we have a very relevant offer and a very highly skilled associate in the stylist role, that is the key to driving the business. Rebranding the concept, getting the aesthetic changed, getting it accretive across the store in terms of visits and spend is what it is all about.

So we're going to take a break now. But let me to summarize the first part of what we talked about with the customer proposition of private brand half of our business, next biggest chunk is national brand and the attractions we just covered.

Attractions obviously drive traffic to the store and to our website. We think it differentiates us in mid-tier against those that really don't have attractions and exclusives.

So we're going to take a break, at least a half hour. So we will be back here just before 10:00. Thank you.

(Break)

Mike Ullman - *J.C. Penney Co., Inc. - CEO*

So just to review kind of what we did before the break, we talked about the customer proposition. These are essentially the things we rebuilt during the turnaround. The core parts of our customer assortment, the private brands, national brands and attractions and exclusives.

This next section is the most important of the morning. We really want to talk about the incremental growth opportunities we have the next three years.

There's three big components. One is center core, the second is our Home Store and a third is our omnichannel strategy.

So Liz is coming back to talk about our center core and our Home business. And I will come back in a little while and we will talk about omnichannel.

Liz Sweney - *J.C. Penney Company, Inc. - EVP, Chief Merchant*

Great. Thanks, Mike.

Okay, our largest growth initiative at JCPenney beyond our current share growth is the center of our store. Center core is the major opportunity for us to get $1 billion in sales over the next three years. Center core is the term that we use to describe the categories that our customer expects to find in the center of our store.

It is made up of beauty, footwear, jewelry, handbags, accessories and intimate apparel. So why are these categories important?

Well first of all, they have very high productivity and drive overall sales per square foot. There are also highly profitable categories that drive margin and operating profit. The industry has experienced high growth in the center core businesses, much higher growth in the center core businesses than it has in apparel.

And while we have a solid market share in women's apparel at JCPenney, remember we have about over 30 million women shopping in apparel every year, getting them to cross shop and to center core is a major opportunity. Adding on a pair of shoes or a piece of jewelry should be really fun and a really natural experience for our customer.

And so despite the overall industry growth we have seen deeper declines in center core than we have in apparel. That is very counterintuitive, and it will become a little bit more clear when I take you through the reasons why.

We show up well in beauty and in fine jewelry, as Mike said, in market share. But we lag in share in all other center core categories against all our moderate competitors.

So we're going to start through and go through each business. You just saw a great video of Sephora inside JCPenney. Sephora inside our store has been growing at double-digit comp store increases.

And as Mike said, we recently just expanded our partnership with Sephora. And both companies have agreed to open additional Sephora inside JCPenney stores between now and 2017, further into our portfolio than we ever dreamed we would be.

We will be entering new and smaller markets as the first major beauty destination in town. And our Sephora inside JCPenney sales are running at high-single-digit penetration to our store total.

And that is definitely exceeding what our expectation is as well. And I will tell you in some smaller stores that we have built a Sephora inside our stores, our penetration is running at higher rates than our average stores.

So Sephora inside JCPenney, what does it do? Well first of all, it is a wonderfully unique environment with exceptional service, spectacular brands and assortments that we are really proud to offer. And we bring a fun, cool element to our stores that it is aligned with Sephora freestanding just every single step of the way.

I'm going to move on to footwear. Footwear is a major major growth category for JCPenney. We have a very low share compared to our other moderate competitor.

As you can see from this picture, we today present men's and women's footwear together in a very unexciting and cramped shopping environment. Women's is vastly underspaced and it should come as no surprise to any of you that men don't like to shop for shoes on the women's floor.

So take a look at this new environment. We piloted this destination in a number of our locations, all different configurations of stores. We increased women's footwear selling space by 30% with a new plain full-service environment for fashion footwear.

And through our research we know that footwear is a highly emotive category only following beauty among all the businesses in our store. And there's an interesting fact that came out of our research that women consider shopping for shoes as a form of entertainment. That is actually quite true, guys, believe it or not and service is really important in this high touch business as well.

So as we expanded our women's footwear we did a number of other things. We also created a women's clearance zone and clearance is a destination for many of our shoppers.

And then in addition to that in the women's business, we also expanded our women's athletic and junior business with an open-sell environment. Because our research reinforced that this is how customers prefer to shop these categories.

So for men, we created a men's destination located within our men's store that is all open sell. And John said earlier, men are hunters and not gatherers. And we know that this is a great way to get them in and out of the store because they can quickly find their size and their style.

So to make room for men's footwear within our men's world, we moved our men's big and tall shop, called the Foundry, into existing unproductive home space. And with the new environment that stands alone at the destination for that big and tall guy.

So the results of this are these footwear moves that I just talked about. The results have exceeded our expectations.

We've had terrific growth in men's and women's footwear. We've had a really positive impact on our men's apparel business and we have had no negative impact to Home.

So most importantly, it increased our entire store sales by several hundred basis points. And our plan is to roll this out in 2015.

Moving on to fine jewelry, Mike talked about fine jewelry earlier. And as you'll see in the store when you visit it today, fine jewelry is a great anchor in center core across from Sephora inside JCPenney.

We already have a strong market share in fine jewelry and we continue to invest in a highly trained and highly engaged selling staff. Buying fine jewelry is a big-ticket purchase for our customers and they trust us for both quality and value.

Now in August we launched a Modern Bride Diamond Vault that gives the customer the opportunity to design their own jewelry. The customer selects their stone, which are all GIA certified, and then they select a setting to create a custom piece of jewelry.

And we launched the Diamond Vault online and the associates in our store have iPads that also assist the customer with this new tool. I have to tell you we are really encouraged by these early results. And I am especially happy with my new pair of diamond earrings that I custom made on the Diamond Vault at JCPenney; you too can do it.

Moving on to the categories, important categories of fashion jewelry, accessories and handbags. We have a very very low share in all three of those categories, fashion jewelry, accessories and handbags. And you can see from this slide, we have a lot of words to describe our current environment.

This just happens to be a current environment of handbags. I think for the purposes of today we have just decided to use the word insufficient because that's what it is.

So today you're going to see a new environment that we piloted in Brooklyn and also in an existing store in the Bronx. And we have seen a major sales increase in sales with no additional space in each one of these categories.

So I am sure that the women in this audience will certainly appreciate a bag for all reasons. It happens to be what we call the mannequin platform that we put in the middle of this handbag department.

Our new environment has a sufficient capacity to support the right level of inventory and it also shows off our style. And by the way, we can also showcase brands like Liz Claiborne that are exclusive to us and also very important to this business.

So moving on to fashion jewelry. Sprinkle On The Sparkle in fashion jewelry showcases our trends.

And I would just like to take a minute to acknowledge a terrific store environment team that we have led by Katheryn Burchett, who brought all these center core initiatives to life, certainly from an environment point of view in our stores. Fashion jewelry also has the right capacity fixtures to do high sales per square foot in a very exciting environment.

Moving on to accessories, Accessorize Like You Mean It is our department for hats, scarves and belts and quite frankly anything else that may be happening in the fast-moving accessory business. And you will get to see all these departments later on today at our Brooklyn store.

We also know that we have a major opportunity in sunglasses. And sunglasses is a high sales-per-square-foot business with a very high gross margin. And we're going to be piloting stores in February with a permanent location for our year-round shop and this is our rendering of the shop that we will be piloting in February.

I mentioned watches earlier today when I talked about national brands. But we also piloted a new watch shop and again introduced in Brooklyn and the Bronx stores.

And the watch shop has been just great. There are new cases that facilitate interaction with our knowledgeable associates so customers can walk around these cases for fine jewelry.

We also rolled out new tables for fashion watches as well. And the volume of watches that we are selling in this space is unbelievable. And you'll get to experience that this afternoon.

Moving on to intimate apparel, which is our last category in center core and our center core growth initiative. Our research has shown us that customers are very very loyal to one store when they buy intimate apparel.

Earlier today I talked about the importance of national brands in lingerie and the brands that she expects to find at JCPenney. We recently relaunched our private brand Ambrielle. It is a brand that has fierce loyalty from a dedicated customer.

I just want to take a minute to just explain that we are the only national department store that has a private brand in lingerie. And there is a reason behind that because of the technical nature of designing and sourcing bras. It is one of the most difficult categories. We at JCPenney have the expertise in design and sourcing to deliver quality, style and fit of the best specialty stores in the lingerie business and certainly at a price that our customers can afford.

We piloted a new environment here as well in our Brooklyn and Bronx stores. And there's been a direct result from our customer service is how we laid this floor out, or from our customer research. So you are going to see new fixtures, mannequins and a new way of navigating that floor with new signage to make it easier for our customers to shop.

We talked a lot about fit today starting with Deb Berman this morning when we talked about marketing. There is probably no other purchase influenced as much by fit as a bra.

So we recently rebuilt our fit specialist organization, something that we believe sets us apart from our other moderate competitor. We are starting to once again run fit events and invite customers to come into our stores. And you can see we have a fit event going on September 29 through October 15, so we are right in the middle of it. If any of you would like to get fit for a bra, please visit us in our store.

But we are once again inviting our customers back into our event. And I will just mention that in addition we offer an extended assortment of sizes up to 46J online.

So, to just wrap up center core, center core for us is a $1 billion opportunity. Our pilot results are very successful. We have opportunities in every single business and we will capitalize on our industry growth.

Okay we are going to move on to Home and Home is our second growth initiative. Home represents a $750 million opportunity for JCPenney. At its peak, Home represented over 20% of our total business but lost half its volume by 2013.

Of all our businesses, Home experienced the largest sales decline, the largest market share decline, the largest sales productivity decline and the largest dot-com decline. So what happened? Basically, two years ago we changed virtually everything.

And we did it without considering or consulting the customer. We closed for construction to completely remodel our Home department in 505 stores. And it didn't take long to realize that we changed too much too quickly.

We changed the entire assortment moving too aggressively to modern, alienating the traditional customer. We also disconnected the dot-com business by separating out the buying team. We merchandised the floors as shop concepts versus classifications, which is not how the customer wants to shop.

We also gave hard Home way too much space while decreasing space for soft, and soft are categories like bedding, bath and window. We deemphasized our private brands and we were not promotional in probably one of the -- in what is one of the most promotional businesses in our store.

So how are we fixing Home? With new leadership in place, our GMM and Jan Hodges and the team started making changes to the Home assortment, presentation, pricing, just about everything. The team knew we had to get back to JCPenney's heritage and to do what we do best, deliver key items at great prices with a promotional cadence that the customer loves and expects from JCPenney.

We moved back to classification merchandising with a focus on traditional products and our bath shop is a great example of this. We expanded space dedicated to soft Home, a category where we have long been industry leaders. We added beds to our floor.

Why? Because these displays serve as mannequins, helping our customers visualize what this will look like in her home. And when we display a bed our sellthroughs go through the roof.

And the customers have started to come back. We have reengaged millions of lapsed customers and attracted new customers to Home, of which about 30% are new to JCPenney completely.

So changes are taking hold and Home sales are up about over 30% for the spring season but we know that we are just scratching the surface. We believe we have put the foundation back in place to grow this business over the next three years.

So growing Home. We will grow this business by focusing on the following areas: number one is restoring brands, both private and national brands that customers love and expect to find at JCPenney.

Improve sales productivity. Reallocating space in stores and on dot-com to drive sales in profitable categories.

Intensify marketing to better support this highly promotional business. And new ideas, bringing new concepts to the customer to encourage more trips and share of wallet.

We are focused on private brands. Historically JCPenney Home business has always been in excess of 50% private brand.

So we are bringing back JCPenney Home, our number one brand in Home, with a new logo. This brand has been loved by America and known for quality and value.

Last year we rushed to bring back Cooks, which is a private brand for us that anchors our kitchen assortment. We rushed to bring it back in time for Black Friday. But this year we have a great presentation in Cooks, and we utilized space that was once designed to be set up for food prep and demos and now are using it to merchandise product.

We also launched Liz Claiborne in Home. We added Liz Claiborne in bedding, bath and luggage and for spring of 2015, we will be adding Liz Claiborne to window.

Liz is a trusted brand for style that is as effortless as it is affordable. And as Mike stated earlier, we are the exclusive retailer for Liz Claiborne.

We also capitalized on our exclusive brand, Royal Velvet. Available in bedding, window and towels, Royal Velvet is tailored to the traditional Home customer.

And you know we have brought back our relationship with the Good Housekeeping Seal of Approval on private brands. JCPenney is the exclusive private brand partner with Good Housekeeping in our categories.

And as I mentioned earlier, national brands are really important in the houseware business. And we have the most wanted national brands like KitchenAid and Keurig.

Improving sales productivity in stores and on dot-com is essential to grow this initiative. We started remerchandising the floor this year by classification to improve sales and conversion. And while we are pleased with our growth so far, we know that we have a lot more to do.

So as an example, I will show you something we did. This was a Michael Graves boutique that had extraordinarily low sales productivity. We remerchandised this space to become the Main Squeeze, which is in on-trend blending and juicing classification shop to support one of the hottest trends today. And it's output square foot clearly have had dramatic improvement.

With the return to classification merchandising we must focus on key items as our never outs. We plan to stay in stock with auto replenishment, own them in-depth and market them aggressively at unbelievable values.

This is a great example of a JCPenney Home Collection towel at $7.99. It's got terrific quality behind it as well as the right colors at a terrific price.

Additionally, these key items will help us drive our opening price point business back to historical levels because Home drives traffic to our stores. $9.99 Great Cooks assortment is a perfect example of just driving great traffic back into JCPenney through Home.

Home represents the largest dot-com business. With expanded sizes and colors online, our associates utilize our find it, keep it tools to support the customer and ensure our broadest assortment is available every day at every location. And you are going to hear a little bit more about this from Mike Rodgers in a few minutes, specifically about the find it, keep it business.

The window business at JCPenney is a legacy business and drives high sales per square foot. And so whether it is soft window or hard window, ready-made, made-to-measure or custom, window is a very complex sale. And our commissioned associates are back and reengaged into this very profitable business.

Marketing is also one of the most critical components of the Home business and one that we have not capitalized on. So moving forward we plan to expand our Home penetration and marketing back to historical and competitive levels.

We will have dedicated Home marketing in print, in direct mail and across all digital. And we will increase the number of dedicated in-store Home events.

Additionally, and this is a bit of a return to our roots, we will introduce digital e-catalogs, allowing the customer to shop how, when and where she prefers. Home drives traffic to the entire store and when Home wins, the store wins.

We've got some new ideas as well. So I want to start by telling you about one that we are piloting currently.

We are thrilled to partner with Hallmark. What we love about Hallmark is how they connect with the customer during the most important moments in our customers' lives, like Mother's Day or graduation or Christmas.

We believe this connection will bring an additional trip from our customer driving top-line sales at terrific margins. So we are piloting the Hallmark and with plans to roll it out in 2015 in our Home Stores.

We are also in negotiation with other potential partners and we are not quite ready to disclose these details yet. But we certainly look forward to announcing them in the future.

So I will just wrap up Home by saying, Home is a $750 million growth opportunity. We are committed to restoring national and private brands, improving our sales productivity both in-store and on JCPenney.com.

We will intensify promotions and be promotional in this highly promotional category. And with that I'm going to turn it back over to Mike Ullman. Thank you.

Mike Ullman - *J.C. Penney Co., Inc. - CEO*

Thanks, Liz. So as Liz covered our center core opportunity and our incremental opportunity in Home, our third big incremental growth opportunity is our omnichannel business.

I'd just like recruiting top talent like Deb Berman to the CMO position, we were able to attract top talent in our omnichannel business. Mike Rodgers, with 20 years experience at Saks where he pulled off the entire omnichannel strategy for Saks and joined us in late February.

I've giving him a bad time. He had not a gray hair on his body when he joined us and in this short period of time he has obviously gained a lot of experience.

So Mike is going to share with you kind of what we think is very exciting as a mid-tier retailers that we can do it all in omnichannel. Mike?

Mike Rodgers - *J.C. Penney Company, Inc. - SVP, Omnichannel Strategy and Execution*

Thanks, Mike. So as Mike said -- well, I got the graybeard as the result of JCPenney.

So our third opportunity is omnichannel, as Mike said. It represents an $800 million sales growth potential for us over the next three years, which equates to a 15% CAGR, or compound annual growth rate.

JCPenney has a storied history of being multichannel. In 1962 they started the catalog and that was in operation for 40 years, it became very large and was very profitable.

In 1994, JCPenney started the first dot-com for a brick-and-mortar company. That grew to $1.5 billion in sales by 2010. In 2012 we deemphasized the dot-com business with the new strategy and we decoupled the store inventory from dot-com.

That resulted in a $500 loss in the business. That at the time when most resellers were growing -- all retailers really -- were growing double digits.

The good news is we have many of the processes and expertise and systems in effect today that we can leverage in our omnichannel operations. For example, we've got a great integrated buying planning and marketing teams.

These teams work together to drive both businesses. The assortments are essentially congruent with the exception of extended sizes and unique offerings on dot-com.

We have integrated order management system and a solid digital platform by ATG and Sterling from IBM. Those platforms perform the basis of our omnichannel fulfillment operation.

We have a great single view of the customer database that will drive our personalization, which of course is very key to having what the customer wants for them at the right time. We have a system that has been referenced today called find it, keep it. I thought it was the greatest thing since sliced bread when I came to JCPenney's because the customer can be assisted by a sales associate in the store and extend the dot-com inventory to the store for unique sizes, colors, for things that we just may be out of in that particular store.

The really interesting thing about it is we can ship that item back to the store on our rails without involving UPS or FedEx. Believe it or not 70% of those orders -- and it's a rather large business -- are shipped back to the store, which of course means the customer comes back in for another visit.

So the good news is JCPenney.com is on the way back. We are gaining market share back. We have a lot of work to do.

But this year so far through the first half we were up 21%, traffic is up 10%, our average order value is also up 10% and our units per transaction are up 8%. Conversion -- I have that last there for a reason -- it's only up 1%. And I'm going to talk about mobile later but it has largely to do with the shift to mobile.

So what is our opportunity? Our opportunity is to leverage what we have done in the past with new technology and new capabilities to lead in the mid-tier department store space.

Simply by converting 10% of our store-only customers to omni-customers, that represents a potential of $1.2 billion in incremental sales. That's because omnichannel customers spend 3 times more than a store-only the customer and they visit our stores or online 2.5 more times per month than store-only customers. Quite simply, omnichannel customers are much more loyal.

How are we going to actualize this? Our vision is to deliver a seamless experience across all touch points that fit our brand, our values and our customer lifestyles.

For the customer it's got to be fast -- I'm sorry, fun, fast, flexible and for me. Fun has got to be inspiring, engaging, easy to use. We are great at transacting business on our website or on our mobile device; where we lack a little bit is on the experiential side, which is going to be a critical focus for us going forward.

It's got to be fast, our website has got to be fast, our app has got to be fast. We've got to get it to the customer quickly or get it back to the store for them to pick up, or pick up the same day.

Flexible, anywhere, anytime, anyplace on any device. For me, it's got to be personalized. We've got to deliver the right content to the specific customer that it is interesting to them, not generalized.

So the three things we are going to focus on to drive our omnichannel growth: enhance the customer experience, leverage enterprise inventory and have a superior mobile experience. So as I said before, we have a lot of things in place, the foundations to run a great omnichannel business. So this year we've been able to really get out of the gate fast.

We've enhanced checkout by making it very fast for the customer to get to check out quickly and be done with the transaction. We've enhanced our search and findability to allow the customer to get the product quicker. And we've enabled digital self-service on our new app which I'm going to show you today.

We are driving towards a search- and browse-based commerce. The customer wants to get to that product as fast as possible and checkout.

In some ways the design is done to slow that down. We are changing all of that to be faster.

Personalization, it's got to be relevant to that specific customer. And we can't forget about the superior purchase experience both pre and post. The purchase doesn't end until the customer has the merchandise and if they have a problem calling into the call center.

So on the enterprise inventory perspective we already talked about find it, keep it. It is a strong digital experience in the store. And we can fulfill it the way the customer wants either ship it to their home or in-store -- or have them come pick it up in store.

And it's very effective. It's a big business and we are growing substantially.

Buy online, ship from store allows us to leverage our store inventory to dot-com. We are doing this in 50 stores, in three departments. It has been very successful so far.

What we are driving towards next year is to ship from store for all merchandise departments in the right number of stores until we reach a point of diminishing marginal return. Right behind that we will do same-day pickup and after that same-day delivery.

So before I talk about mobile specifically, I want to talk a little bit about what's going on in the industry. There is a significant shift to mobile. The expectation is the customer can shop in her immediate need and her immediate context when she wants.

Gone are the days where she plans a shopping trip. She wants to shop, she pulls out her mobile device and she starts shopping, or starts researching. We know that our customers are researching a lot before they come into the store.

Our traffic is down but our conversion is up significantly. Deloitte estimates that 50% of all retail transactions by the end of next year will have a digital experience involved, they buy it or they research it. I argue that at JCPenney we are already beyond 50%.

And what we are seeing in our traffic by device is very indicative of this. Since 2012 until now, desktop traffic has dropped from 72% to 52%. Tablets, 13% to 16% but mobile has gone from 15% to 32%.

By the end of this year we expect mobile will outpace desktop and tablet combined. Now what I don't show here is that -- and this isn't indicative of the entire industry -- the mobile conversion rate is the lowest of all three of those devices. So that presents us with an opportunity to deliver a really solid mobile experience so we can drive that conversion higher.

That brings us to mobile. As of today you can download the new JCPenney app for iPhone. It is in the app store today.

We've also delivered a new m-dot experience for all browsers for mobile devices also available today. First quarter of next year we will deliver the new Android app. We decided to do iPhone first because the preponderance of our customers use iPhones.

So with that I'm going to show you a video of our new iPhone app experience.

(video playing)

So some of the important things that we saw there, find it, keep it has been put in the customer's hands. She can now find it, keep it herself.

Coupons are easier to find and use. Enhanced navigation and search, predictive search specifically and the save for later feature.

As I said at the beginning of the presentation, omnichannel represents an $800 million opportunity for us over the next three years. Specifically $450 million from assortment expansion and share growth, $200 million from enterprise fulfillment and $150 million from a better mobile experience and enhanced customer experience, again a 50% growth over where we are today and a 15% compound annual growth rate. Thank you very much.

Mike Ullman - *J.C. Penney Co., Inc. - CEO*

Thanks, Mike. So that summarizes our incremental growth opportunities in terms of the center core, Home and omnichannel.

We are next going to turn to what we believe is our hidden asset, our secret sauce. Tony Bartlett joined us eight years ago from Target. He initially was responsible for our southern zone of stores and just a year ago we promoted him to be the EVP of all of our stores.

He has 100,000 associates. He's about to hire over 30,000 seasonal associates. And importantly, Tony has been the leader of the reinvigoration of the spirit of our associate population.

So he's going to share with you kind of what is going on with our associates, our warrior spirit and how that is impacted our customer experience and what we think it means to us. We are driving for loyalty beyond reason. We have to give the customer reasons to have that loyalty and Tony is going to tell you about them.

Tony Bartlett - *J.C. Penney Company, Inc. - EVP, JCPenney Stores*

Thanks. Good morning, everybody.

So you've heard a lot of things about our strategy and our growth initiatives today. And those things all have one thing in common, that they have to be executed by the associates in our store. I believe that we have a distinct competitive advantage in terms of our associates.

So I'm going to talk to about three things today. As Mike mentioned, I'm going to talk to you about the warrior spirit, how that affects associate engagement, customer experience and in turn, loyalty and sales.

So, we knew that given the difficulties with our Company that we wanted our associates to be a part of our turnover. So we had the benefit of having Colleen Barrett, who is the former president of Southwest Airlines, and Herb Kelleher, the founder of Southwest Airlines and we talked with them.

And they told us about the impact that their associates have made within their company. And any of you that have flown on a Southwest flight can attest to that.

So we wanted to engage our associates to be a part of our turnaround. So what did we do? We took 16 associates, most of which were store leaders.

Now we picked these associates because we wanted people that were passionate, a little bit irreverent and most of all wanted to win. Now, they named themselves the warriors and they defined what a warrior was and what they wanted to bring out in the rest of our associates.

And those things were: a love of the Company, passion, high energy, fun and all of that focused on a great customer experience. Now one thing that I have to make absolutely clear, this project was never corporately driven. It is not a project.

It is and was associate lead. And we wanted to unlock the potential and the passion of all of our associates.

So we began very quickly. As I said, they started in July 2013 and they wanted to impact back to school. So they engaged every facet of the organization, all of the divisions, marketing, they came up with fun ideas, contests and ways for our associates to engage with our customers.

But most of all they engaged with our field and all the associates in the field. We started with a huge rally in the home office and our theme was all in, and it was broadcast to the stores. We were all in for back to school.

Now, during the idea generation when they were coming up with ideas of how do we do this, they were looking for some guiding principles. And the principle that they came up with was, if it isn't unethical, illegal or immoral for our associates or our customers, we are going to go for it. And that's what they did.

So it was kind of interesting. As we affected back to school and we kind of moved past that, we started to hear stories about warrior groups and things like that kind of impromptu popping up all over the country. And I want to share a quick story with you that I think kind of illustrates that.

And it's actually a story that happened to Mike. Mike was visiting the Phoenix market and he was kind of incognito and he was walking around and he noticed that he looked at the guys and they looked a little scruffier than our normal associates typically would luck. And then he kind of saw some of our female associates and they had these buttons on that said ask about our guys.

So Mike walked up to one of the associates and said, okay, I will bite, tell me about your guys. And she said, sir, our guys have vowed to not shave until we run an increase for the month. And they are not going to shave.

Mike said, you are telling customers this? And she said, sir, absolutely. Not only are we telling customers, our customers are now coming in and they are rooting for us to do it.

Now, I will tell you that was one of the first markets that ran a comp store increase. And that is kind of what that warrior spirit was all about.

So next was holiday. And they kind of went through the same process. What ideas could they generate to kind of help engage the associates and the customer.

And we again held a big rally and the theme was, fun, fight and win. The idea was we were going to fight to win but we are going to have fun when we do it.

Now, if you go into our home office or any store, you will see banners that say fun, fight, win all over the place. It truly has resonated. It resonated them and it's still kind of the battle cry of our warrior spirit right now.

So they really started on Black Friday to kick off the holiday and most of you know that the turned into Black Thursday. So we really wanted to make the associates understand how special that they were and to kind of empower them. So when they came to work on that Black Thursday, they walked literally down a red carpet because they were the stars of our show.

We gave them survival bags and they went out and they gave the customers a great experience. And we had a great holiday and I will tell you that the warrior impact started to really catch fire.

So, where are we now? 16 original warriors has turned into 1,100 teams worldwide and we now have 100,000 associates that have that warrior spirit.

And I will tell you I know I just told you about it, but to me nothing can do it justice like really listening to the people that were a part of it. So we are going to show you a brief video.

(video playing)

It's truly been amazing to watch that movement from its very beginning to what it is now and the impact that it's had on our Company. Now our associates tell us that it's had a profound effect, so how can we tell?

Well, quite honestly we measure the engagement of our associate every year and last year we took our associate engagement survey. And quite honestly we weren't very happy with the results. We ended up scoring a 62.

Now a 62 is about 1 point above retail average and it's not very good. But after one year of the warrior spirit that 62 turned into a 71, 9 point improvement in one year, now 10 points above the industry. Particularly amazing when you think that industry leading engagement is at 75.

That is very powerful. So does that impact our customer experience? Well we know that happy associates take better care of the customers.

But is it really impacting our experience? And the answer is, yes. And it is yes because our customers are telling us that.

Now, we have measured our customer service since 2006. And in that time we have asked our customers that come into kind of rate us on a five-point scale, either highly dissatisfied all the way up to highly satisfied.

So in that time what we have seen is that we have improved slightly but with the warriors this past year we have seen huge improvement. So let me tell you about it, and let me tell you about why it is important. It is important because it drives loyalty.

Now the interesting thing is that when you look at customers that rate us highly dissatisfied to only satisfied, there's really no discernible difference in their shopping habit. But when we get rated highly satisfied that is a big deal. It means that they come in more and they spend more.

Well how much more? Our customers that are highly satisfied shop our stores 19% more, that is 19% more, so it truly affects their driveway decision. If they had a great experience in our stores they are coming back.

What happens when they get there? Well, they spent almost 30% more.

That is unbelievable. So 19% more they come in and 30% more when they spend more when they get there.

So, how have we been doing? Well, one of the key components of our customer survey is overall satisfaction. And when we started measuring that over the years, we have seen an incremental improvement of right around 2% year-over-year.

With the Warriors after one year you can see a 7 point improvement. That is huge. That is double and triple what we have seen, so the warrior spirit is truly affecting how we take care of our associates.

Now we measure 45 other metrics in this survey and we kind of divide it up into two different categories. One is, how does our associate interact with the customer and then how does our associate execute.

So let's take a look at some of those. If you look at how the associate interacts with the customer, things like personal attention at checkout, knowledge of associate, up 7 points, likelihood to recommend to a friend also up 7 points, huge increases. And by the way, all at all-time highs.

Now how do they execute the store, things like ease of finding products, up 4 points, look and feel of the store up 5 points. Again, our customer survey scores are at all-time highs and we know that is because of the warrior spirit that we have.

So, we've got a lot of strategies and growth opportunities that we are going to execute at a very high level at the store. We know that with the warrior spirit we are going to continue to engage our associates and they are going to continue to drive fantastic customer service. Thank you for your time today.

Mike Ullman - *J.C. Penney Co., Inc. - CEO*

So as you can tell from Tony's presentation, we are extremely excited about the opportunity to extend that associate engagement to the customer experience and it is making a big difference. We think that's one of the keys to driving loyalty beyond reason, additional visits and additional spend.

So now we're going to turn to what you probably all came for, which is the financial overview of what this all adds up to. I will say that the journey of the turnaround is substantially toward the end of the period. I said early in the year, 2014 will be the year to conclude our turnaround.

We intentionally focused on the three incremental growth opportunities to talk about the next three years. And Ed is going to share some of those numbers with you.

Now we were very fortunate to find Ed, our third major recruitment this year. Ed is a very experienced CFO.

Also has had responsibility for supply chain and other aspects of the non-merchandising side of businesses. He's been at Belk's, at Kohl's, at Stage and terrific addition to our team. Ed joined us in March and has been a great leader in helping us exceed our expectations.

Ed Record - *J.C. Penney Co., Inc. - EVP, CFO*

Thanks, Mike. Good morning.

Glad to be with you today. Glad to be a JCPenney's.

I hope you are all excited about what you have seen so far today. We are very talented management team and we're all very proud of what we've achieved so far in our turnaround.

Over the next few minutes I will walk you through how the opportunities we have shown you so far this morning flow down to the bottom line. But first I would like to review some of the significant progress we've made in our turnaround efforts.

Starting with fourth-quarter 2013, we've had three straight quarters of sales growth. Taking a look at our spring highlights, we've increased comparable store sales 6.6% so far this year, increased gross margin 430 basis points, leveraged SG&A 450 basis points, improved EBITDA $600 million and increased free cash flow an impressive $1.8 billion. While we know there is still a lot of work to be done, we are growing sales, we are increasing margins, we are leveraging SG&A and we generated positive EBITDA for the spring season.

Moving forward, we have built a strong foundation from which to grow. We remain focused on growing our business and restoring profitability. We know we have opportunities to improve our store productivity, win back share of wallet and continue to take back market share.

This strong foundation will enable us to invest in our growth initiatives of center core and Home Store and deliver an enhanced omnichannel experience. We will also continue to find other areas of opportunity within our existing platform to drive profitability. We know we have opportunities in SG&A and gross margin rate as we work to get back to historical rates for both of these.

Let's spend a little time talking about the sales initiatives. Our current efforts to reconnect with our customers has yielded positive sales growth in a difficult environment. We continue to win back market share.

In fact, the good news is our customer has returned. Our active customer for the trailing 12 months is within 1% of our 12-month active customers in 2011.

The work ahead of us now is to drive additional trips and frequency, increase cross shop and capture share of wallet. Continuing to win on our existing platform is worth $1 billion over the next three years and equates to about a 2.5% comp over that timeframe.

Turning out to center core as Liz presented, we believe delivering a reinvigorated offering and in-store experience will resonate with our customers and drive frequency and cross shopping. We can win here.

We win here today in fine jewelry and Sephora and we can win in footwear and handbags and intimate apparel and fashion accessories. We believe this is over $1 billion opportunity over the next three years.

Turning now to Home Store. Our Home Store has greatly improved since the relaunch in March. It is up over 30% in spring.

The relaunch has clearly helped reactivate a significant number of lapsed home customers but there continues to be significant opportunity to drive more productivity here. As we talk about returning our customers back to the 2011 levels, we have an opportunity to reactivate millions of customers who have not yet returned to our Home Store.

As you heard, we will enhance our classification businesses, intensify advertising and deliver new concepts like Hallmark and others to help achieve this upside potential. We believe the opportunity is worth over $750 million.

And as you just saw Mike Rodgers discuss earlier, omnichannel is $800 million opportunity for us. And we will regain our leadership position here as we leverage our existing capabilities such as in-store pickup, ship from store and find it, keep it, deliver an improved customer experience through the enhancements to the existing platform, our mobile site and our mobile app, and ultimately delivering the conveniences that our customers will soon expect such as same-day pickup and same-day delivery. As you can see, the total opportunities over the next three years are $3.5 billion.

We know that growing the top line is critical but driving the bottom line is key to increasing real shareholder value. Presented here are the EBITDA opportunities within our existing platform, our growth initiatives and the additional improvements in our margin and SG&A structure within the existing core business. The existing platform opportunity assumes the existing gross margin rate and our reasonable incremental expenses.

And we expect it to be able to flow through at a 30% rate. The major growth initiatives have the potential to add $600 million in EBITDA and flow through at between 20% and 25%. Center core, because it has the highest margin, flows through at the highest rate.

Omnichannel flows through the lowest rate but still is accretive to EBITDA. There is more work to be done on improving our margins through areas I have already discussed previously like private brand penetration, private brand margins and clearance profitability as well as the initiatives we have going on around shortage, improving the metrics of our loyalty program and even our return policy.

We also know we have opportunities in SG&A to implement industry best practices and to be more efficient and effective across our expense structure. We see $150 million opportunities for both gross margin and SG&A versus our current run rates. All told we see $1.2 billion in opportunity for EBITDA.

We are excited about the potential of each of these initiatives but realize there's going to be challenges along the way and that there is overlap between the initiatives. Knowing that we are not counting on receiving 100% of each initiative but achieving 60% of the total potential would deliver an incremental $2.1 billion in sales. This equates to mid-single-digit growth over the next three years.

If we add this to the current consensus for 2014, which management believes roughly estimates our expectations for the year, we get to a $14.5 billion top line in 2017. As you can see, we expect gross margin to flow through at $900 million.

If you add that again to the 2014 consensus, that gives you $3.5 billion in gross margin in 2017. If you do the math this is a 36.5% gross margin rate.

We believe we can achieve better than this and get nearer to our historical rates but for conservative reasons we have left it at 36.5%. You also notice on the EBITDA that we expect it to flow through at $900 million. This is a dollar-for-dollar flowthrough from the gross margin.

We expect to be able to do this by holding SG&A flat over the next three years. We know we need to make investments in the initiatives we just laid out and we will make investments in store staffing, in advertising and in the infrastructure support for omnichannel.

But we plan on offsetting those investments with again the best practices and other opportunities we have along our expense structure. Adding that $900 million in EBITDA to the $300 million in 2014 consensus, you get an EBITDA opportunity in 2017 of $1.2 billion.

Before I move on to our capital structure I would like to add that the capital investments needed to support these initiatives fit within our expected capital budgets and still allow us to generate free cash flow over the next three years. Looking at our capital structure and near-term maturities, we recently completed a $400 million unsecured debt deal which was well received and generated demand of about $2 billion. This and the roughly $325 million tender offer that was closed yesterday enabled us to further de-risk our balance sheet.

Following yesterday's completion of our tender offer, we intend to fully defease the remaining 2015 maturity of a proximally $60 million. This will leave us with approximately $300 million in maturities in 2016 and 2017. We expect our free cash flow over the next three years to be at least $600 million, which will more than cover the pending maturities.

If we look at our capital structure from a little different point of view taking a look at it from a leverage ratio standpoint, as defined by adjusted net debt divided by EBITDAR, and if we roll our model forward assuming the $1.2 billion in EBITDA for 2017 and that we retire the debt coming due in the next few years, our leverage ratio comes more in line with our peers and is only slightly above the mean of 3.5 times. As we remain focused on driving sales in EBITDA we can support our growth initiatives, drive free cash flow and achieve leverage ratios near the mean of our competitors.

Finally, I wanted to close by giving good update on where we are tracking for the third quarter. Following a strong back-to-school season we have seen a slowdown in our business in September and are currently trending to low single digits versus our previous guidance of mid single digits.

That said, we reiterate our guidance on margin and SG&A for the third quarter and reaffirm all of our full-year guidance metrics including mid-single-digit comp store sales for the full year as well as being free cash flow positive for the year. Obviously the environment remains challenging and we believe we are not alone in seeing the business slow down in September.

Additionally, we ended the second quarter with extremely clean inventory and while we knew we were up against an inflated clearance business from last year, as we were liquidating merchandise and vendors that will not go forward, we expected to offset this clearance drop with regular price and promotional selling just as we did in Q2. Despite regular price and promotional goods being up high single digits so far this quarter, we didn't sell enough fall merchandise, particularly given the warm September to offset clearance being down almost 30% year-over-year.

Before I turn it back over to Mike, I would like to add that I hope that everything we have discussed today convinces you that there remains opportunities for us to continue to grow our top line, restore our profitability and ultimately deliver value to all of our shareholders. With that I will turn it back over to Mike. Thanks.

Mike Ullman - *J.C. Penney Co., Inc. - CEO*

So in summary, first of all Ed and I are looking forward to taking your questions here in a few moments. I hope you got the impression that we feel very good about the progress we made on the turnaround, that was substantially back to the viability we needed to be and that posture going forward -- our initiatives -- that the customer proposition of private brands, national brands, attractions and exclusives, our omnichannel strategy and our focus on the customer experience and our associates, that those are the fundamental reasons why we want to get our customers to see loyalty beyond reason at JCPenney.

So we are really ready to compete head-to-head with our competitors. We are much stronger than we were when we started. Our growth initiatives are driving sales, loyalty and share of wallet.

Those are additional opportunities going forward as well. And our associates are extremely focused on sustainable profitable growth. We are obviously also very mindful of our responsibility to restore shareholder value.

So before we take your questions just a couple of topics that might be on your mind. First of all, the Board and I have been working very diligently on the turnaround. We felt that was the most important priority over the last 18 months.

At the same time we are obviously looking at the leadership transition opportunity and the succession issue at the Company. And be assured that that is a high priority.

I would also like to announce in case you have not seen the press this morning, Craig Owens, the former CFO of Campbell Soup has been elected to our Board. Craig comes with an extraordinary background in finance as well as operations.

He spent 14 years in Europe in the grocery and in the food business and did a great job at Campbell Soup. And he will be a great addition to our Board.

So with that I would like to go ahead and ask Ed to come back on the stage. And we will take your questions.

QUESTIONS AND ANSWERS

Matt Boss - *JPMorgan - Analyst*

Hi, Mike. It's Matt Boss, JPMorgan. Had a question on the $1 billion share opportunity that you talked about.

I think, Ed, you talked about a 2.5% core comp, could you just break down some of the opportunities within there? Obviously September has been a little bit slower, but over a multiyear period, I guess really the question being on that core recapture.

Mike Ullman - *J.C. Penney Co., Inc. - CEO*

I think the comment I would make is that all other categories obviously we believe we still have opportunities in all those categories that we didn't discuss today, whether it be intimate apparel or any other aspect of the business, the high margin businesses that we are deficient to let the opportunity that's going forward. I would say the other thing in the dot-com business, we haven't restored dot-com anywhere close to what it was in 2011. And that was really by not having the assortments be the same during the change in strategy.

So the customer is buying sportswear in our stores, she's actually taking the time to go to our store and then she goes home and buys the same category online with someone else. I think it's just a matter of getting her more comfortable that we have exactly what she's looking for.

So we believe that it is not an exaggeration to think that we can grow to the mean, let's say, between online and in-store, during the next three years. That's the logic of that.

Matt Boss - *JPMorgan - Analyst*

The second question I had is on the cost structure. So you talk about $14 billion to $15 billion in top line.

As we think about the bottom-line opportunity I guess the question being, are you comfortable with your current store base, do you see any changes there? And are you comfortable with the backdrop of the overall cost structure of the Company? Are there opportunities as we think about the size of revenues versus your breakeven point?

Mike Ullman - *J.C. Penney Co., Inc. - CEO*

I will speak to the store structure and Ed may want to speak to the issue of the expense structure. So we don't see any wholesale change in the store base. Obviously like every other retailer we look from time to time and make sure that the stores are all contributing positive to the total, so we will continue to do that.

But for those that are studied the Company, recognized that the vast majority of our stores are contributing well to the total. And we have a footprint in every state except Hawaii and virtually every little town in America. So many of those small town stores as people proceed may not be our core, we are the only game in town and the customer is very loyal to us and shops not only in the store but online.

So we feel pretty comfortable with our customer base as well as our store base. You may want to discuss our expense opportunities.

Ed Record - *J.C. Penney Co., Inc. - EVP, CFO*

Sure. Obviously we laid out today keeping SG&A flat over the next three years so we clearly believe that there is opportunities in the SG&A structure. That said, we don't expect to come in and make radical changes and take $300 million or $400 million out. We think that there are opportunities to improve the effectiveness and efficiency across our chain of advertising, store staffing, IT spend, home office, overhead, even our credit portfolio could be more profitable.

So we know there's opportunity there. We expect to be able to get those over three years and offset the growth that we would naturally need to be able to support the initiatives.

Mike Ullman - *J.C. Penney Co., Inc. - CEO*

I think another thing that I would mention is that we run the business with what we call MAT teams, merchandise action teams. 67 teams, each chaired by a buyer and a team of 8 to 10 folks.

Giving them better tools is a way to improve our productivity and take out cost and actually make it easier for them to do their work. So we have a very aggressive program of installing new tools over the next two or three years. So that is another opportunity for us to take out cost that really doesn't affect the customer sees.

Matt Boss - *JPMorgan - Analyst*

Good luck, guys. Thanks.

Kimberly Greenberger - *Morgan Stanley - Analyst*

Hi, thank you so much. Kimberly Greenberger, Morgan Stanley. I just wanted to make sure that I heard you correctly on the SG&A.

You said roughly flat over the next three years? Is that right? Ed?

Ed Record - *J.C. Penney Co., Inc. - EVP, CFO*

Pardon me?

Kimberly Greenberger - *Morgan Stanley - Analyst*

SG&A dollars you expect to be roughly flat over the next three years?

Ed Record - *J.C. Penney Co., Inc. - EVP, CFO*

Flat, yes, over the next three years.

Kimberly Greenberger - *Morgan Stanley - Analyst*

Okay. And then during your prepared remarks you talked about CapEx and that the in-store changes and upgrades you would look to make would be within your expected CapEx plans. Your expected CapEx plans, is that in line with the $250 million or so that you are spending this year? Are you expecting that to remain flat?

Mike Ullman - *J.C. Penney Co., Inc. - CEO*

Well, I would just say it is not flat but it is obviously incorporated in the three-year plan. Approximately the same next year then it ramps up. You may want to speak specifically to it?

Ed Record - *J.C. Penney Co., Inc. - EVP, CFO*

Yes, so over those three years 2015 through 2017 we expect CapEx to be slightly under $1 billion. So it will increase over the $250 million, but $250 million, $300 million a year on average.

Paul Lejuez - *Wells Fargo Securities, LLC - Analyst*

Hey, guys. Paul Lejuez, Wells Fargo, couple of questions.

First, you'd mentioned becoming a bigger destination for middle America shoppers. Just curious what percent of your stores are in middle America and what is the positioning of the Company outside of those markets?

And then second, just curious you've got a lot of initiatives going on, who specifically do you think you can take share from in each of those initiatives whether it be Home, center core, who do you think you are pulling dollars from? And then just finally if you could, just share with us the traffic versus ticket in the third quarter. Thanks.

Mike Ullman - *J.C. Penney Co., Inc. - CEO*

I will take the first two and Ed can speak to the metrics. First of all, middle America is not the geographic term we are using. It is the mid-tier customer.

So we have a footprint that spans the entire continental US. Actually most of our new stores are in what I call the Sun Belt, which has been very good for us. Arizona, California, Florida, the South has been a strong market.

We opened I think 140 new stores in 2006, 2007, 2008 in those markets. I would say in terms of where we lost share during the dark days, it's kind of interesting, it kind of just dissipated across many many retailers whether it be off-price outlet stores, some of our key mid-tier partners and not many seem to pick up that much.

And frankly I don't speak for them in terms of what they see happening, we are taking share again so it is coming from someplace. I think that our customer -- the reason we think we can get loyalty beyond reason is that our customer really likes an environment that we have in our store that isn't necessarily replicated in mid-tier.

They like the service and respect they get from us, which is not replicated in the mid-tier. They have to have the mid-tier price. So if we can deliver that mid-tier price given the environment and the service, we think that drives loyalty.

If we're doing business with half the families in America it doesn't take much to figure out one more visit means a heck of a lot. So the fact that we are doing at least once with half of America obviously our volume is not back to what it was before so we have an opportunity to conversion, we have an opportunity in the repeat visits and a bigger share of wallet. If you want to speak to the metrics?

Ed Record - *J.C. Penney Co., Inc. - EVP, CFO*

Sure, I would just add that we do see traffic slightly improving in Q3 but conversion is off and that is where it is happening. Where they were coming in to buy clearance, we don't have the clearance levels that we had last year. So we are seeing a slight decrease in conversion.

Mike Ullman - *J.C. Penney Co., Inc. - CEO*

I would say that last year was not a prototypical year. Obviously when you are selling the previous strategy clearance at below cost, that is not a model we want to replicate. So our AUR in clearance this year is much much higher and the units are down about 30% last time I looked.

So we are in a very non-comparable position in September. That starts to be more normalized as we get into October and November as we cleared out the discontinued brands that didn't resonate with the customer. As the spring 2013 assortments kind of left the store, we replaced it with merchandise that is selling at much higher AURs and much more profitably.

Michael Binetti - *UBS - Analyst*

Hi, Michael Binetti with UBS. I just wanted to reiterate you said traffic would be trending to positive in the third quarter?

Mike Ullman - *J.C. Penney Co., Inc. - CEO*

I don't know exactly what the question was but I can tell you that virtually no department store can probably tell you with any certainty that they are going to get positive in-store traffic at this point. If they combine it with their online traffic, most of us feel like there's a way to see positive traffic overall.

Ed Record - *J.C. Penney Co., Inc. - EVP, CFO*

My comment was that traffic in the third quarter was trending positive versus Q2. Slightly better versus Q2.

Michael Binetti - *UBS - Analyst*

Got it. Okay. So the one question I thought was interesting was to hear your confidence that some of the smaller stores and markets will be -- don't need to be evaluated for closure, will be contributing to these targets over the next three years.

And as we have been sitting here today one of your competitors in a lot of those malls, seems like they are having some vendor issues. And I think there's a lot of questions about whether Sears will be closing several stores.

So I think Mike in the past you've told us you have maybe 400 stores in B&C Malls. As you look at those malls and say there might be some risk to big anchors leaving those malls, how do you feel about -- or how will you judge the health of those stores and continue to make the decision over the next three years as to whether to keep them open, or whether they are going to have to be closed with other parts of the mall?

Mike Ullman - *J.C. Penney Co., Inc. - CEO*

There's actually two parts to your question. One is essentially the health of malls. And obviously we believe that the vast majority, if not 90% of our stores in regional malls are well situated with a strong developer who wants us to be prosperous and is helping us be in a strong position.

We have said maybe three or four years ago there might be 50 malls that are at risk over time but we could manage that with the portfolio. As to key competitor that may be in difficulty, we obviously have the same suppliers in some cases. And in those cases we obviously would work with that supplier to move that customer to us, if that's what the situation is.

We believe we have our own initiatives and we will just focus on taking care of the customer, creating an environment she loves, having an omnichannel experience that she sees as superior and we will win the business. And that's how we see it.

Ed Record - *J.C. Penney Co., Inc. - EVP, CFO*

Could I just add on your one comment about not evaluating the stores. I would clarify that as we are evaluating the stores. It is just that that they are EBITDA accretive.

So obviously if they weren't EBITDA accretive we would take action. But being that they are we feel that our store base is roughly where we need it to be.

Mike Ullman - *J.C. Penney Co., Inc. - CEO*

And we have said in the past some of them are double-digit EBITDA and at very low rent and have been there a long time and very much valued by the community. So conventional wisdom might be a small store is not as profitable. It is quite the opposite in many cases.

Michael Binetti - *UBS - Analyst*

Thank you.

Walter Loeb - *Loeb King Capital Management - Analyst*

There are two events that have happened recently. One of them is that the euro has dropped versus the dollar and secondly, gasoline prices have dropped considerably in the last month or so and will be dropping more. Maybe you could comment how it affects your Company for the rest of this year and for --

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Mike Ullman - *J.C. Penney Co., Inc. - CEO*

Walter, I didn't hear the first part of your -- are you talking about the euro relationship with the dollar? Is that what you said?

Walter Loeb - *Loeb King Capital Management - Analyst*

The dollar has strengthened versus the euro. It is now (multiple speakers)

Mike Ullman - *J.C. Penney Co., Inc. - CEO*

Okay, okay, sure. So I would say first of all to the question of the currency exchange, obviously a lot of moving parts.

The dollar is quite strong versus the yen. It obviously gives us an opportunity in dollar terms to acquire goods at a more favorable cost. As many of you know, apparel is a deflationary category for the last 20 years.

Maybe semiconductors will be the only thing that is close. The amount of merchandise per capita and retail space per capita has soared over the last 10 years. So it's a very competitive marketplace and we live in a worldwide competitive market.

In a sense that all European retailers that came in with fast fashion all took a piece of the opportunity away from those that were traditionally department stores in cities around the United States. So I would say we will compete based on the cost of our goods.

I think as you saw with our private brands we have some advantages by not going through agents or middlemen and having our own design aesthetics, we think that those costings will flow through to us probably more advantageously than others. And your other question was regarding?

Ed Record - *J.C. Penney Co., Inc. - EVP, CFO*

Gasoline prices.

Mike Ullman - *J.C. Penney Co., Inc. - CEO*

Gasoline. Well, we know the number one correlation of our customers' spending is the price of fuel. So that, as you saw from the NRF projection for holiday at 4.1% growth for the sector, I think it's a fair callout to say that a good part of that is the optimism about the fact that fuel prices will be less expensive for our consumer. And it goes right to their family budget.

I think the other half of it though is that we know that Samsung, Apple and Amazon are taking a big chunk out of consumer spending. They are not going to be giving up their technology lightly.

So we know that will have an effect. And whether that is measured in the NRF number I cannot tell you, but I think that we are all feeling with a favorable calendar for fall, hopefully, we have seasonal weather soon and that gasoline prices being low, the consumer will feel good about their family budget and they will come out and shop.

Brian Nagel - *Oppenheimer & Co. - Analyst*

Hi. It's Brian Nagel from Oppenheimer. A couple of questions.

First off, with regard to the sales commentary you made and the slower trends you have seen lately, I was wondering if you could put more context around it. Are there areas of the country where weather has cooled and if those exist, how have JCPenney sales been there?

Mike Ullman - *J.C. Penney Co., Inc. - CEO*

I'm going to ask you to take out the USA Today, the last page of the first section, put it on your bulletin board. Duluth, Minnesota was cold yesterday, it's the only place.

Brian Nagel - *Oppenheimer & Co. - Analyst*

So we don't have that answer then?

Mike Ullman - *J.C. Penney Co., Inc. - CEO*

I can tell you in our Minneapolis district yesterday we were up 18% and in one of our Texas districts we were down 15%. We have the same merchandise, same promotions, same service, same customer.

So until the weather changes I don't think any apparel retailer is going to be thrilled. But that's the nature of our business. It happens every year.

So not using an excuse, it is just a fact. And we know that last year, October, was extremely warm. So there's some sense that we have a shot at seasonal weather the next couple of weeks.

Brian Nagel - *Oppenheimer & Co. - Analyst*

A follow-up question, bigger picture is promotions. Overall putting aside some of the clearance activity, particularly ridding the stores of the product that wasn't working, but is the overall promotional cadence now consistent with your longer-term strategy? And as you look toward the gross margin guidance you laid out, embedded within that guidance is there any shift in promotional cadence?

Mike Ullman - *J.C. Penney Co., Inc. - CEO*

Well, I would like to say I think we're very disciplined about our promotional strategy, particularly going back into the promotional cadence that we knew the customer valued. So it would be wrong to say that we haven't thought through how promotion is going to be for holiday but we're not going to do anything that jeopardizes our gross margin.

We believe we have planned promotions that will resonate with the customer. She understands our events whether it's Biggest Sale of Them All, or whether it's the Friends and Family Event, or the various things we will run during the holiday season. We are quite confident about that.

But there's no question out there that there is more merchandise than there is demand for it by the consumer there will be a scrum for how to promote it as aggressively as possible. We think that is one of the reasons why we're balancing the customer fit in terms of understanding us and because we understand them.

It was just outright how many promotions can you run in a week. But it is competitive.

Neely Tamminga - *Piper Jaffray & Co. - Analyst*

Neely Tamminga, Piper Jaffray. Thank you for today's presentation. Two questions.

If we were to look at the 2011 customer file and it sounds like you're back to those numbers, what can you tell us about looking at just the subset of that best customer view? And any sort of KPIs you can share with us around her behavior and how that has been trending year to date that is giving you the confidence to present the top-line opportunities? Point number one.

The very specific question might be for Mike Rodgers, or Ed can help out with this too. As we think about the SKU penetration of dot-com and how that came down, it sounds like it is going back up and that is part of the contribution of the $450 million opportunity, can you just size that up or contextualize for us how bad it got and how much bigger it should be?

Mike Ullman - *J.C. Penney Co., Inc. - CEO*

I will just give you one thing on that topic and Ed can elaborate. But the find it, keep it functionality have where the associate can -- the customer comes in and says I need eight drapery panels, we have six in the store. And they can just scan the UPC and online they can immediately either ship the extra two panels to the store for free or to their home.

We disconnected that during the difficult time. We had separate inventories online versus in the store. So there was no such thing as accessing the inventory to solve a customer problem.

That cost us about $0.5 billion a year. So it is taking a while to rebuild that business and obviously the inventory to go with it. So the reason we are so optimistic about it is frankly the customer is clearly values that and I don't think many other retailers even have that capability.

So when Mike Rodgers talks about omnichannel, that is a competency we've had for decades because we were strong in the catalog business. So that catalog infrastructure and thought process, the delivery desk and so forth gives us enormous confidence we will get that business back.

The number of images online is also an opportunity. Obviously some of our competitors have 2 or 3 times the number of items online. So it will take us a while to get back and making sure we don't just put everything online but the stuff that the customer would be most likely to purchase.

As to the customer's activity in the store, we are -- our conversion is down right now. Why? Because conversion is a function of transactions.

And last year we had twice as many transactions in clearance as we have this year in many cases. So obviously that is a strange metric at the moment because conversion was running positive all throughout the year until we got to the back half of the year. So we are trying to ignore that because we think it's an aberration.

We will go back to the norm coming soon. I think the customer is obviously not buying as much as they did in 2011 or with the same number of customers they have the same amount of sales. So the reason we think it is so important is frankly the center core is so deficient and that is an objective we were working on just before the strategy changed.

So we know what to do, we know how to do it and the opportunity is there to go after the business. It happens to also be very high-margin business. So I don't think it is a leap of logic to think that doing what we know how to do best, which is to buy and sell merchandise that the customer values, most of our competitors have been going to town on accessories, women's shoes, handbags, sunglasses, the things where we see the opportunity.

Ed Record - *J.C. Penney Co., Inc. - EVP, CFO*

So I would just add onto that, as you look going back, our known customers, the customers that we can identify in our store, which is 40% of our customers, 60% of our sales, their trips are roughly flat to where they were. Their average spend is roughly flat. It is the unknown customers that we have.

So the ones that we are talking to week in week out, they are coming back. Now the interesting thing is their average spends and trips are flat but their transactions are down. So they're not cross shopping as much as they used to but they are buying more in individual departments.

So we know we have an opportunity around cross shopping. Then as we continue to be able to talk to more of our customers on one-on-one, driving that increased trip there we know is an additional opportunity.

Mike Ullman - *J.C. Penney Co., Inc. - CEO*

The biggest cross-shop opportunities are in center core. If you buy a piece of sportswear you want to accessorize it. If you buy something in intimate apparel, obviously that's a cross-shop opportunity to apparel.

Unidentified Audience Member

Mike, first off I think I speak for everybody here, we are delighted to see you in the flesh and looking so good. So really it is great to see that. Two questions for you.

One is, can you give us an update on your IT infrastructure? I know that under the prior regime it was going to change out and then it was freezed.

I hear you're making some progress and where you are on that, number one. Number two, I am wondering whether as your average unit retails go up because clearance is smaller and clearance markdowns that you are taking are less intense, whether that is one of the inhibitors in terms of sales right now that you are effectively increasing the cost of items to the consumer?

Mike Ullman - *J.C. Penney Co., Inc. - CEO*

To the second point I think that is a fair callout. Obviously to the extent that they perceive there is more expensive merchandise in the store versus clearance, that may be a psychological issue. But frankly the average price point out the door for us over the year is comparable to our key competitors and to what we have had historically.

But our margins are improving because we are not selling except for this last year timeframe. We believe we should sell clearance over cost. And that is obviously our objective.

In terms of our IT, we are in great shape in terms of the infrastructure we have for IT. Like everyone else we are very mindful of data integrity, data security and we are as diligent as we can be in the area. And as I mentioned earlier, we have a very aggressive set of tools we are installing over the next two or three years to enhance our ability to productively manage primarily the merchandise function.

We are probably one of the only ones that actually marry the online planning function with the store planning function. That will get us the enterprise inventory faster. We think that's a very important initiative.

Unidentified Audience Member

Thanks.

Valerie Brown - *AllianceBernstein - Analyst*

Hi, Valerie Brown with AllianceBernstein. I have two questions.

The first relates to the assumptions for your SG&A expense forecast. There seems to be a trend towards higher wages with many states implementing higher minimum wages and some of your competitors voluntarily raising wages.

Can you speak to the offsets that you are anticipating to those rising costs as well as higher costs related to the Affordable Care Act? And then I have a separate question on Home.

Mike Ullman - *J.C. Penney Co., Inc. - CEO*

Okay, maybe I would just mention the minimum wage issue since I just happened to look at this. We have less than 10% of our people that actually are at minimum wage and they tend to be people that have just come out of a holiday hire situation and just joined our workforce.

So it's not a material change at the moment. We did not give our people merit increases for three years. I am very pleased to say we had that opportunity to give them a merit increase August 1 of this year.

This is the first year our management team, 6,000 people that we consider to be management, first time they had an opportunity to get incentive comp. So some of our SG&A expense going forward is good expense. We are able to pay our people for the hard work that they've accomplished and give them the incentive comp they deserve.

So we need to offset those obviously with effectiveness and process improvement. So is there anything else you want to mention?

Valerie Brown - *AllianceBernstein - Analyst*

Affordable Care Act?

Ed Record - *J.C. Penney Co., Inc. - EVP, CFO*

Clearly the Affordable Care Act is driving up health care costs, particular for companies. That is baked into our expectations.

As Mike said, we don't have a significant increase baked in for minimum wage increases because we pay above that. But we still believe that there continues to be efficiency and effectiveness opportunities across the expense structure to be able to offset that over the next three years.

Valerie Brown - *AllianceBernstein - Analyst*

And then shifting to your strategy in Home, if you could talk about the amount of square footage that is dedicated to Home and whether you anticipate any material changes as well as the mix between soft home and hard home?

Mike Ullman - *J.C. Penney Co., Inc. - CEO*

Sure. So the good news first. Our Home Stores have never looked better.

505 of them, we spent an enormous amount of money improving the environment. That is the good news.

Maybe less good news in terms of productivity is we doubled the aisle spaces. It was not productive space, and we actually doubled -- we increased the overall footprint of Home at the expense of some other categories.

So as you may have figured out in terms of business presentation, we are looking for new ideas to put in home to get better productivity. Some of the ideas were very unproductive and we move those out because the customers didn't vote in favor of them.

We also had a distortion of hard being bigger than soft, which is the opposite of the way the customer shops with us. And it's the opposite of the way you would want gross profit to come down, to be effective.

So we have now reversed that and we have put the soft Home as a larger proportion to space. It has higher margins. It's actually more frequently shopped and for example in housewares we had 3 times the amount of housewares in the store that we have now.

The customer doesn't need 3 times the amount of housewares. And it's at very low margins compared to soft Home.

So those are some of the things we've rectified during the turnaround. The big opportunities going forward, frankly, are to be promotionally very attentive to what she wants, make sure our events are strong, make sure online is strong because that is where a lot of the Home business is accomplished. So like window, luggage, soft Home there are very profitable categories and they are now back in the right proportion.

Teresa Donahue - *Neuberger Berman, LLC - Analyst*

Teresa Donahue, Neuberger Berman. Thanks so much for a great day. I had two questions.

First of all in terms of store level execution, where would you say you are in implementing the initiatives you have outlined today and some of the steps you have taken already? Because with all due respect, I still see some pretty big inconsistencies in terms of inventory availability and presentation and things. And then I had a question on the promotional strategy in general.

Mike Ullman - *J.C. Penney Co., Inc. - CEO*

Well I think anybody would be foolish to say we executed perfectly across 1,100 stores. But I would say the customer says we are 6 to 8 points higher in every category whether it is clarity of offer, had items in stock, time at checkout, knowledge of associates, our net promoter score, highly satisfied customers, customers with a problem is the all-time low. So I would say we are always striving to be better.

But the last three weeks are the highest in the Company's history, so I would say we execute reasonably well. For those that haven't been in a store I suggest you go and compare it against our competitors.

Teresa Donahue - *Neuberger Berman, LLC - Analyst*

And secondly, I am wondering the promotional strategy you referenced, we've talked about conversion and we've talked about conversion being down because of lack of clearance. What kind of metrics are you looking at to ensure that the current promotional strategy is the right one and sharp enough for driving the traffic and the sales going forward? Is it a question of time, or traffic, or what you think you'll be looking at?

Mike Ullman - *J.C. Penney Co., Inc. - CEO*

We were pretty satisfied with our conversion, first the conversion. Until we got to this non-comparable period were we had so much clearance a year ago our conversion was up virtually every day, every week. So we think that will return as we get into holiday.

In terms of effectiveness of our promotion, it's a very promotional environment, we are focusing on the big events that the customer finds highly relevant. So for example our fine jewelry business suffered greatly during the other strategy. By putting back in the promotion she was used to and enjoyed, that business has come back strongly and it is a high-margin business.

So you have to look it up by business. You can't just look at promotion as a category or topic.

So for example, Home brings a lot of people in the store, so promotion is extremely important in Home. We probably have opportunities to improve that as we grow the home business. But I would say we are not deficient in promoting.

We went through a big conversion to get back into the promotion business and get our pricing straight. We think we have crossed that barrier over the last 6 to 12 months.

David Glick - *Buckingham Research Group - Analyst*

Hi, David Glick from Buckingham Research Group. Mike and Ed, how are you? Question about your gross margin goal at 36.5%, as you noted conservative in your view.

I think perhaps some of us were expecting more in that 37% to 38% range. And I am wondering how much of that is maybe fixed cost component of gross margin versus your being conservative or just a view of the environment is going to be competitive and what led you to that conclusion on that as an appropriate target for gross margin? Then I have a follow-up on the balance sheet.

Mike Ullman - *J.C. Penney Co., Inc. - CEO*

I will give you the merchant answer and he can give you the financial.

David Glick - *Buckingham Research Group - Analyst*

Sounds fair.

Mike Ullman - *J.C. Penney Co., Inc. - CEO*

So I think from 2005 to 2011 our margin was between 37% and 39%. We don't see a reason over time why we can't achieve the same margins.

Our cost structure in terms of private brand, the mix of private versus national versus attractions is appropriate but obviously has been put out there is a forecast. We want to make sure we are prudent and we know we can achieve 36.5%, we just did. Ed?

Ed Record - *J.C. Penney Co., Inc. - EVP, CFO*

Yes, and again there is really no fixed cost piece that is prohibiting us to get back from there. The impact on the deleveraging is very minor. It is basis points.

And we did bring down overhead in the buying and planning group as the sales came down, so it is not really a fixed issue. Again, as I think Mike just said, it is really about being conservative and not wanting to go out there and say we're going to get back to 38% right away. But we have plans and Liz can attest, she will be challenged to get pretty close.

David Glick - *Buckingham Research Group - Analyst*

Okay, and then a follow-up question on the balance sheet. Are there any other opportunities to further deleverage the balance sheet beyond the $300 million and those near-term maturities, or opportunities to perhaps restructure your debt further? Is there any flexibility in your three-year plan to make a dent in the debt outstanding?

Ed Record - *J.C. Penney Co., Inc. - EVP, CFO*

Clearly in the last six months I think we've made a lot of progress. We first deleveraged it by upsizing our ABL and then we went out and issued unsecured debt. Again we had over $2 billion of demand.

We could've taken at least $1 billion if we wanted to in unsecured debt. We felt the $400 million was the right size because we just wanted to get a handle on our near-term maturities and give us enough runway.

I think we have a lot of opportunity today that we didn't have six months ago. And I think we continue to evaluate our capital structure. But I think the important thing is that we have plenty of liquidity and we have basically taken care of the near-term maturities.

So we feel like we've got three years runway to complete the turnaround and get back to that EBITDA target that we laid out. And at that EBITDA target we are not that highly leveraged. We feel pretty good --

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Mike Ullman - *J.C. Penney Co., Inc. - CEO*

That's frankly why the three big growth initiatives focus on EBITDA because we realize if we get EBITDA back to 2011 or better obviously our debt structure looks a lot more manageable.

David Glick - *Buckingham Research Group - Analyst*

Thank you very much.

Carla Casella - *JPMorgan Chase & Co. - Analyst*

Carla Casella from JPMorgan. One question on the private brands. Did you say where you are relative to that 50% target today in the stores?

Mike Ullman - *J.C. Penney Co., Inc. - CEO*

We are very close. Sometimes it's a few points lower but essentially there.

Carla Casella - *JPMorgan Chase & Co. - Analyst*

And then as you are adding back in -- improving the in stock in stores and bringing in some of these new initiatives, how should we think about working capital for this year and next? I think it had been we had forecast that to be a big source of cash there this year that is going to help you to get to free cash flow breakeven. Is that still the case, or has that changed?

Ed Record - *J.C. Penney Co., Inc. - EVP, CFO*

Yes, I think we said publicly we expected to be a $200 million to $300 million source of cash this year. That hasn't changed. And obviously next year we don't expect to be able to repeat that.

We think it will be at best flat or a use of cash. We have also continued to do other things, though, like we increased our terms with our supplier base. So even at a flat working capital next year we expect to be able to grow inventories within that through increased leverage, so --

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Carla Casella - *JPMorgan Chase & Co. - Analyst*

Okay. Did you reaffirm the free cash flow breakeven this year and the greater than $2 billion of liquidity at yearend?

Ed Record - *J.C. Penney Co., Inc. - EVP, CFO*

Yes. We reaffirmed all full-year guidance.

Carla Casella - *JPMorgan Chase & Co. - Analyst*

Thank you.

David Berman - *Berman Capital - Analyst*

Hi, Mike. David Berman. Can you just embellish on why you think that you can do well in omnichannel given that you had a late start? It seems like at this stage it might be quite a challenge and also can you sort of talk a bit further about the kind of growth rate and numbers you expect there?

Mike Ullman - *J.C. Penney Co., Inc. - CEO*

I would start by saying that it was one of the three incremental growth opportunities. So we do recognize that we are starting from a lower base than some.

The biggest piece obviously is the Internet business that we are owed by getting back in the kind of business that we would expect to compete ahead of other competitors. We think find it, keep it, or what we used to call find more, the accessing the inventory from the store, frankly tends to be ahead of our competition, so a leg up.

I think Mike and his team have done a very good job of going out after the mobile and the other functionality of ship from store in a very short period of time. He's only been here since February. So I'm very optimistic that we will make incremental improvement at a rapid rate.

Stephen Grambling - *Goldman Sachs - Analyst*

Stephen Grambling from Goldman Sachs. I just wanted to actually follow-up on that last question.

As you look at your e-commerce growth assumptions, what is the underlying relationship to the stores as well? How much of that is actually going to be -- is there an underlying assumption that it is going to be coming from the stores that is a transfer and so maybe the growth rate is higher?

Ed Record - *J.C. Penney Co., Inc. - EVP, CFO*

Again, we laid out $3.5 billion of opportunities and we said we expected to get 60% of that. And part of that is because we do know that dot-com is overlapped. Part of the center core initiative is to drive dot-com in center core; part of the Home Store and Home Store really overpenetrates and indexes on dot-com, so a piece of the Home Store initiative is in the dot-com.

And we know that a piece of the base as the dot-com will grow will shift out of the base. That's a big reason why we assume the $2 billion instead of the $3.5 billion. So some of that is baked into the assumptions.

Stephen Grambling - *Goldman Sachs - Analyst*

And then can you remind us what the split is between brands and private-label online versus in-store?

Mike Ullman - *J.C. Penney Co., Inc. - CEO*

It is slightly -- it is different than it would be in-store assortments. But overall if you add online and in-store together it is the 50% private, something less than that in terms of national brands and attractions. But Home overindexes online, so the Home brands obviously would be a bigger percentage online than they would be in the store.

Stephen Grambling - *Goldman Sachs - Analyst*

And then one last one if I can sneak it in there, it looked like the EBITDA contribution assumption for e-commerce was pretty substantial relative to the other categories. Can you just talk to some of the underlying assumptions for the margin online?

Ed Record - *J.C. Penney Co., Inc. - EVP, CFO*

Sure, the margin, which obviously the dot-com margin includes delivery, is less than what we experience in-store but it is still -- it is not dramatically less. I'm not sure I want to give the number from a competitive standpoint but it is pretty healthy margins when you look at it. So it is slightly less than our total margin but not by a significant amount.

Stephen Grambling - *Goldman Sachs - Analyst*

Thank you.

Wayne Hood - *BMO Capital - Analyst*

Wayne Hood with BMO Capital. I'm just wondering if you were to assume that this was not an aberration, the trend that you're seeing right now, that in fact things have weakened a bit and you let's say you missed your sales plan by 1 point or 2 points kind of going into the third quarter, what flexibility you have in working capital?

So for example if you miss your comp by 1 point, that you could bring down your -- improve your working capital by the magnitude that you talk to, just so we can get some sense of that delta? And then the second question I had, in your guidance was that inclusive of pension expense and what is the net pension expense you are assuming and then what payable ratio are you assuming, the trade payables to vendors in that guidance of cash flow? Thank you.

Ed Record - *J.C. Penney Co., Inc. - EVP, CFO*

The middle one first, I guess. Pension is not in there. Pension from an EBITDA standpoint or a cash flow standpoint, we are obviously not putting any cash in our pension, so it's not impacting our free cash flow.

I think we've done an outstanding job of managing our inventories this year. I would expect that if we miss our expectations by 1% we will be fine with the guidance we have given.

In fact, we expect receipts to be flat from October through January whereas earlier this year they were down as we were working through our inventories back down. So we feel good from a business standpoint of receipts as a percent to last year were actually better than they were earlier this year so we think that should be a positive. But obviously if the business trends change we have an opportunity to take some of that out.

Mike Ullman - *J.C. Penney Co., Inc. - CEO*

I would say also the team has done a great job of managing expense. I think particularly the first two quarters of this year came in below the consensus on expense because the teams did a great job of flexing the staffing in the stores and the other expenses we can control. Obviously depending on how much time you have in terms of trend reflects accordingly the fourth quarter as well.

Wayne Hood - *BMO Capital - Analyst*

And then Ed, at what point does it become a little bit more of a challenge? Is it a 2-point miss where it becomes challenging to bring the inventory levels down?

Mike Ullman - *J.C. Penney Co., Inc. - CEO*

I think it is not really helpful to try to play the game of how far down can you go before you don't feel well. I think frankly we have told you that we feel our inventories are in line, our expenses are well-controlled and we have promotional strategy we think can compete in the marketplace.

Wayne Hood - *BMO Capital - Analyst*

Okay, great. Thank you.

Ed Record - *J.C. Penney Co., Inc. - EVP, CFO*

I think we are getting the signal.

Mike Ullman - *J.C. Penney Co., Inc. - CEO*

One more question. Yes.

Jenna Giannelli - *Citigroup - Analyst*

Hi there, it is Jenna Giannelli from Citigroup. As you think about achieving some of your growth initiatives whether it be through omnichannel, or the Home department, or through your center core, can you walk us through some of the potential costs associated with maybe modest refreshes, restaging, even advertising costs? And then really what are the key buckets of G&A opportunities that you think you can take out of to keep that G&A line flat over the next few years?

Mike Ullman - *J.C. Penney Co., Inc. - CEO*

Well, I would start by saying that that was all incorporated in Ed's comments about funding those initiatives over the next three years. Obviously the merchandise is already in the store in those categories.

We're going to have a better environment, organize it in a more useful way for the customer. And frankly if you look in the store in Brooklyn Gateway, or in the Bronx where we have already set up the center core, pretty much the way we see it going forward it is the same merchandise as we have in the other stores. It looks dramatically better and is selling much better.

So we have a lot of confidence that the initiatives we pointed out in center core are real, they are exercisable by our team at the present time with the current assortments -- we think the assortments only get better. So we don't have a funding problem. It is built into our plans.

All right, thank you. We are giving you 30 minutes back. I hope that those of you who are able to go to the store -- all seven of our GMMs will be in the store leading the tour.

So we get to meet the entire merchandising team. It's one of the true strengths of the Company, so thank you very much for coming today.
