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JCP - J C Penney Company Inc Analyst Meeting

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PRESENTATION

Eleanor Hodges - *J. C. Penney Company, Inc. - Employee*

I'd just like it. I just say I like people. My second husband, he said he didn't know why I just didn't get a rollaway bed up here and spend the night.

Unidentified Participant

Eleanor Hodges' career at J. C. Penney spans six decades.

Eleanor Hodges - *J. C. Penney Company, Inc. - Employee*

My parents always said, now, if you got a job, you work and you do your job. Don't play around.

Unidentified Participant

Ms. Eleanor is a bra fit specialist in Greenwood, South Carolina. She's an expert fitter who is passionate about her products and her customers. That's why they keep coming back.

Eleanor Hodges - *J. C. Penney Company, Inc. - Employee*

I have lots of people now that I fitted and now they have children. And they want to bring them over there when they are starting wanting to wear a bra.

Unidentified Participant

I grew up in Greenwood and this is my daughter, Audrey. And my mom used to bring me here for bras with Miss Eleanor. And I was hoping she would be here to help today and she was.

Unidentified Company Representative

If someone had been through four generations of people into the stores and everything, you learn a lot from her. She's a teacher of other associates, too, also.

Unidentified Participant

When I was 18, I come in and saw Miss Eleanor. And even then, she was just as spunky and energetic as she is now.

Unidentified Participant

Over the years, Miss Eleanor has seen a lot of changes and held a variety of jobs, especially during the early days.

Eleanor Hodges - *J. C. Penney Company, Inc. - Employee*

I started licking tickets. You know, we had to lick those tickets. And Mr. Robin, he got back from vacation and he came by. And Junior Madden was the boy that's up there over the stockroom. He said Junior, who's this pretty girl you got up here? He said that's Eleanor. He said, what flavor did you give her today in those stickers? Vanilla? I said, I'm tired of licking vanilla. And he said, that's the only flavor we got. (laughter)

Unidentified Participant

She's just funny. She always has something funny to say to you or tell you a funny story.

Unidentified Participant

To highlight Miss Eleanor's loyalty, a celebration was thrown in her honor. But this was no ordinary celebration. CEO Marvin Ellison and EVP Joe McFarland dropped in for the festivities. They joined the store associates, her husband Frank, and other family members to mark this special occasion.

Marvin Ellison - *J. C. Penney Company, Inc. - Chairman, President, and CEO*

We have quite a few associates in the Company, over 100,000, and you are the longest-serving associate of over 100,000 total associates in the Company.

Unidentified Participant

Marvin and Joe presented Miss Eleanor with a silver tray, a $500 gift card, and a set of all new major appliances for her home.

Eleanor Hodges - *J. C. Penney Company, Inc. - Employee*

This is all mine?

Joe McFarland - *J. C. Penney Company, Inc. - EVP, Stores*

This is all yours right here. You own every square inch of this.

Unidentified Participant

Later during their visit, Miss Eleanor took them on a tour of her department. But the celebration didn't stop there.

Joe McFarland - *J. C. Penney Company, Inc. - EVP, Stores*

All right, we've got one other thing we're going to have we've got that Marvin is going to give you here.

Marvin Ellison - *J. C. Penney Company, Inc. - Chairman, President, and CEO*

We created this as a recognition for outstanding associates, and it's actually a coin. And on the coin, you can see Mr. Penney. Then on the back, we have the values. And this is something that we want to give to you. We call it our warrior coin and that is for the outstanding associates that live the values of the Company every day. But also lives by James Cash Penney's mantra of the Golden Rule. Treat -- do onto others as we'd have them to do onto you. And this is yours, all right. So congratulations.

Eleanor Hodges - *J. C. Penney Company, Inc. - Employee*

Thank you so much.

Marvin Ellison - *J. C. Penney Company, Inc. - Chairman, President, and CEO*

No, thank you, hon. So you keep that.

Eleanor Hodges - *J. C. Penney Company, Inc. - Employee*

I like that. He was such a nice man. But I liked him, I really did. He introduced himself to everybody and shook our hands and told that he respected we worked for him.

Marvin Ellison - *J. C. Penney Company, Inc. - Chairman, President, and CEO*

Everybody in the store knows Miss Eleanor. Even though when you first come into the store as our part-time associate, you meet Miss Eleanor. Customers knows the days that she work; they come in just to see her.

Eleanor Hodges - *J. C. Penney Company, Inc. - Employee*

I never think it's a bad day. I think it's always a good day. I don't push anything off on anybody. I know if I tell you honest, you'll come back. But if I don't and if it's not right, you won't like it.

Trent Kruse - *J. C. Penney Company, Inc. - VP IR and Communications*

All right. Good morning, everyone. Wasn't that an awesome story about Eleanor? The funny thing about that story: that's both the mother and daughter actually flew from Las Vegas all the way over to South Carolina to see Miss Eleanor. I don't know a lot of people that would fly coast-to-coast to see me.

But we thank all of you for joining us here in Dallas today, despite some of the weather challenges I know getting in here. So thank you. You know, Miss Eleanor is a true inspiration to all and what a testament to the values we continue to live by 65 years later at J. C. Penney.

I'd like to welcome you to our 2016 analyst meeting. We are happy to have all of you here.

For those that I have not had the opportunity to meet in person, my name is Trent Kruse. I'm the Vice President of Investor Relations and Communications here at J. C. Penney. And on behalf of our entire leadership team, I'd like to thank everyone who traveled to join us here in Dallas today. We would also like to extend a welcome to those listening on the webcast today.

Our executive leadership team has prepared a great program for you today, which will be followed by a Q&A session at the end of all of our presentations. We will take a short 15-minute break in the middle of the meeting and then reconvene to conclude the formal presentation and finish with that Q&A. Once the Q&A begins, we'll get you started and we'll have a chance to hear from all of our members of the management team on stage. So it will be a great Q&A session.

We'll get started in a few minutes with the presentation. But first, just a few housekeeping items to go through. Today's presentation is being webcast and recorded at the request of J. C. Penney. The materials which will be referenced in today's event are being streamed live on the webcast and you may access them now by linking through to the investor relations page on our site. An archive of the presentation materials, transcript, and audio replay will be available on our IR site within 24 hours.

One item to note: those listening in via the webcast this morning will not be able to actively participate in the Q&A session following the presentation. However, you will be able to listen in remotely to the Q&A through its entirety.

As a reminder, the presentation this morning includes forward-looking statements within the meaning of the Securities Litigation Reform Act of 1995, which reflects the Company's current view of future events and financial performance. The words plan, expect, anticipate, believe, and similar expressions identify forward-looking statements.

Any such forward-looking statements are subject to risks and uncertainties and the Company's future results of operations could differ materially from our historical results or current expectations. For more details on these risks, please refer to the Company's Form 10-K and other SEC filings.

Please note that no portion of this presentation may be rebroadcast in any form without the prior written consent of J. C. Penney. For those listening to the replay after August 17, 2016, please note that this presentation will not be updated and it is possible that the information discussed will no longer be current.

I would like to now welcome our Chairman and Chief Executive Officer, Marvin Ellison.

Marvin Ellison - *J. C. Penney Company, Inc. - Chairman, President, and CEO*

All right, good morning, everyone. And thank you, Trent. Look, we would like to thank you for joining us this morning for our 2016 analyst meeting. So today, we're going to review the progress we've made over the past year and we're going to share our strategic vision with you for the future of J. C. Penney.

Before getting to the specifics of the strategy, I want to start out discussing the culture of J. C. Penney. Culture is one of the reasons I decided to join the Company. Prior to joining this Company, I was very blessed and fortunate to work with two great retailers. But I grew up shopping at J. C. Penney. I shopped at the store in Jackson, Tennessee, with my mother and my six siblings for back-to-school and school clothing.

And this culture of J. C. Penney can best be represented by the two diagrams you see on the screen. One is the warrior pin and the other is the inverted pyramid.

We believe at J. C. Penney that the values of loyalty, passion, courage, and service define who we are, but also define how we serve customers. And the inverted pyramid further demonstrates that we have a customer-centric focus, and it's also my philosophy of leadership.

This symbol was introduced to me by the founders of The Home Depot and it teaches us that true leaders are servants. They think first about customers and associates that makes the whole company run. And although this pyramid is symbolic, it's a reflection of how we believe we must compete in this very dynamic retail environment.

Now let me transition to the key things of the meeting today. They will be very simplistic and very straightforward. Number one: we're going to clarify the strategic focus of J. C. Penney. Strategically what steps will we take to maintain and accelerate our turnaround efforts.

Number two: we're going to define how we remain relevant as a retailer. Retail is becoming more and more competitive and more interconnected. And in retail, you're either moving forward or you're going backwards.

And number three: we're going to outline what is beyond the $1.2 billion in EBITDA in 2017. As a team, we've been very disciplined and we've maintained our focus on delivering $1.2 billion in EBITDA. But today, Ed and I will discuss our financial goals beyond 2017.

So let's begin our presentation with our strategic focus. So last year, I discussed how I felt J. C. Penney was out of balance relative to the art and science of retail. So when I arrived in the fall of 2014, I felt we were very focused on the visual aspect of retail: store aesthetics, store presentation, visual marketing, just to name a few.

But during this time, the Company invested very little time and energy in leveraging customer data, developing supply chain efficiency, creating a true omnichannel experience and producing what I call operational efficiency. So this slide represents we are out of balance.

Look, and although we have a lot of remaining work to do, I'm actually proud of what we've accomplished as a team on the science of retail. So you can see from this slide we've made quite a few improvements on the science of retail over the past 12 months.

You know, our ability to deliver a 2.2% comp in the second quarter while reducing SG&A by $48 million, improving gross margin by 10 basis points, and managing inventory down 80 basis points reflects the fact that we are committed and improving the science of retail. But it also reflects the fact that we have what I call a commitment to test and learn.

So as an example, we tested center core in 12 stores for 50 weeks before rolling it out to a third of our stores. The new stores are dramatically outperforming the chain and John Tighe will discuss this in more detail shortly.

Another example of testing and learning is that we tested buy online, pickup in-store same day in approximately 230 stores for 10 months. After the test, we rolled it out to 700-plus stores in 8 weeks, which is pretty unprecedented. So Joe McFarland and Mike Amend will discuss both this results later on this morning.

And as I discussed on last week's earnings call, we tested appliances in 22 stores for 12 weeks. And from our learnings, we have appliances rolling out in 500 stores this fall. So 500 appliance showrooms, 500 stores this fall.

Look, this newly developed discipline also gives me confidence that the improved science will allow us to have fiscal and financial success in these new initiatives that we are rolling out. And look, because of the hard work of the team, our current environment is a little bit more balanced between the art and the science of retail.

And while we're still focused on running stores that look good, we'll now make more data-driven customer decisions. We'll implement much improved process and technology throughout the entire Company. This also has allowed us to improve our execution on omnichannels, store operations, supply chains, and merchandising systems.

So now, when I joined J. C. Penney back in November 2014, we were in full turnaround mode. A lot of meetings; I sat back and I took notes. And I found out that we had our attention quite divided amongst a lot of different things.

This slide reflects some of the projects we were working on back then. So if it looks confusing, and if you can't read it, it's an accurate reflection of what was going on back then. So many of these initiatives were necessary to keep the Company afloat, but we need to transition to another phase of the turnaround.

You know, after I sat back in those meetings and I counted over 150 Company projects that we were trying to execute, I came to the quick realization that we were simply overcomplicating the business.

So there were a lot of plans, but very limited accountability. Teams were working really hard, but they were working in silos with limited collaboration. And you know what the old saying: if you don't know where you're going, any road will take you there. It definitely applied to us.

Well, let me be clear on one thing: I don't think anyone in the external environment can really understand how difficult the situation was that Mike Ullman walked into in 2013. The damage to the supply relationships, the severing of manufacturing and sourcing partnerships, the morality of associates, and the damage to the overall brand was actually more devastating than the decline in revenue.

You know, without Mike's stewardship's steady hand, there is a really strong possibility that this Company wouldn't even be here today. So J. C. Penney will always be grateful to Mike Ullman.

But when I became CEO, we had to clarify our strategic direction. And we had to build a team. And I'll discuss this more in a moment.

So we made some tough choices as a Company. Of the original 13 people reporting to the CEO when I arrived, only 2 remain today. Many of these were good leaders, outstanding people. However, J. C. Penney needed leaders with skills and expertise to run a modern-day omnichannel retailer.

In addition, we needed leaders with a proven track record and the ability to implement technology and new initiatives quickly based on past experience and past successes. So you'll meet my new leadership team today and understand why I am so confident in the future success of J. C. Penney.

This slide reflects a few of the Company officers we added to the organization over the past 18 months. Candidly, it's not easy to make these many changes, but I'm fortunate that we've attracted talented leaders who understand the upside of turning this Company around.

And when we combine the talent of these new leaders with the skills and talents and the institutional knowledge of the existing tenured J. C. Penney team, I think we have a powerful combination. But in order to accelerate the turnaround, we had to simplify and we had to clarify.

So to accomplish this, we created a framework that focuses on three specific priorities. And we believe if we can execute these three areas well, we will be successful.

As you've heard me mention before, these priorities are revenue per customer, omnichannel, and private brands. And with revenue per customer, we have virtually the same number of active customers today as we had back in 2011 with approximately $6 billion left in revenue. So if we gain more revenue per customer visit, we can grow sales.

And omnichannel allows us to leverage our 1,000-plus stores to bring speed and convenience to our customer who desire shop in-store and online. And we believe our private brands help us to drive customer value while protecting gross profit. It also gives us the ability to create differentiation to compete more effectively with traditional competitors as well as pure play e-commerce retailers.

So these strategic pillars, as we call them, continue to drive the growth of our Company and they simplify our team's focus on what is important. And every major initiative that we take on as a Company will fit under one of these three pillars.

And under this framework, we believe we'll win market share, we are outpacing our competition, and we're improving the profitability of our business. So now that I've laid out the strategic framework, let's touch on the strategic relevance of J. C. Penney.

So you've seen these headlines before calling out the gloom and doom of the brick-and-mortar department store retail. Some of you probably wrote these articles.

There were headlines like a third of America's malls will close soon. How the Internet is crushing the department stores. Brick-and-mortar is dead, et cetera, et cetera.

And I can understand the skepticism regarding department store retail, but this chart represents that J. C. Penney has done a nice job of growing sales in an environment where competitors have experienced negative comps. And quite often I'm asked how soon can J. C. Penney get back to $18 billion in annual sales? The short answer is that is not our overriding objective.

Now don't get me wrong; we expect to grow sales. But the competitive landscape and the marketplace has dramatically changed since 2010. And Ed Record will show you later today how we plan to deliver strong profitability and shareholder value with a sales rate of less than $18 billion.

Said another way: we are more focused on delivering strong shareholder value than blindly chasing an arbitrary sales number.

But in terms of improved profitability, I think we've done an exceptional job of improving our EBITDA over the last two years. We remain very focused on delivering both the $1 billion in EBITDA this year and the $1.2 billion in EBITDA in 2017.

And personally, I think it will be a major accomplishment for this Company to deliver positive earnings in 2016. And I think we're well on our way to making these financial milestones a reality.

So now let's look ahead as we plan for the next three years. And I want to show you what we're incorporating as far as assumption in providing our long-term financial targets.

So we believe that the housing recovery will remain strong and GDP remains low to moderate, assuming sales will follow GDP. We also estimate that wages will remain stable to moderate growth and unemployment remains low to moderate. This demonstrates the importance of value to the customer. And we reinforce also our need to grow our investment in private brands to offer a compelling price point to our customer.

In addition, we are looking ahead to broad-based consumer trends to assist us in our strategic focus and planning assumptions. And within this, we believe that Baby Boomers continue to spend, but Millennials and Hispanic consumers will drive growth, demonstrating the importance of investing in services like salon, beauty, and kids.

We also believe the special size community will continue to be underserved, but a very, very attractive customer segment for J. C. Penney, highlighting the need to serve this demographic more effectively.

The appliance industry today sits at roughly $38 billion and will grow at an astonishing 30% by 2020, reinforcing our decision to enter this very exciting new category. And finally, we are so pleased with our best-in-class beauty experience driven by Sephora and our InStyle salons. Sephora has high appeal for Millennial and ethnically diverse consumers, which is very, very important for the future of J. C. Penney.

So we believe that our macroeconomic assumptions and these forward-looking consumer trends support the merchandising decisions and the financial forecasts you will hear later today.

Now let me discuss how I believe we remain relevant as a retail company. So if I was sitting in your seat, one of my key questions would be how does J. C. Penney remain relevant in a very dynamic environment and avoid the so-called gloom and doom of the department store industry? It's a fair question and it's a question that we plan to answer today.

But let me first discuss where I believe J. C. Penney is in our turnaround. So this slide reflects what I describe as a four-phase turnaround timeline here at J. C. Penney.

So Phase 1 is save the Company. As I mentioned in my earlier comments, when Mike Ullman returned in 2013, he took steps to save the Company.

He reintroduced promotions and coupons. He reestablished key private brands that had been eliminated. And these and many other steps in my opinion helped us to save this Company.

Phase 2 is stabilize the business. In 2014, Ed and his team started the process to shore up the Company's capital structure, which is key to stabilizing this business.

As many of you know, this consisted of upsizing our revolving credit facility by $500 million, issuing $400 million in unsecured bonds, and taking actions to derisk the pension plan while retiring $500 million in debt related to our revolving credit facility. All of these actions and many more in my opinion created financial stability at J. C. Penney.

In Phase 3, I call it build a team and clarify the strategy. So with financial stability in place, we began to simplify and clarify our focus around revenue per customer, omnichannel, and private brands.

In addition, we created a new brand statement of Get Your Penney's Worth that you'll hear in more detail from our Chief Customer and Marketing Officer Mary Beth West.

We also took steps, as I mentioned, to recruit and promote talented leaders. These steps have led to our strong financial improvement over the past 18 months.

Now with three phases of the turnaround complete, we're going to now transition to what I call the final phase of the turnaround. And I call this growth and profitability.

So today we're going to center our discussion on the steps that we will take to execute Phase 4 of this turnaround. And we're going to create sustainable growth and sustainable profitability.

So now that I've identified where we are in the turnaround timeline, let me discuss how I think J. C. Penney will remain relevant. We will remain relevant by number one: understanding the specific needs and shopping patterns of our customer.

Number two: by giving the customer what she wants in-store and online to maintain her loyalty. Number three: to help her find what she is looking for quickly by implementing technology and simplifying our store layout.

Number four: by serving her needs both in-store and online by leveraging our over 1,000 stores in our much-improved mobile and e-commerce site. And lastly, we're going to articulate how all of these initiatives will deliver positive sales results and consistent sales growth.

So you may ask are these initiatives replacing our strategic framework of private brands, omnichannel, and revenue per customer? The answer is no. They actually fit nicely under our existing strategic framework.

But in addition, these initiatives or steps to success are actually the agenda for today's meeting. So each executive will walk you through an in-depth overview of how we will deliver on each step of this success plan.

So Mary Beth West, our Chief Customer & Marketing Officer, will begin by providing an overview of how we have taken steps to better understand the customer. Mary Beth brings 25 years of marketing leadership and brand management from Kraft and Mondelez to her role here at J. C. Penney.

John Tighe, our Chief Merchant, will provide you insight on how we are giving our customer what she wants. John is one of the most experienced merchants in the Company and has worked in all of our merchandising categories the past 14 years here at J. C. Penney.

And Joe McFarland, our EVP of Stores, will discuss how we are helping her find what she wants quickly. Joe brings over 22 years of retail leadership to J. C. Penney, where he most recently served as the Vision President for eight years at The Home Depot.

Mike Amend, our EVP of Omnichannel, and Mike Robbins, our EVP of Supply Chain, will walk you through how we are serving her needs both in-store and online. Mike Amend brings over 10 years of e-commerce experience to J. C. Penney, having led the e-commerce strategy at both The Home Depot and Dell.

And Mike Robbins and brings over 30 years of supply chain leadership to J. C. Penney. Mike most recently served as the Senior Vice President of Supply Chain for five years at Target.

And lastly, Ed Record, our CFO for the past 29 months, will provide you with our financial plan for delivering profitable results.

All right. With that, let me hand the stage to our Chief Customer & Marketing Officer, Ms. Mary Beth West. Thank you.

Mary Beth West - *J. C. Penney Company, Inc. - EVP and Chief Customer and Marketing Officer*

Thank you, Marvin, and good morning, everyone. Today, I'm going to talk to you about how we are enhancing our understanding of our customers so we communicate with her in a meaningful way to drive loyalty and top-line performance for J. C. Penney.

I'll begin with a profile of our customers, both our loyalists and our emerging customers, who they are and how they live. And then I'm going to walk you through the insights that got us to our brand platform.

Understanding her on a deeper level allows us to serve her more effectively and develop the right communication plan to reach her, whether she is a sixty-year-old empty nester or Millennial mom. And finally, I'm going to show you examples of how our marketing strategies are being brought to life in the marketplace, including our new loyalty program.

So when we began our journey about a year ago, our focus was really on making the marketing work harder for us to improve the return on our investment. The first challenge was to clarify the who, to gain a better understanding of and articulation of who our target customer really is.

We've leveraged robust sets of data to improve the customer science and answer fundamental questions like what are the demographics. What are her shopping behaviors inside and outside of J. C. Penney? What matters most in her shopping experience and how does she consume media? These are just a few of the questions that we set out to answer.

The next challenge was to change the what. The message that we were delivering to her. We needed to find a way to both stand for something compelling and fight aggressively every day. But most importantly, we needed something more than a tagline. We needed a brand platform that could be operationalized in our stores as we leverage our more than 100,000 associates.

And finally, we needed to modernize how and where we deliver the message to her. We needed to strike the right balance between our traditional marketing vehicles like TV, print, and media while beginning to shift our spending to more modern media like digital and social.

We are focused on talking to the right people, saying something compelling and delivering -- using the right medium for the message to better connect with our customers. And we need to do it in a way where simultaneously we are embracing our J. C. Penney heritage while we modernize our approach.

At J. C. Penney, we describe a known customer as a customer that has provided us their name, physical address, and a form of payment. Today these customers comprise about 75% of our sales. And because we know who they are, we can speak directly to them using email, CRM, and text to deliver custom messages and offers. We're going to continue to grow that known customer base through our credit card and loyalty programs.

Now, we divide our known customer base into three buckets: active, meaning they have shopped with us in the last 12 months; lapsed, meaning they have shopped with us in the last 13 to 24 months; and almost lost, meaning they haven't shopped with us in the last two years, but we haven't given up. We have seen an improvement in our retention rate over the past year and we've reached nearly 60%. In addition, we have reactivated a number of both lapsed and lost customers. We've made good progress, but significant opportunity remains.

Today the majority of our customers are store-only customers. However, it's the omnichannel shopper that is our most valuable, spending over 2x that of a store-only or a dot-com-only shopper. So one of our objectives is to continue to grow our omnichannel customer base. Mike Amend will provide a lot more information on the purchase behaviors of the omnishopper and how we're going to drive this strategy later on this morning.

So as we analyzed our business, we identified two different customer segments. First is our loyalist, and they comprise about 55% of our revenue. And then the emerging customer, who drives the remaining 45%. Now the loyalist is the more traditional J. C. Penney customer in that she's older, has higher income, and while she's a mom, she is less likely to have kids still at home.

The emerging customer is younger. She is more likely to be mom of young children and she's much more likely to be multi-cultural. So these customer segments have differing style preferences and they interact with media differently.

Yet they are both incredibly critical to the future growth and success of J. C. Penney. So our challenge is to serve both the customer groups by leveraging their similarities, but also reflecting the differences in both our assortment and our communication strategies.

Let's take a quick look at our loyalist. She is more likely to be a homeowner, and many are empty nesters. She does have disposable income. Her household income is above the US median and she spends disproportionately in the home category. We know that she connects with us through more traditional media like newspaper and TV.

And with that view of our loyalist, let's focus for a minute on our emerging customer. We refer to the emerging customer as the modern American mom, or MAM for short. She is a modern woman and she lives in a world surrounded by women who have a new voice, new influence, and a new strength in this world.

She's connected socially, much more so than her male counterparts, and she spends nearly 17 hours a week with her social media accounts. Many of these women also choose to interact with brands using social media as well. She has something to say and she uses social media as her megaphone.

The modern American mom is representative of today's multicultural America; an America that is becoming increasingly diverse. And as you know by 2020, Hispanic households will comprise 25% of all US households. The diversity of the emerging customer demographic presents a myriad of opportunities for growth. She is today and will continue to be a key driver of our sales.

And finally, she's a mom. Over 70% of these women have kids at home and most are working outside of the home. In fact, in 40% of households, she's actually the primary breadwinner. She's a busy, multitasking mom. And understanding all of the factors about who she is shapes how and where we communicate with her.

So as we step back and think about our marketing efforts, it's really important that we balance both the retention of our existing customer and the acquisition of new customers. Retained customers represent approximately 30% more spending than average customer. So we're going to focus there first.

We're going to distort the messaging there towards home, appliances, jewelry, footwear, and women's apparel. We're going to leverage CRM and loyalty to really deepen our relationship with her.

Our customer acquisition strategy will be centered squarely on MAM, our emerging customer. She's already an important part of our business and she visits more frequently and spends more with us than the average customer. So we're going to lean in, and for her, we are going to anchor our messaging in beauty solutions with Sephora, InStyle Salon, women's apparel, special sizes, and, of course, kids.

So as we did our customer research, it led us to two powerful insights. First, for our busy moms, it's not about shopping. It's about finding. And if she goes into a store or she's online and she's looking for something and doesn't find what she is looking for, it's a waste of time.

And second, the definition of value goes beyond price, style, and quality. Because while these are all important dimensions of value, today she has an expanded definition of value. And it includes her time and her effort. That's where we landed Get Your Penney's Worth.

Our assertion is that if we can help her find the things she loves more easily, more innovatively, and more consistently than anyone else, she's going to come back for more. And this isn't just a marketing campaign. It's also a promise to provide quality customer service, compelling private brands, national brands that matter, and an outstanding omnichannel experience. Let's take a look.

(video playing)

Now I'm going to walk you through some examples of how we're bringing the worth platform to life in our marketing. And then later, John, Joe, and Mike will show you how worth is coming to life in our merchandise assortment, our stores, and online.

We have six core marketing strategies. First, to get credit for value, to win the driveway decision. To create disruption in the market so she reconsiders J. C. Penney. To provide utility to help simplify her incredibly busy life. To drive relevancy by attaching ourselves to culture. To deliver experiences that go beyond the transaction, and finally, to reinvent our loyalty program to reward her shopping behavior.

The first strategy is to get credit for value. We know that she's looking for a deal and today, she doesn't always see us as a great value option. We have an opportunity to shift this perception and show her that we can make her dollar stretch further.

One way we're doing this is by leveraging the penny as an icon and proof point of worth. Most recently, we ran our first even Power Penny Day Sale, featuring great merchandise of the season at very compelling price points. We communicated this promotion in an integrated way at an omnilevel across both stores and online, and it was very successful. It drove double-digit positive traffic gains over the weekend and positive traffic for the month of July. Let's take a look.

(video playing)

(technical difficulty) into our stores, utilizing what we call our worth zones. We call out a trend at a compelling price point. And importantly, we provide the merchandise that is featured within arm's reach of our customers to save her time and effort.

We took advantage of the store traffic from Power Penney promotion to provide her utility in the form of a back-to-school checklist that called out all her back-to-school needs. And we delivered these checklists in both English and Spanish. We also included a bounce back coupon that can be used up to six times during the critical back-to-school period to ensure that we receive our fair share of her back-to-school shopping trips.

One of our challenges with this iconic brand is to get customers to reconsider J. C. Penney. To accomplish this, one of our strategies is to create disruption in the marketplace. Now, one way we've created disruption promotionally is putting a twist on the usual buy-one-get-one offers by changing it to buy-one-get-one-for-a-penny.

I know it's a little hard to believe. But by simply changing the buy-one-get-one to buy-one-get-one-for-a-penny, we effectively broke through the clutter in a way that is both differentiated and branded. The BOGOP, as we affectionately call it, drove significant increases over the same items offered as well a BOGO.

We are also creating disruption in more modern mediums like digital, social, and PR. Earlier this year, we launched hashtag so worth it with great success. The total campaign had over 100 million impressions, 16.5 million video views, and nearly 14 million engagements, likes, or shares.

We've also had a number of J. C. Penney tweets. There were a significant number of mentions of hashtag so worth it, and we even had a little penny emoji. And so any time the customer uses hashtag so worth it, up pops the penny emoji.

As we continue to drive a connection with MAM, our third strategy is to provide utility, to help simplify her busy life by saving her time and effort. So in the research we did, we learned that mom wants a little help putting looks together.

And back-to-school is again a great example. We executed this digitally with eight pieces endless looks, leveraging the message in email campaigns like the one on the left and digitally like the one on the right. This both reinforces our value proposition and helps mom out by providing great back-to-school solutions.

We've also created content in social and digital media to tell stories around curated looks to engage with our customers. Our goal is to create thumb-stopping content. That is content that captures user attention and gets them to stop clicking. Seeing real people move in the clothes, looks styled by the influence of herself, and culturally relevant merchandise are all powerful tools to help the customer see herself in an outfit.

In print, we are again providing her with utility by giving her ideas on how to go from day to night. Again featuring great merchandise at a great value. And we are doing all of this by showcasing diversity of ethnicity, size, and age to better reflect our target. We want to help her find not just items, but again, solutions for her busy life.

Our next strategy is to improve relevancy by attaching our brand to culture. One example of this is our work with special sizes. As Marvin said upfront, there is an increased need for special sizes. Our research with plus size women was done in partnership with Twitter.

We learned that for this segment, we needed to provide a platform for them to start a conversation. We launched this video at CurvyCon in New York in March, and so far, we have garnered over 36.5 million social impressions and nearly 9 million video views with an overwhelming positive sentiment.

Let's take a look at what these women had to say.

(video playing)

[In response to] an article in Cosmopolitan.com said I'll buy whatever they are selling, as long as they do it like that. The video had top placements, including stories in USA Today, US Weekly, and Ad Age. We need to continue to provide this underserved segment with not only merchandise they want, but the opportunity to have meaningful conversations.

Now we've also attached our brand to culture in our men's business with the NBA. We worked with two players to help get them outfitted for the draft. The players went shopping at J. C. Penney and chose J. Ferrar suits. These suits were customized then with personalized lining that represented their high school colors.

Kris Dunn, the number five pick, gave J. C. Penney a shoutout during his interview. Let's take a look.

(video playing)

Two brands you don't normally hear in the same sentence. In a world of always-on, we're going to continue to find opportunities like this to drive relevancy by attaching our brand to culture.

Now one of the ways we're going to compete with online pure plays is providing experiences or retailtainment in our stores. Our goal is to get her to reconsider J. C. Penney by providing experiences that go beyond shopping. As a retailer who offers great style, beauty with Sephora, and salons by InStyle, we are in a unique position to provide her with beauty solutions, head-to-toe beauty experiences.

So a few months ago, we activated a retailtainment program with Pinterest. This highly engaging social platform helps shift brand perception and contemporize the brand by providing the content that she's looking for. Let's take a look.

(video playing)

We executed the program in a limited number of malls, but the event generated nearly 12 million impressions and approximately 350,000 engagements on Pinterest. The Salon and Sephora pins outperformed our other pins and a lot of the pinned items actually sold out. Partnering with Pinterest really helps us amplify the message in a modern relevant way that differentiates us from the competition.

As we continue to evolve our retailtainment strategy, we are listening to what matters most to our customers. So recently we did a quantitative survey and that highlighted career styling as a big need. So next month, we will execute our first career styling experience pilot.

Customers will receive one-on-one styling advice for appropriate and on-trend career wear, including fashion, hair and makeup demos, and how-tos. Online on our Pinterest page we're going to feature the pins that show simple steps to create the looks and the links to buy them. So as we go forward, we're going to continue to leverage the opportunity to provide her with beauty solution experiences as a differentiator for J. C. Penney.

Our final strategy to reinvent our loyalty program. Our objectives are to increase the number of known customers, drive revenue per customer, and really leverage the robust data set to truly develop a deeper relationship with her.

So our loyalty program has long been a driver of our sales, with 63% of current sales from the customers enrolled in the program. However, as we dug a little deeper, we found that it really was not immune from some very important pain points.

So as we went about developing our new program, we first listened to our customers as she shared her frustrations with our legacy programs. She didn't appreciate the fact that the points that she earned expired every month. She didn't like the fact that there was a cap on the number of reward certificates she could earn regardless of how much she spent. And finally, she was not happy that the reward certificates were delivered to her a month after she earned them.

So with these in mind, we designed a pilot program to test the benefits that matter most to her, and we kicked it off on April 1. The new program hits each of the pain points head-on. Now her points don't expire as long as she shops with us at least once a year.

Second, there's no cap. So she can earn unlimited rewards. The more she spends, the more she earns. This is really important as we get into higher ticket items like appliances. And now she gets an email with confirmation of earned rewards immediately after purchase.

We are also running double points offers that are proving to be successful in driving both traffic and the basket. In addition, we are testing differentiated benefits for our platinum, gold, and red credit card tiers. We want to reward our most loyal customers by providing special benefits that matter most to her, like flexible shopping days and free shipping.

So we're in the very early stages of our refined program, but we are very encouraged by our customers' response. We have seen a 5% increase in revenue per customer since the program began. And importantly, we are achieving this great improvement with a lower cost program to J. C. Penney.

We've covered a lot of ground this morning discussing our main goal of understanding our customer and delivering quality content to her. We've been able to clarify who she is, both our loyalists and our emerging customer. It was this robust understanding of our customer that served as the foundation for our brand platform Get Your Penney's Worth, and it is resonating with both targets.

We've implemented a modern marketing strategy that optimizes our media mix to drive both retention and acquisition. And we are devising a meaningful loyalty program to reward our most loyal customers and provide her with a more satisfying experience.

The evolution of our marketing is yielding an improved return. We are in fact doing more with less. And going forward, we will continue to leverage our spending by improving both the effectiveness and the efficiency as we continue to bring our strategies to life.

So now that we understand who our customer is, I'd like to turn the program over to John Tighe, our Chief Merchant. And he's going to explain how we are giving our customers what she wants. Thank you.

John Tighe - *J. C. Penney Company, Inc. - EVP and Chief Merchant*

Thank you, Mary Beth, and good morning, everyone. As you've heard from Mary Beth, now that we understand who our customer is, I'm going to walk you through how we give her what she wants. And how we provide a retail experience that creates loyalty.

We are focused on four product strategies: winning with value, to be her beauty solution, become a destination for special sizes, and how to refresh her home. These strategies differentiate us from our competition and we are positioned to deliver on all four. These four strategies are hard to replicate online and give us a defensible position in today's competitive retail environment.

Let's talk about how we win with value. Our customers shop us for incredible value. We are committed to provide value in everything we do: how we buy, how we source, and how we execute.

Mary Beth discussed how we communicate value. Now let me cover how we deliver on that value promise.

Values that J. C. Penney was founded on the penny idea was adopted in 1913 and it is as valid today as it was 103 years ago: to do all in our power to pack the customers' dollar full of value, quality, and satisfaction.

Although we offer three different brand types, private brands are the key to bringing value to our customer. Our brand portfolio comprises of private brands, national brands, and exclusive brands.

Each of these brand categories play a role in our portfolio, but private brands are a key to value and allowing us to give our customer great style and quality at incredible price points. Brands like Arizona, Xersion, Okie Dokie, Stafford, St. John's Bay, and Liz Claiborne.

National brands are important to our customer and shifts the perception of J. C. Penney. Brands like Levi, Nike, Carter's, Van Heusen. And then exclusive brands give us the benefit of leveraging strong name recognition while maintaining exclusivity. Brands like Sephora Collection, MSX by Michael Strahan, the Salon by InStyle.

To drive value, we are focused on driving private brands and exclusive brands to 65% to 70% of our business by 2018. Last year, we were at 52% and have spent most of this year cleaning up our portfolio. Not only will it drive value in private brands, but it will also provide margin benefit.

As we move into 2017, we'll begin to aggressively grow our penetration by eliminating labels that are not relevant to our customer, expanding our fastest-growing brands, such as Xersion and MSX, and maximizing existing labels like Liz Claiborne.

Active has been a growth engine for our apparel and accessory business for the last few years and is very important demand. Xersion provides performance and quality at a great price. In this example, our Xersion tee has moisture wicking, UV protection, and a five-star rating, all at $11.99.

We also offer Nike. This is a perception-shifting brand for our customers and is the leading apparel brand in the world. We are partnering with Nike to relaunch the brand this fall, with expanded assortments and new store environments in men's, women's, kids, and shoes.

The powerful combination of Xersion and Nike allow us to focus on value and the number one national brand.

Arizona is our biggest overall brand and with over 70% awareness. Our Arizona jeans are durable, have stretch and performance, and offer great style and quality and comfort at $19.99.

Levi is the number one brand -- [extended] brand in the world and helps change the perception of J. C. Penney. Levi and Arizona are a powerful combination.

We have a great tailored clothing business and a good balance of style and value. We hold the third-largest market share. JF suits are known for fit and style and are an example of modern style for the Millennial customers.

In addition to JF, we have Stafford, which I'm wearing today. It was established in 1980. This brand offers classic styling and quality for our traditional customers. We also have the recently launched collection by Michael Strahan, offering updated styling and more modern fit at a great price point.

By leveraging our design and source of innovations, we are able to offer Ambrielle. Private brands in apparel is hard to do, but leveraging our design team and international suppliers, we deliver beautiful products.

Ambrielle is a huge advantage for us because of the high margins. Year-to-date margins in Ambrielle are in the high 40%s. And in this example, our Ambrielle bra features push-up, convertible straps, and stretch fabric, all for $19.99.

We also offer many national brands like Vanity Fair to round our assortment and give our MAM customer the variety of options she's looking for.

Okie Dokie is another important brand in kids. Okie allows us to give MAM the value she demands and the cute styling she wants. The brand is modern, colorful, playful, and fun. Our customers can mix and match to complete outfits. Okie Dokie and Carter's give us a great assortment for value and gift-giving.

Our private brands are not limited to apparel. In kitchen electrics, we have Cooks. Our Cooks brand has lots of features and benefits while still offering customers a great value.

The Cooks coffee maker features 12 cups, is programmable, has stainless steel accents, and a five-star rating. Our private brand Cooks coupled with national brands like Cuisinart provide the value and selection she is looking for. These are just some examples of how our private brand give our customers better value for their dollar.

Now we want to talk about how we're going to improve our speed to market. Customers have more choices than ever and can buy whatever they want whenever they want it.

With that kind of power, the consumer tastes are rapidly changing faster than ever. And for us, making decisions closer to need is a key to a more profitable business.

In an effort to continually improve, we are streamlining our process to be faster and more right. This fall, we are piloting a new co-creation model with our international suppliers that will reduce the timeline of the Arizona, Worthington, and Total Girl by 40%. We are also cutting six weeks out of the entire process for all private brands.

This is a major change in how we work across the whole organization. Everything from buying, design, sourcing, and logistics is being refined to get product to market faster. This is a major gross margin opportunity as we make smarter decisions closer to the customers' need.

Value is very important to our MAM customer and all our decisions will go through the value lens. For example, here's an a.n.a sequin sweater that we are able to save 47% by changing the yarn and not sacrificing quality. The original yarn was $11 per pound and the counter yarn was $3.80.

Half of the savings were reinvested to reduce the price for customers to drive more value. The balance of the savings will be to improve margin. This is our commitment to offering value to our customers.

I've shown you some of the incredible values we offer through our private brands, but we know there are opportunities to get even better. One of our strategies is around value-driven design. We are utilizing consumer research to understand their needs and design goods to satisfy those needs.

We are now studying our big key items to identify attributes that customers care about and design those features and into those features. As Mary Beth mentioned in our recent Power Penney day promotion, we were able to offer products at incredible price points due to this value-driven focus.

Another opportunity to improve our value perception is to utilize more price point signs. On the left you see a menu sign that we utilize frequently in stores today. The menu sign is hard to read and shows the customer an array price points.

On the right is an example of where we have moved. By editing our assortments and having stronger key-added statements, we can simplify our pricing and offer the customer one clean price point that is a compelling value.

We are also looking at sign design. We have redesigned the signs to imply the price point message and stand out to our consumers. The signs are more noticeable to customers and give us more credit for value.

In order to win this value, we are two key focuses: grow our private brand portfolio and getting credit for value. By making decisions closer to need and designed to value, we'll be able to improve margins to deliver great value.

Our second big strategy is to be her complete beauty solution: fashion, beauty, salon, shoes, and accessories. A complete beauty solution within one store.

As you heard Mary Beth earlier, our MAM customer is our focus and women's apparel is our biggest core business within our beauty offering. J. C. Penney has long been an apparel destination, with almost 80% of our sales coming from private brands. It's fashion she can only get at J. C. Penney.

Sephora inside J. C. Penney is one of our biggest advantages over competition. Sephora continues its great comp store sales performance this year and we hold a 5% market share in prestige cosmetics. Today we have 574 Sephoras inside J. C. Penney and have opened 57 this year, giving our customers access to some of the leading cosmetic and beauty brands in the world.

In addition, these stores perform at a significantly higher dollars per square foot than the rest of the store. Brands like Urban Decay, Kat Von D, Bare Minerals, Lancome, and Marc Jacobs.

The success has opened up new opportunities for Sephora inside J. C. Penney. This spring, we added Origins and we'll be adding Clinique in September. As Marvin mentioned on last week's earnings call, we are encouraged by how well Sephora performs in small stores.

When we first partnered with Sephora, we were focused on larger stores. However, we have since found that opening Sephoras in smaller markets meet our performance hurdle and increase the total store's results. This success has enabled us to accelerate the number of openings we are planning over the next few years.

We opened up a Sephora inside J. C. Penney in Bemidji, Minnesota, and the demand was incredible. People started lining up four hours in advance of the opening.

Let's take a look at this video clip.

(video playing)

Adding Sephora to our small stores adds excitement and relevance. And another reason why Sephora inside J. C. Penney is a key part of our future.

We've also started to rebrand our salons by partnering with InStyle to create an exclusive concept for J. C. Penney. So far, we have rebranded 120 salons inside J. C. Penney. The first rebranded salons are up 720 basis points to last year.

Salons offer great traffic drivers to the stores as customers visit eight times a year. Since customers can't get their hair cut online, this gives her reason to visit the store and do her shopping at the same time.

Our center core categories help round out our beauty offerings by giving her accessories, handbags, fashion jewelry, footwear, and more. We've recently renovated center core environments in 350 stores and are seeing a significant lift. Newly remodeled center core stores are 770 basis points better and carry higher margins than the stores that have not been updated.

Fine jewelry rounds out our beauty offering and gives us a differentiator from our other mid-tier department stores. This is a high-service business that generates high gross profit. A personal service that cannot be replicated online and allows us to build strong personal connections with our customers.

Within fine jewelry, we have a rapidly growing wedding and engagement business, driven by our Modern Bride brand.

We are focused on giving our MAM customers a single destination to become her head-to-toe solution. She can get her outfit, accessories, beauty products, and salon services all under one roof. This is a combination that our competitors can't match and all online pure plays cannot offer.

Our third major strategy is to become a destination for special sizes. Customers with diverse body types care just as much about style and quality as other customers, [given] far less options when shopping.

This is an underserved market. We have an opportunity to become a destination [road book], providing style, quality, and value in an environment that makes shopping enjoyable. In addition, it helps us leverage our design and sourcing teams.

In men's, we offer the Foundry Supply Company for the big and tall guy. Our investment in this business and focus on this customer has enabled us to capture the number three market share.

This is a well-established business that offers him apparel and accessories for all of his needs, from active to casual and even dressy apparel. J. C. Penney gives our big and tall customers the option he is looking for with great style and quality and an exceptional price.

We have also added junior plus to give her similar solutions. The junior plus customer wants trendy styles with great fit. It is a great opportunity to connect with young people and become her store for life.

Boys husky and girls plus are also great opportunities. We are working to overall broadening our assortment in these areas give the customer more choices. In addition, we are looking at ways to square off the areas in store to make it easier to shop.

Based in our success in men's, we have recently implemented two key initiatives to appeal to the women's plus customer. The Boutique is a dedicated area in our stores as well as a brand.

The Boutique+ brand offers contemporary styling aimed at Millennial customers. The brand was launched in stores and online in May in 500 doors.

We also debuted a boutique store environment in 184 doors, an elevated in-store shop with new fixtures, graphics, plus size manikins, all to showcase various looks.

We've also partnered with Ashley Nell Tipton, the winner of Project Runway. She has designed a captive collection to launch this September. With a huge social media following and deep understanding of what the plus customer wants, we are excited for this new launch.

In addition to offering her apparel, we are committed to giving her a full board beauty solution. Intimate apparel, wider width footwear, fashion jewelry so that J. C. Penney can become her head-to-toe solution.

Special size customers are underserved in the market and offer a unique opportunity for J. C. Penney. Broadening our assortment and elevating the experience for our special size customers will enable us to become a destination for fashion and her beauty needs and will build loyalty.

Lastly, we want to help her refresh her home through categories and services. Today we are in the replacement business. Customers buy items as they wear out, but as we're moving into the home refresh business, as customers move into new homes or look to remodel their homes, we want to be there to help refresh as their destination.

Appliances, window coverings, flooring, furniture, and textiles. These businesses are high ticket and customers often see them in person before making large purchases.

Let's first talk appliances. Hopefully many of you had an opportunity to see the small sample of our appliance offerings set up just outside as you enter the room. We are very excited about this new initiative.

We piloted appliances in 22 stores this spring and were blown away by the response. Appliances have a sales productivity 10 times higher than the products we replace and margins 8 times higher -- margin dollars. And we will be fully rolling out to 500 stores this fall. We have been online at jcpenney.com nationwide since May with over 1,200 items.

We've seen tremendous response to all three brands, Samsung, LG, and GE, with better-than-anticipated response in terms higher-end brands and models. In fact, our top-selling item was a $2,700 refrigerator.

In our tests we learned that that over one-third of our appliance customers were new to J. C. Penney and approximately 70% were women. MAM is comfortable shopping for appliances at J. C. Penney and we can help her refresh her home. In addition, we think there is significant opportunity to capture market share and customers from Sears as they continue to downsize their footprint.

Our window covering business is another big opportunity. J. C. Penney used to be the number one market share leader in window coverings. Space was reduced, it became harder to shop, and the products were hidden.

The team has been working furiously to fix the assortment. And with the rollout of appliances, we are taking advantage of the contractors being in our stores to fix the window floors.

Another new exciting pilot we have started is with Empire Flooring. Empire is the leading provider of installed carpet and flooring and a full-service solution for your flooring needs.

We are currently piloting 10 stores in 3 markets and are encouraged by the initial results. The average ticket is $3,300, significantly higher than the products that they replace. Flooring also gives us great synergies with our window business.

Data tells us that when a woman changes the flooring in her home, 70% changed the window coverings in her home also. Empire Flooring fits great within our assortment and both teams are pleased with the results.

Ashley Furniture is the number one furniture brand in the country, with enormous scale and distribution capability. By partnering with Ashley, we are able to offer customers more options, better price, and faster delivery.

We also offer an extended assortment online to take advantage of Ashley's enormous catalog of products. Ashley stores are performing 1,500 basis points better than their other stores and beating plan. Due to our success, we are expanding our online assortment from 1,200 SKUs to 4,000 to 5,000 SKUs.

And textile. Textiles are a core competency of J. C. Penney. What better way to refresh her home than with new textiles. And the customer trusts us for bedding, sheets, bath, and white goods. By leveraging our sourcing organization, we can deliver unmatched quality and value. In addition, these categories deliver high margins.

The real estate market is hot and people are investing in their homes. She wants new carpet, appliances, window coverings, furniture, and textiles. These businesses are more productive than what they are replacing and will set the overall productivity of our stores.

In addition, customers frequently want to see these and feel these items before making a purchase. And helping us defend against online pure plays by also increasing traffic to our stores.

These four strategies are the foundation for our growth plans for the future. We are expecting to grow $1.2 billion to $1.7 billion in sales over the next 3 years. Value will be an additional $200 million to $300 million in sales.

Beauty will represent another $400 million to $500 million in sales. Special sizes will be $100 million to $200 million, and refreshing her home will be $500 million to $700 million, totaling $1.2 billion to $1.7 billion worth of growth. And that is how J. C. Penney is going to win.

Thank you for your time today. We'll now take a short 15-minute break and when we return, Joe McFarland, our head of stores, will discuss how our customer finds what she wants quickly.

Thank you.

Trent Kruse - *J. C. Penney Company, Inc. - VP IR and Communications*

Okay, great. Well, I hope you guys have enjoyed the morning session so far. We're going to close it out with a few more great speakers this afternoon. And we'll of course finish with Ed and Marvin delivering some of the financial expectations for 2019 for the Company.

So with that, we'll get ready to start the second half. And I'd like to welcome up our EVP of Stores Mr. Joe McFarland.

Joe McFarland - *J. C. Penney Company, Inc. - EVP, Stores*

Okay. Welcome back, everyone. We are ready to get started again with our second half of our presentation. My name is Joe McFarland and today I'm going to discuss helping her find what she wants quickly.

As Mary Beth mentioned, MAM wants to get in and get out of our stores quickly and with a bag in her hand containing just what she was looking for. Everything the store's team does is to make the interaction with the customer and the associate a very positive one. From simplification to customer service to technology to creating experiences that she can't get except for in a brick-and-mortar store.

In order for us to help her find what she wants, we need to simplify everything, from processes inside the store to the experience and how our teams receive communication. Let me begin first with the current state.

The chart on the screen represents our store payroll use today. In our current state, we spend more time on tasks than we actually spend on selling. The gray shaded area represents that 60% of the total payroll dollars are spent doing tasks and only 40% is spent on actual selling. This is opposite of the way we should effectively manage our payroll.

Let me give you an example of what I mean. This visual represents just some of the in-store tasks, antiquated systems, redundant communication, cumbersome processes that our stores deal with. It demonstrates complexity and it distracts our store associates from taking care of the customer.

In the past, we did not do a good job of removing complexity and keeping things very simple. By removing complexity, we can allow our number one asset, which is our associates, to serve our customers more effectively, thus creating customer loyalty.

Now let me talk about the future for J. C. Penney. Payroll should be viewed as an investment, not as an expense. Going forward, we will shift to our new model and spend only 40% of our payroll on tasks while the other 60% of the associate time is spent on selling.

Now, our total payroll dollars do not change, but the focus shifts from tasks to the customer. We will do this by simplifying the in-store tasks and processes while improving the overall customer experience.

Let me show you what I mean. In March of this year at our general managers conference, I kicked off what I'm calling project simple. Project simple is all about enhancing the customer experience. We will stop doing things that don't focus on the customer. I believe if we take care of our associates and our associates take care of our customers, everything else will then take care of itself.

Going forward, we'll have a very simple vision around what we do. We'll remove complexity from the stores and we'll simply push that to our home office. You have my commitment: we are going to stop doing things that don't focus on the customer.

Project simple is not a project with a completion date; it is the way we will continue to do our business to ensure that we free up the store associate's time to drive a customer service culture.

So how do we do this? One of the first things we did was to reduce the amount of emails our general managers receive. Before project simple, I printed out one month's worth of emails from just one of our general managers. This stack was several feet tall. I mean, you can see Trent pushing out -- this literally is one month's worth of emails. And actually Trent didn't bring everything with him. We didn't want him to fall off the stage.

So as you can see, this is simply way too much communication. Look, I refer to this as a buffet and a buffet where a general manager can pick and choose what they were going to do and what they were going to pay attention. Because they simply could not do it all. There's no way that any single person could focus on the customer and wade through that many emails.

Now with the changes that we've made, the general managers receive only critical things they need to run their store. We have removed a lot of distractions. We're streamlining to ensure that if a store receives an email, number one, that it is coming from the right source. Second, that it has been vetted and is accurate and fits into the overall strategy of what we're trying to accomplish.

Stores no longer receive emails on Fridays, Saturdays, or Sundays. Those are store protection days are in place to focus on driving customer service during our critical sales periods. Duplicate emails are also banned. So our support functions have very, very limited ability to email and distract all of our general managers. Just this action alone, as you can imagine, frees up an enormous amount of time in what the stores do.

We are also working to reduce the amount of noncustomer-facing tasks. In the second half, we are going to implement a new task management system that will simplify everything a store receives from actions that need to take place to collateral stores need to stage to compliance with what they need to complete. Everything sent to the store will have the same focus and that is on driving customer service.

Next is to-do lists. To-do lists are gone. Our new model for visitors is to take a list, do not leave a list. Every time a J. C. Penney leadership member visits a store, they will take a list of what they need to do to help simplify life in the stores.

The focus for our front-line associates is to serve our customers. No one should be leaving a to-do list for them in the store. In fact, I worked in the store for my first two weeks on the job and did not leave the store one thing to do. However, I did take an 18-page work list of things that I was responsible for. Again: nothing for them, 18 pages for me.

And we have implemented a structured store visit guide for anyone visiting a store. So there's no more pop-ins. Stores have the right to turn down a visit if it's going to have an impact on their customer service.

So we want our managers to be able to control their schedules and be able to have control of the various visits and the people coming into their stores. This visit guide is a very structured way for the teams to leave feedback for what the visitor is taking away as their own follow-ups to help simplify things in the store.

We also have simplified communication they receive on Mondays to plan their week. Let me walk you through what Mondays look like.

On Monday mornings, stores receive two pieces of communication. The first is a scorecard. The scorecard shows us the results on specific metrics that are consistent across all areas of the business. This is vital because it gives us what I call one version of the truth. No more multiple reports, no more flavor of the week as to what the store should be driving.

The scorecard is aligned from me to the regions to the districts and right down to every single store. This gives us a view of the previous week's performance, the month-to-date performance, quarter-to-date performance, as well as the year-to-date performance.

Second is the playbook. This contains everything the stores need to know for the week with three priorities for the stores. That's 3 -- it's not 13, it's not 37, it is 3. And those 3 are the same priorities that any visitor to the store will also be focused on.

It also contains all the marketing information for the week all in one place. Various operational and merchandising topics that apply to the week is all communicated in this one place. And the playbook is easy to digest. It is short; it is no more than five pages.

And then in the afternoon on Mondays at 3 PM Central Time, we have a winning the week broadcast. This directly aligns with the playbook and features the same priorities covered in the playbook for the week. I do the broadcast at 3 PM so any changes from our sales meeting or any audibles that we may call can be clearly communicated to all of our stores.

I personally lead this broadcast every week. It is live, it is no more than 30 minutes, and it is for all store leadership with inside the store. A very consistent and very simple message.

I start every broadcast with what we call a legendary warrior story. A legendary warrior story is highlight associates that have gone above and beyond in customer service and we reward those behaviors that we expect from each and every one of our associates.

We also have one topic each week that is timely and approximately three minutes long. We call this segment the worth mentioning segment. We feature things like philanthropic initiatives, IT updates that pertain to the stores, different things on our rewards program, our credit card program, and loss prevention updates, and that's just to name a few.

We also highlight an item of the week for stores to rally behind and focus on. And look, these are truly making a difference. We have quantifiable data that these items are driving sales and customer satisfaction across our stores. Look, if these sound tactical, they truly are and they are supposed to be. So that everyone knows exactly what steps we will take to impact our customers every single week.

I wanted to give you quick example of a legendary warrior. So this story came to us from store 2275 in Twin Falls, Idaho. We will recognize a salon manager, Eva Elliott. Every recipient of the legendary warrior award receives a warrior coin as well as a J. C. Penney gift card and money for the store to celebrate.

Let me take a minute just to tell you about the warrior coin. So this is given to associates who go above and beyond for J. C. Penney by exemplifying the warrior values of loyalty, passion, service, and courage. There are limited-edition coins and each coin is numbered. Look, it's a big honor in our Company to receive one of the coins. This is the same coin we presented Miss Ellie in the opening video that you saw.

So let me tell you a little bit about Eva. She created such an amazing experience for a group of girls and some of their mothers. We had a retail client that shopped with J. C. Penney and was so impressed by our salon team. And look, their desire to help her find just the right products for her hair that in turn, she asked if she could bring her class into the salon. So she was teaching a class on beauty and femininity. And she asked that our salon teach the techniques on some tools and different product knowledge.

Eva really went above and beyond with these girls, and they were girls ranging from 11 years old to 15 years old, as she shared her personal story about feeling good. And how important it was to feel good about your own personal appearance.

Not only did she demo the tools and the products for the group, this also turned into mothers buying product, making appointments for their daughters as well as themselves, and asking just a lot of additional questions. So just a great example of a legendary warrior.

Now let's switch gears from the weekly tactical information to the in-store modernization and some of the technology that we have planned for our stores. We've made a significant investment in providing a best-in-class tool with the Motorola TC70 device that we have coined as the mobile warrior. So IT as well as store operations are working on several enhancements to this device that will further support our efforts of simplification.

The mobile warrior gives more opportunity for our associates to remain on the sales floor while serving our customers. There are apps to support the buy-online-pickup-in-store process and it is faster performance and a longer life battery than any other tool with inside the same arena.

Let's watch a quick video on how the mobile warrior is going to simplify and streamline as well as keep our associates available to help customers with the buy-online-pickup-in-store process.

Let's play the video.

(video playing)

So, more satisfied customers, spending more money, and providing our associates the tools to make it happen. Look, in fact, 40% of our buy online pickup in-store customers spend over $50 on additional purchases while they're in the store. So it is a win-win all the way around.

Let me give you got a few more examples of how the Mobile Warrior will help streamline tasks. Prior to mid-May, our Sephora associates had this process for updating their actual on-hand assortment. They would print out the sheets for every bay. This is one we are looking at. It is for one bay, for one line of makeup, and it's actually seven pages long. If it hurts your eyes, it should. Imagine if you were the one who had to work this report.

They would hand-write all the actual quantities for each individual SKU. They would then have to go to the back room, leaving the sales floor, look up every item on this page, match the actual on-hands versus what they wrote down, toggle back and forth between the screens to make any necessary adjustments.

Now, with the Mobile Warrior, they never leave the sales floor. They can quickly update just what they need to while still being available to service the customers.

And look, this is making a huge, huge difference for us. Just in July alone for Sephora, we had a 220 basis point swing in in-stocks compared to last year. So better in-stock drives more sales.

Let me go deeper on item inquiry that we rolled out. Again, this rolled out in mid-April. This app and the Mobile Warrior is changing the way that we interact with customers. Let me explain.

A customer comes up and says, I see this shoe in a size 6, and I need it in a size 7. In the past, the associate would have to leave the sales floor and go to the back room to check for the size. Now, our associate scans the item, and the device pulls up all of the sizes and colors that that particular shoe comes in. They can see what they have on hand and what's available. And if it's not accurate, they can change the on-hand, on the spot. The exciting thing is the impact this will have on ensuring a better omnichannel execution. In addition, we'll increase our in-stocks by having better on-hand accuracy.

Look, there's no finish line here with the Mobile Warrior. We've got a lot of work to do. We will be laser-focused on what we're doing. We'll continue to listen to the customer and listen to our associates. We'll do what's right to simplify the business, and we will reinvest that time into taking care of customers and developing our associates.

Look, everything I've discussed today impacts the customer; and how we look at customer service is also changing. Mary Beth talked about Get Your Penney's Worth. This Get Your Penney's Worth is not just an advertising; it is a brand promise, and we are committing to that. Our commitment is that you are going to get your service worth, make today worth it, and help her always get her Penney's Worth. And how we do that, exactly? We'll deliver service through our associates and through our warrior values of loyalty, passion, courage, and service.

Earlier this year, we rolled out a customer service standard to use our warrior values. And we also outlined the WORTH behaviors as ways to drive the customer experience. We rolled out WORTH training at our General Manager Conference that we held in March, and we had this WORTH training completed by the end of May. All associates and managers in the stores and the customer care centers completed this training to set the expectation and train our associates for WORTH behaviors. In fact, our general managers personally trained every store associate on these actual WORTH behaviors.

We also trained all the home office associates as well as all officers, including Marvin himself. Our WORTH behaviors, as you see on the screen, are: welcome every customer, offer her assistance, respect her time, thank her, and help her always Get Her Penney's Worth.

And how is it working? Well, look, no better way than to ask our customers. Across the board, we have seen increases in our customer experience survey ranging from low single digits to as high as over a 10% improvement. Look, we have a long way to go, but I know that we're moving in the right direction.

One of the ways we will make her experience in our stores better is to save her time, and make sure she finds exactly what she is looking for every time she shops and make it easy to get out quickly. We have implemented what we're calling cross-shop statements throughout the store and at various times throughout the year. It's all about providing great customer service to our customers.

You can see in this example, handbags and jewelry and accessories, merchandised here with our spring dresses. We also have back-to-school statements with athletic shoes, socks and backpacks, and everything a new college student needs for their dorm, all merchandised together, easy to shop, regardless of what division.

So, earlier we discussed legendary warriors, and they are examples of these associates that go above and beyond in taking care of our customers. But our teams also create emotional connections with our customers on a much grander scale. Our team is working closely with Mary Beth and her team to deliver an emotional connection with our customers, and I wanted to show you just a few examples.

Our stores, in this example, decided to have Easter egg hunts for the customers. They created reasons for her to shop, and it really makes a difference. Look, this increases visits, it improves our revenue per customer, engages her so she will come back again. Look, we can do things in the store that our online competition simply can't do.

Another example: this is our general manager, [Brad Bickus] and his team in Jacksonville, Florida. They partnered with the Salvation Army to bring hope to 26 homeless kids in the Jacksonville area. Now, birthdays are often overshadowed in homeless shelters, and many of these kids never experience a birthday party. This store decided to give back to the community by hosting a birthday party in our store for all 26 kids living in this shelter.

Our associates donated time, money, but mostly heart. They selected a child who received a new outfit, a toy that they requested, as well as a birthday card. And those that wanted one -- look, they even got a makeover in our salon, and our Sephora associates made over their makeup. All of this out of the goodness of the associates' hearts. Look, this is just one example of our stores connecting with the community around them.

Here's another example the impact our stores have on the customers and their community. Our store in Portland, Oregon, had a great opportunity to be part of a young man's Make-A-Wish adventure. Make-A-Wish actually reached out to a competitor to fulfill a day of wishes for a child name Ty. And Ty has inoperable brain cancer. Our competitor said no. Our team at JCPenney actually said yes. Look, they impacted not only the life of this child and his family; this really impacted our associates, as well as other customers shopping in the store that day.

Ty's wish was he wanted a new pair of Nike's and Levi's as part of his grand wish. Our store went above and beyond. They decorated the store, donated items, created a fun environment by decorating the fitting room. Overall, the entire team made this day such a special day for this child.

You may ask, what do Easter egg hunts, birthday parties, and wishes have to do with retail? Look, our goal is to do what our brick-and-mortar competitors won't do, and our online competitors simply can't do. Examples like these make me very, very proud to lead this store's team.

So, in summary, we'll help refine what she is looking for by eliminating tasks that do not focus on the customer; by shifting payroll dollars from tasks to service to improve customer engagement without improving payroll costs; implementing technology to improve the customer experience; improving customer service by training each and every associate in our stores; and, finally, by creating excitement in the store and within the communities in which we serve.

So thank you for this time this morning.

I'd now like to turn our program over to our EVP of Omnichannel, Mike Amend, who will discuss helping our customers find what they want both, in-store as well as online.

Mike Amend - *J. C. Penney Company, Inc. - EVP, Omnichannel*

Good morning, and thank you, Joe. I'd like to walk you through our strategy and vision of how we plan on serving our customers' needs via digital, both in-store and online. But before I get into that, let me spend a few times highlighting the past successes over the year.

On multiple fronts of our omnichannel business, both customer-facing as well as foundationally, our team delivered many improvements. We deployed over 20 releases with hundreds of features and enhancements to our digital experiences.

In mobile, we launched our newly redesigned iOS and Android app back in July, quickly getting over a 4 1/2 star rating. And we have seen conversion rates improve by over 20%. Customers have given us very positive feedback on the overall ease of navigation and speed; the simplicity of coupons, providing instant, one-touch access to both store and online offers; and integration of rewards, now with the ability to see and use certificates both in-store and in-app. And core omnichannel capabilities, like accessing the nearest or preferred store information, such as hours of operation, tap-to-call, or maps to the nearest store.

I could go on, but instead, let me just show you.

(video playing)

While we were very pleased with the overall redesign, there are lots more capabilities coming soon. We plan to deliver another 5 to 10 releases between now and the end of the year. Ultimately, we believe that mobile is the most important customer touch point in the store, on the go, or at home. This is one of our top priorities.

Another area where we have made significant progress on is enterprise fulfillment. Our goal here is to simply leverage the store footprint to provide our customers with more flexibility and convenience on when, where, and how they purchase with us.

Let me walk you through a few examples, and our great results thus far. Buy online, pickup in-store same day, or BOPIS, which we recently rolled out chain-wide in under a year -- we're seeing over 40% of our customers make an additional in-store purchase of over $50 while picking up their order. And since BOPIS leverages store inventory, this means that we do not have to pay shipping costs for these orders. Furthermore, BOPIS customers are -- our online customers convert them into omnichannel customers, which we know spend over two times more annually.

We are seeing growth in our customers choosing to have products shipped to the store instead of to their home. So far this year, we've had millions of ship-to-store orders. And a large number of these customers make an incremental, in-store purchase of around $50.

Additionally, over 90% of our online returns go back to a store. This is because it is simply easier and faster for our customers. If you think about all the effort required for a customer to return an online purchase -- you have to get a returns authorization, you have to print a shipping label, you have to box up and repackage their order. Not to mention, in many cases, they have to pay return shipping costs; and then finally, wait to receive credit.

Returns are a significant opportunity to improve the experience. Therefore, we always offer free in-store returns to our over 1,000 locations nationwide, and enable customers to receive immediate credit at point of sale. Our customers consistently tell us that this is a great omnichannel benefit. And a sizable number of these customers make an in-store purchase during their return visit.

So, in summary, we are seeing excellent results on how stores themselves, along with their inventory, are serving as rapid fulfillment, distribution, and return centers for online customers.

And there's even more ahead. Mike Robbins will share some of the details on this shortly, but I want to stress the value that lower cost fulfillment and speed to our customers. As Marvin and John mentioned, we are excited about our appliances initiative and how that has resonated with both existing and new customers. I want to share a few highlights about how we went to market online.

We went live on JCP.com in May of this year. We launched over 1,000 SKUs. We implemented this across all experiences -- that's desktop, mobile and tablet web, as well as both on iOS and Android app. We fully integrated with the three major appliance suppliers to provide highly detailed product information, real-time localized inventory. And we also built out protection plans, financing, and even offering live agent support in chat. Additionally, we accomplished full scheduling integration with our national delivery partner. And we did all of this, from start to finish, in less than four months.

Beyond appliances, we continue to grow our online assortment in both new and existing categories. In Q2, we added over 150,000 SKUs over this period last year. We also invested significantly to leverage automation to dramatically reduce the time and resources required to get products available on our site for sale. Previously, this used to take multiple months. And we have now brought this down, in most cases, to less than 24 hours, and with a fraction of the resources required.

So far I have shared about the customer-facing progress, specifically on mobile, fulfillment, assortment, and appliances. I think it's also worth mentioning some of the advances that we've made behind the scenes where we're investing intelligently and working hard to build out a world-class organization and infrastructure.

One key area of investment this year is on our analytics transformation. We have undergone significant overhaul of this important capability, from our partners to our processes, and especially in hiring a team of experts. Additionally, we have and will continue to invest smartly in the buildout of our technology platform that enables scale, speed, and cost benefits.

Most importantly, we moved the needle on hiring world-class talent. I'm very proud that with professionals with deep and digital technology experience are joining J. C. Penney from online pure plays, high-growth startups, as well as top and leading omnichannel organizations.

We're also making a significant investment in modernizing our work environment. By the end of this year, we will be in a completely renovated, modern, open workspace concept. And additionally, from a how-we-work perspective, we have undergone an agile transformation and are now operating at the rate and pace of a leading digital organization. All this to say that looking back on the year, we have been able to execute a tremendous amount of exciting improvements to the business, and with great results.

Now, as we look ahead into the next years, I'd like to share two aspects of our strategy. First is how we're thinking about omnichannel commerce -- our philosophy. Second is the action plan. I will share a few examples of the types of initiatives that we intend to pursue and deliver.

We've seen new retailers try to emerge as online players who deem that stores are irrelevant; yet now these same retailers are opening stores and determining what their physical strategy will be. Our belief is that the advantage -- without the advantage of stores, pure digital commerce will be challenged to demonstrate profitable results, given the growing costs of traffic acquisition, shipping, and returns.

So instead of only focusing on selling products online, we believe that there's a unique value in successfully combining JCPenney's products with services together, both in-store and online, to create a seamless shopping experience. So if you think about Mary Beth's point was about retailtainment, and John's discussion about the beauty solution, instead of just purely offering a customer a prom dress, we will help her browse and buy the dress, enjoy a makeup session at Sephora, and have her hair done at our InStyle salon, and then experience a fun photo shoot with her friends at our photography studio.

Retailtainment and experience are said a lot, but we are confident in our starting position versus our competitors. It is exciting to know that today, in addition to our over 1,000-plus stores and our digital commerce experiences, we have a multibillion-dollar, vertically integrated private brand team that designs and produces our own products; a strategic partnership with Sephora, the single-best beauty brand; and one of the largest and biggest salons in the country; and nearly 500 photo studios that have been in operation for over 50 years.

So, given our philosophy and unique set of assets, what will we do? We're going to do two things. First, we're going to continue to block and tackle, as there is much more work to be done, and the omnichannel bar moves really quickly. Second, we're going to invest in capabilities that create more customer value by leveraging both physical and digital together as one. As you heard from Marvin on last week's call, 50% of our online orders become store traffic. Yes, 50%.

Let me give you a few examples of these capabilities. Consider a large digital monitor in-store, where online products that are being viewed or purchased in your local area are also being displayed across the screen. A simple capability like this will help aid in product discovery of our expanded assortment online. If you consider that online has almost two times the number of SKUs as our largest store, this will drive customer awareness of the additional sizes, colors, styles, and products available online.

Another example is in-store visual merchandising. By understanding that in a given ZIP Code, red is selling better than other colors, a store General Manager can take that insight and put red in a prominent position on that fixture. Another example is around enhancing a simple salon experience.

A customer can quickly make an appointment, in-app. She can then enjoy a great salon experience in-store; and upon payment, received a time-bound in-store-only coupon as a thank you to encourage her to cross-shop during her visit.

We are confident in our strategy that armed with this mindset and set of omnichannel initiatives around it, that we will continue to grow stores and JCP.com together.

I would like to summarize all this into three main takeaways. First, looking back, we have made significant progress and delivered great results. Second, looking ahead, we have an exciting set of initiatives laid out to not only continue, but accelerate our omnichannel business. Lastly, our path to growth and winning in the marketplace is by seamlessly integrating both stores and digital, blending together products and services to provide differentiated customer experiences.

Thank you for your time this morning.

I would now like to welcome our EVP of Supply Chain, Mike Robbins, who will continue the discussion on how we will serve her needs, both online and in-store, as it relates to the supply chain initiatives over the next three years. Thank you.

Mike Robbins - *J. C. Penney Company, Inc. - EVP, Supply Chain*

Thanks, Mike, and good morning, everyone. Our transformative supply chain strategy is designed to make sure she has what she needs, when she needs it, and at a cost of that makes it worth her time, money, and effort. We've been working hard to create a fully integrated, end-to-end supply chain that is capable of delivering modern replenishment capabilities and improving in-stocks through a highly reliable and much faster and more efficient network.

After reviewing the state of our supply chain at the end of 2015, I will cover our 2016 through 2019 focus areas, supporting the omnichannel initiatives Mike just talk about and transforming our global supply chain to drive in-stocks, speed, and gross margin.

Now I will give you a picture of the recent state of our supply chain at the end of 2015. We saw a siloed organization where functions operated independently in the interest of their own objectives, and with priorities that were not necessarily focused on satisfying our customer.

We saw a domestic infrastructure that was oversized for current revenues and designed to support a different era of retail. It was also an organization filled with capable people who were maintaining the business to the best of their ability, but in desperate need of a cohesive vision. It was a supply chain full of opportunity and talent that needed to be shown a new way forward; a very exciting place to be, because we know we can do this.

Now I will cover our focus areas. We are focused on the alignment of our organization and several key initiatives, which can be grouped into omnichannel initiatives and global supply chain improvements, both of which are targeted to drive growth and profitability.

One of the first changes we made was to align all end-to-end supply chain functions. In the past, it was confusing: planning and allocation was focused mostly on financial planning and forecasting, versus allocation in intelligent inventory and replenishment capabilities.

Sourcing was focused on finding the lowest-cost producer versus truly assessing the total cost of inventory, or speed impacts. And logistics and fulfillment were focused on moving goods within their budget. All good things, but not really coordinated in a cohesive end-to-end supply chain strategy.

By integrating these areas, we now have an end-to-end supply chain leadership team that is responsible for planning, sourcing, logistics, allocation, and fulfillment. We have already seen great success in working together towards common goals.

Oftentimes we're asked about plans to close stores. We look at this regularly, but we're also focused on leveraging these assets to improve convenience for our customers and lower delivery costs. We recently finished rolling out buy online, pickup in-store, as mentioned earlier, to the entire chain, allowing customers to buy items online and pick them up in a store in a few hours. In addition to BOPIS and the typical dot-com shipments, we fulfill orders in three different ways.

Number one, leveraging our infrastructure, we have been able to activate ship-to-store. Customers can take advantage of free shipping and convenient store pickup. These orders are delivered to the store on their normal delivery, which is significantly cheaper than home delivery. As you heard from Mike Amend, this is very popular. About one-third of all online orders are picked up this way, and it drives additional purchases when she's in the store.

The second method is our save-the-sale strategy. When she places an order that would typically be filled at a dot-com DC, occasionally these items are out of stock. Obviously we work very hard to make sure this doesn't happen often. But it could be the end of the season, and the order is for a hot fashion item that has sold very well. Even though it's no longer in our DCs, we may have a few of these items in our store network. These save-the-sale orders are shipped from one of about 250 stores. This is another way we are serving her needs more effectively, driving sales and reducing markdowns.

Finally, we're rolling out a new ship-from-store strategy. This ship-from-store initiative is intended to leverage our vast store network as many DCs. Our stores are replenished through the normal process. A sophisticated algorithm determines the orders to be supplied from these stores.

For example, if a customer in Miami orders our luggage set, we can deliver it in one to two days from a store, versus taking 3 to 5 days from a dot-com DC in the Midwest, at half the cost. With sophisticated logic, we will also be able to reduce markdowns and delight customers with even faster service.

In today's world, where speed is becoming the norm, we must find a way to deliver faster without dramatically increasing our fulfillment costs. By leveraging these capabilities and utilizing existing assets, we will create a two-day dot-com delivery network without building more dot-com DCs for several years.

One requirement of a two-day network is to fulfill and ship orders the same day they are received. Just a year ago, there was no same-day fulfillment at JCPenney. Since then, we have added shifts and updated our processes. And today we fulfill all dot-com orders received by 7 PM the same day they are placed.

We are also using existing JCPenney supply chain facilities that have traditionally serviced the retail channel to fill dot-com customer orders. By next year, we will deliver store SKUs to 95% of the population in two days, without charging a membership fee.

Now I'd like to share a few examples of our key initiatives to drive in-stocks, increase speed, and improve gross margin. Modernizing replenishment requires integration and alignment across everything we do. We are developing detailed in-stock analytics, and learning a great deal about how we can improve.

One example is that we can place smaller initial orders, and then chase sales by using holdback and faster replenishment options. For example, in the past, if within the spring season, we needed 100,000 St. John's Bay men's twill shorts in a couple of different colors, our sourcing organization would find a supplier that could provide all of these shorts at the lowest cost, say, from Bangladesh.

We would then allocate 60% to 70% of the total buy upfront to our stores based on historical analytics, with limited flow happening over the next several months and limited in-season adjustments. Not surprisingly, this is not the most efficient way of doing this, as these shorts might take off in some regions and not others, and some colors might be more popular than others.

When we aligned the end-to-end supply chain organization, we realized the need to modernize our replenishment processes. The process starts with making better ordering decisions: for example, reducing the initial purchase order to 30% to 40% of the buy, and flowing more units later into the season. We will pre-plan localization and holdback strategies to determine how best to position the secondary orders, based on sales trends.

Sourcing would clearly still look to drive lowest cost and take the Bangladesh supplier for the initial order, but might leverage similar factories in Central America to allow faster turnaround of secondary orders.

Allocation would determine the quantities from the initial order; and then based on sales, how much to hold back, where to hold it, and then allocate based on sales.

Finally, fulfillment delivers the product with many fewer touches in the past. This strategy will drive customer satisfaction and sales, and reduce costly markdowns to drive gross margins. All of this is done by enterprise buying teams across both stores and dot-com, leveraging improved assortment planning tools that provide deeper analytics, from the store level up.

Another example is localization. As you heard from Mary Beth, we are intensely focused on helping our customers find what she's looking for. Our customers tell us that we can do a better job with our assortment and with sizes. In the past, stores were simply grouped into clusters by square footage and total sales volume, regardless of where they were located or customer demographics. Now, we are taking a laser-focused approach to getting localization right. In fact, 95% of our stores have a localized assortment based on product level sales trends.

In addition, we are beginning to improve this localized assortment by adding ethnicity and climate, and allocating sizes by store on a more detailed basis; again, leveraging the latest tools and analytics. We will differentiate product offerings, as well as set date and markdown timing, by distinct climate zones.

We will differentiate our assortments by brand, style, and color, depending on the demographic makeup of a store's customer base. And we will leverage size and pack optimization software, which builds a customized profile by product type, at the store level, versus limited size packs or allocations at the chain level. We're testing many scenarios and have already started to see improvements.

As stated before, the footprint and design of our domestic logistics and fulfillment organization was outdated. Even though we had already closed two distribution centers, the network was, quite frankly, built to support a much higher level of revenue in a different era of retailing, pre-omnichannel.

As a result, we undertook a journey, utilizing top-tier supply-chain software in collaboration with the leading supply chain engineering and design firm, and began a process of developing models and testing scenarios.

We have almost finished modeling. And while I cannot share specific details, this will result in a network with an optimal number of DCs and transportation lanes, with appropriate capabilities and capacities to support our growth through 2019, without any new buildings.

I can tell you today that we plan to sell our facility in Buena Park, where we own a 1.1 million square foot warehouse in a prime marketplace, for somewhere between $90 million and $125 million. The operations within that facility will continue to function in new, lower-cost, leased facilities; or, as in the case of our deconsolidation operations, within a top-tier 3PL.

Other initiatives that will help improve gross margin focus on the optimization of our transportation networks, ranging from opportunities in port selection, both domestic and foreign, to store delivery methodologies. We are already shifting volumes to different ports to improve speed and reduce overall cost.

Where suppliers are doing detailed checks, there is no need for us to do additional checking. And we're also working with suppliers to have them do ink tagging in RFID tagging. This not only improves flow, as there are fewer touches, but also reduces labor dollars in our facilities.

We're also exploring options for new store delivery capabilities in partnership with Joe's stores organization, including dynamic scheduling and new reverse logistics strategies.

As you may recall, we took a major step in this direction earlier this year when we went away from delivering garments on-hanger in trucks, and improved our trailer cube utilization by about 30%, saving about $12 million annually and simplifying the unload operation for our stores. We're not quite at the density defined on the after part of the slide here yet, but we believe there are plenty of more opportunities to get there.

We have also recently completed a full redesign of our field management organization, in line with industry benchmarks, removing unnecessary levels of management while also increasing the number of frontline, associate-facing leaders in our buildings. These efforts are also saving us $12 million annually while increasing our focus and efficiency.

We have and will continue to centralize support functions where they make sense, and take a strategic and deliberate approach to staffing and the utilization of contingent labor. We've already made major strides in this area, and expect to see many more as we bring in modern labor and warehouse management systems and further refine our organization structure.

Now I'd like to briefly talk about why I feel very confident about what we are doing from a technology perspective. Both Therace Risch, our Chief Information Officer, and I, are not new to this. We spent time together at another retailer, developing and implementing a modern supply-chain technology footprint. We are doing exactly the same here at J. C. Penney.

We have a budgeted three-year roadmap that will round out our planning, sourcing, logistics, allocation, and fulfillment capabilities with best-in-class supply chain optimization and analytics solutions that will support our people and the processes they follow every day.

In closing, I want to once again thank you for all being here today; and to ensure you that here at J. C. Penney, our supply chain is moving very fast, undertaking transformative actions to deliver modern replenishment capabilities through a reliable and efficient network that will deliver on our three strategic pillars.

And now I will turn it over to Ed Record, our Chief Financial Officer, who will provide you with our financial plans. Thank you.

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

Thank you, Mike. Good afternoon, everyone. Thank you for being with us today. We appreciate your continued interest in J. C. Penney's.

You have spent the morning hearing from many of our leaders about the progress we have made in this past year as well as our strategic vision and initiatives for the future of J. C. Penney's. Today I am going to view with you what the strategic initiatives mean financially to our business and share with you our three-year financial outlook for delivering profitable results.

Before we get to our three-year outlook and financial plan, I want to cover with you three other topics. My first topic will be our Q2 results and our 2016 guidance.

As you know, we issued our second-quarter financial results last night. So I'm not going to spend a lot of time on Q2 results but I want to cover the highlights and review with you our current 2016 guidance.

We will also then walk through our business drivers for the next three years and the assumptions behind them, and I will review our expectations for capital expenditures and debt reduction. Then, of course, we will and with our three-year financial outlook.

Let's now quickly review our 2016 financial results. We just finished the second quarter and feel really good about our progress, relative to the first quarter.

We are on track to meet our guidance that we outlined at the beginning of the year and we reaffirmed last Friday. We generated strong comparable-store sales growth in a challenging environment while growing gross margin year-over-year.

We continue to make progress on the expense run, reducing SG&A by $48 million from last year, with savings attributable to corporate overhead, incentive compensation, store controllable expenses and advertising efficiencies. This enabled us to produce adjusted EBITDA of $233 million, $95 million higher than last year.

Looking at Q2 from a competitive point of view, you can see that we continued to outpace our department store competition and capture market share in the second quarter. Our investments in Sephora, center core and appliances should enable us to pull further ahead of our competitors in the second half of this year.

As we look at the full year, we are reaffirming our guidance for 2016 of 3% to 4% comparable-store sales growth, gross margin improvements of 10 to 30 basis points relative to 2015, an SG&A reduction in dollar terms relative to 2015. And as a quick aside, for the first half of 2016 we reduced SG&A by approximately $140 million.

Looking at the back half of 2016, we will continue to leverage SG&A on a rate basis. With comparable-store sales of 3.4%, gross margin rate expansion of 10 to 30 basis points and SG&A reductions for the year, EBITDA will meet or exceed our goal of $1 billion in 2016. In addition, we will be profitable with positive EPS in 2016.

At our last analyst meeting in October 2014, we outlined a plan that forecasted EBITDA increasing from a negative $641 million in 2013 to a positive $300 million in 2014 and, then, increasing $300 million every year until it reached $1.2 billion in 2017.

I am pleased to tell you that in 2014 and 2015 we exceeded our goals for both of those years. In addition, we are on track to exceed our goal for 2016.

We expect to hit $1 billion in EBITDA for 2016. Also we expect to exceed $1.2 billion in 2017.

We have made tremendous progress since 2013 chain but we know we have more work to do. I hope what you have seen so far gives you confidence in the opportunities we have to drive this business.

Now I want to summarize how we see these opportunities over the next three years. As you heard from John today about our initiatives around value, beauty, special sizes and home refresh and from Mike about how Omni is going to amplify these initiatives, we continue to focus our value initiative around our private brands such as St. John's Bay, Arizona Jeans, Stafford, Liz Claiborne, exertion and JCPenney Home as well as their exclusive partnerships with Michael Strahan and Disney.

These private and exclusive brands enable us to deliver style and value to our customers.

We want to be her beauty solution. We are investing significant capital in our beauty offerings, led by Sephora and center core. We will open 60 Sephora stores this year.

Looking ahead to 2017, we expect to accelerate our growth with more new stores, new brand rollouts across all Sephoras and expansions of our most productive locations. In addition, the investment we made this year in updating our center core environment and in our top 350 stores is paying off as those stores continue to outpace the rest of the chain.

Our third major strategy is to become a destination for special sizes. These customers care about style and quality yet have been underserved. In men, the Foundry Company offers him apparel and accessories for all his needs. Boutique Plus is our newest brand offering for women that offers modern stylings aimed at the Millennial customer and an elevated shopping experience. We are also broadening our assortments in boys husky and girls plus.

Finally, we are enhancing our home department with the addition of appliances in 500 stores in 2016, and we expect to grow it beyond 500 locations in 2017. We are amplifying our in-store presentations with a broad 1,000-SKU assortment that is available online nationwide. Best of all, we can execute this rollout with minimal working capital, as we do not own inventory until the products are sold.

On the soft side of our home department, we are making it a goal to recapture our former market-leading position in window coverings, and expanding and enhancing the in-store environment. In addition, we are rolling out Ashley's Furniture to over 80 stores; and, as John said, we will have 4,000 to 5,000 SKUs online. Ashley's allows us to offer improved assortments while being accretive to the overall profitability of our furniture business.

Lastly, we are excited about our Empire flooring pilot in 10 stores. While it is still early days in the Empire pilot, we are very pleased with the customer reaction to the addition of flooring to our stores. If Empire continues to perform well, we anticipate rolling Empire flooring out to additional stores in 2017.

As John said, we believe these initiatives can generate incremental sales of between $1.2 billion and $1.7 billion over the next three years. This translates into a 3% compounded annual cost sales growth at the low end of our sales range and a 4% comp CAGR at the high end, which is in line with the comp sales CAGR over the last three years of 4%. We feel good about the initiatives we have to drive sales over the next three years.

Now let's take a look at gross margins. As John discussed, private brands are not only a significant sales opportunity for us but they will also help us meet our gross margin goals. Private brands gross margin has historically been approximately 300 basis points higher than similar national brands. Over the last couple of years our private brand sale and penetration has rebounded but gross margin has not returned historic differentials.

With faster speed to market, better systems and more efficient logistics networks we believe there is significant private brands gross margin opportunity over the next three years.

You heard Mike Robbins speak about modernizing replenishment processes as well as driving size optimization, localization and supply chain optimization. We know each of these will have a sales and gross margin benefit.

In addition, we are developing detailed in-stock analytics which allow us to improve our replenishment speed by changing the cadence of our purchase orders. This will allow us to flow more units later in the season [and tell them to flow back] based on the actual sales performance.

Starting this year, we are refining our tools to help us predict selling patterns and optimize assortments for each store based on location and demographic. We will utilize data sources such as dotcom demand and store feedback to [distort] color and sizes more precisely.

We continue to optimize our logistics network by utilizing different ports of entry to improve speed and lower overall costs. We are also working to eliminate excessive detail checks and pushing ink and RFID tagging upstream, where it can be done more cheaply.

Shortage remains a big opportunity for us. We are significantly above industry standards and are taking actions including bringing in a new Vice President of Loss Prevention to bring that back in line.

Earlier, Marvin discussed how we are adding more science into what we do. As part of this we have created a pricing optimization team and hired a leader who has significant experience in the field.

This team spends their time analyzing, utilizing analytics to calculate prices and maximize sales and gross margins. This is a big initiative for us and one, we believe, holds the key to unlocking a lot of value.

So let me give you a little more detail around our pricing optimization initiative. Pricing is an important opportunity for both sales and gross margin growth, and we recognize the need to invest in subject matter expertise to get it right.

Over the last nine months we have formed a centralized pricing optimization team led by a new Vice President of Pricing, along with a strong mix of external experienced hires, and high-potential leaders pulled from the merchandising teams. Over the next three-plus years, our strategic plan is to leverage a scalable data and analytics platform and then customer segment optimization followed by, ultimately, by predictive pricing models.

As we look at the journey we started late last year, our focus to date has been on building out the team and data analysis functions. We have completed this phase of our plan and are now able to calculate item level price elasticities in near-real-time.

Going forward, we will leverage this capability to optimize our item level pricing. Moving into next year and beyond, we will take item level pricing plans and consolidate them by customer segments. This will allow us to differentiate a customer's price for a collection of items based on details like location, commercial channel, brand affinity and other attributes.

In the later years we will add predictive pricing capabilities driven by social media, analytics and other Big Data. For example, Twitter and Pinterest sentiment can help us better understand customer responses to promotions and coupons.

Now let's look at one of the more obvious customer segmentation opportunities we see today. We charge the same price for an item in every store across every state. We don't take into account high or low costs to operate or high or low costs of living or even climate as we set prices.

We will build a modern variable pricing model that will be comparable to most modern retailers. We are excited about the opportunities [this teams] will allow us to pursue over the next three years.

Now that you have heard the opportunities we have to enhance our profitability, let's touch on the headwinds. We expect dotcom sales growth will continue to outpace our brick-and-mortar sales, and elements such as free shipping will put pressure on our gross margin as those sales become a greater portion of our mix. Our buy online and pick up in store capability will help mitigate this pressure as more orders are picked up in-store versus being shipped to the customer's home.

The growth of appliances, which run a lower gross margin, will also be a headwind in our gross margin rate. While appliances has a lower gross margin rate compared to the rest of our businesses, it produces significantly higher gross margin dollars per square foot as compared to the rest of our Home Store. So, [while it will] put some pressure on our gross margin rate, it will be accretive to EBITDA overall.

All of these opportunities are worth significantly more than the 75 to 100 basis points of gross margin rate accretion, even when you take the headwinds into account. However, we feel 75 to 100 basis points of rate improvement is a prudent goal that allows us to continue to invest in our value proposition and opportunistically find spots to win market share.

Turning to the SG&A, we have taken significant costs out of our business over the last few years and we will continue our focus on driving across all areas of the Company. We are working hard to focus our associates' time on the customer.

To that end, Joe started Project Simple. Project Simple's main goal is to eliminate tasks so associates can focus on the customer. We are also investing in technology in our stores to improve the efficiency of our Associates and to speed up our checkout process.

We continue to rightsize our corporate overhead to match the size of the company we are today. Over the last two years our procurement department has delivered $100 million in expense savings through strategic initiatives. We know there is more opportunity here and we will continue to find savings across the board in our non-payroll spend.

We have also announced our initiative in Bangalore. This initiative is focused around technology and will give us direct access to talent in the IT and digital space.

This initiative will save us money and allow us to move faster and more efficiently. In advertising we continue to pivot to more digital advertising, which is allowing us to increase our impressions while reducing our cost.

And lastly, the J. C. Penney private-label credit card. Most of you know we have a yield sharing arrangement with Synchrony, a credit card provider. Credit is a big initiative for us not only as an offset to SG&A but as a driver of sales.

Why are we so excited about credit? Well, since 2014 the J. C. Penney credit card customer has driven over 80% of our sales growth, has half of the attrition rate and spends almost 3 times as much as a third-party credit card customer.

In 2013 our penetration was approximately 1/3 of sales. For 2016 we expect 40% of our sales to be on the J.C Penney credit card and for J. C. Penney to earn approximately $350 million from our yield sharing arrangement.

40% penetration, while a great improvement, is still significantly behind our peers. We expect to drive our J. C. Penney card penetration to between 45% and 50% by 2019. This will enable us to drive our credit income up between $50 million and $100 million compared to this year.

We believe these opportunities will allow us to offset the headwinds of rising wage pressure and medical costs in addition to the increasing costs to remain competitive in the digital space. These initiatives will enable us to leverage SG&A by 215 to 240 basis points over the next three years.

Now I'm going to cover capital expenditures that will support the initiatives you heard about today, the positive steps we have taken to improve our capital structure and the impact this improved performance will have on our capital structure over the next three years. As we've talked about in the past, we were on a capital diet in 2014 in 2015. As the results have improved, we have increased our capital spend and we expect capital expenditures to increase over the next three years.

Capital expenditures should average about $450 million annually over the next three years. This increased spend will allow us to invest in our supply chain, which is in need of modernization, as well as continue to increase our investment in omni-channel and store technology.

From a store's environment point of view, this level of investment will allow us to continue to roll out Sephoras and the other initiatives we have talked about today.

We have done a lot of work on our balance sheet and capital structure. We recently announced that we refinanced our $2.2 billion term loan, which enabled us to extend the maturity from 2018 to 2023 while saving approximately $24 million annually in interest expense.

In addition to this recent refinancing, we increased liquidity $900 million in 2015 and used $500 million to pay down our debt. With the repayment of the $500 million in borrowings in 2015, the refinance of our $[2.2] billion term loan, paying off the 2016 debt maturities and the open market debt repurchases we completed in the first quarter, we are saving over $50 million in interest expense annually.

With all of that work we have done on our capital structure, our near-term debt maturities are now very manageable. In fact, as you can see, we are forecasting our free cash flow to exceed our scheduled debt maturities every year through 2019. We will be able to pay these maturities off with free cash flow while moderately growing our capital expenditures to support all the growth initiatives you have heard today.

Going forward, free cash flow is strong, driven by healthy EBITDA and minimal cash taxes. We ended 2015 with approximately $2.5 billion in total liquidity and we expect year-end liquidity to remain roughly at this level over the next three years.

We have made significant improvement in strengthening our balance sheet over the past three years. In 2013 we had a CCC+ rating with a negative outlook. We improved our leverage ratio in 2014 to 10.4 times adjusted EBITDA and still have the credit rating of CCC+ but with a stable outlook. By 2015 we improved our leverage ratio to 5.4 times by generating adjusted EBITDA of $715 million. We expect to lower 2016's leverage ratio to around four times. And today we are rated, on average, B with a positive outlook.

Achieving our long-term plan will allow us to generate approximately $1.2 billion of free cash flow over the next three years. Using that free cash flow to pay off our $1 billion in maturities we have through 2019 will allow us to reduce our leverage ratio to below two times EBITDA by the end of 2019. Execution of our long range plan, coupled with this level of deleveraging, should put J. C. Penney something in the range of a BB credit rating.

Now for our three-year outlook: we are proud of the progress we have made versus our existing three-year plan and are excited about the opportunities we have moving forward. Through the first half of 2016 we led our department store peers and have initiatives in place for the back half of the year that make us confident in reaffirming our guidance.

You heard the team today lay out multiple initiatives to increase comparable-store sales between 3% and 4% CAGR over the next three years. And remember, this is below our current three-year CAGR of 4%.

In addition, we have significant initiatives to expand gross margin 75 to 100 basis points and to leverage SG&A over the next three years. This will enable us to go from breakeven EPS in 2015 to produce EPS in the range of $1.40 to $1.55 in 2018. We will continue to be efficient and effective in our capital investments, which will allow us to drive free cash flow exceeding our maturities in each year.

Lastly, we have made significant improvement to our capital structure, and we will continue to delever over the next three years. Achieving our three-year plan will allow us to end 2019 with a net debt to EBITDA ratio of less than two times.

As we have talked about in the past, we believe we have multiple paths to get us to our EPS goals. It is important to note that we don't need sales of $18 billion or a gross margin rate at historical levels for us to be able to achieve our goals.

In summary, we believe that we have initiatives to continue to outpace our department store competitors on the topline while still having multiple levers to flow these sales to the bottom line, allowing us to achieve our goal of EPS of $1.40 to $1.55.

With that I will now turn the meeting back over to Marvin.

Marvin Ellison - *J. C. Penney Company, Inc. - Chairman, President, and CEO*

Okay. Thanks again, Ed.

Well, look, the team discussed quite a few important topics today. So, I'm going to take a few minutes and summarize the key themes and the initiatives that I believe are most important for the next three years at Seybert.

So Marybeth outlined the important steps we have taken to better understand the customer. Although it seems kind of obvious and elementary, when I asked a very simple question 18 months ago, who is our core customer, no one was able to answer that question with any degree of clarity or specifics.

But through extensive research we now know that 72% of our customers are female, and on average the age is roughly 60. This customer represents 55% of our current sales. She's a homeowner, and her kids have moved out of the house. But we also learned this customer segment is in decline from the spending perspective.

The segment that is growing is, on average, a 33-year-old female customer. She is more multi-cultured. She has, on average, two kids. She works. And we call this customer the Modern American Mom or MAM. This customer represents 45% of our current sales, and she is growing.

Our customers also love omni-channel, described as the ability to shop online and in-store seamlessly. And the omni-channel customer spends over twice as much as a store-only or an online-only customer.

So the ability to take this data has really improved our focus on the customer in a big way at J. C. Penney.

John outlined the steps we are taking to give our customer what she wants, to ensure she shops more often and she spends more per occasion. So first and foremost, our customer has said loud and clear she wants a value. And we will deliver this value in part by accelerating our private brands penetration and by creating a more distinct value message in our marketing and in our in-store presentation.

In addition, we are going to give her a value. We are going to give her three other things that we think provides us with differentiation from our mid tier department store peers and also gives us protection from our pure play e-commerce competitors.

First, we're going to give her a beauty solution, driven primarily by our great partnership with Sephora and our over 800 beauty salons. And as John highlighted, we have great success in Sephora in these smaller stores, which we think will allow us to accelerate our support growth plan, and we are going to continue to rebrand our salons within style.

It has been very successful and it will be ongoing.

Second, we are going to give this customer special sizes. The women plus-size market is over an $18 billion industry and growing, and we believe that J. C. Penney is well-positioned to take market share.

We will meet this need by opening more of our plus-size women's shops -- we call it a boutique -- and by leveraging The Boutique Plus women's plus-size private brand for our younger, Millennial customers. We will also emphasize The Foundry, our big and tall in-store shop for men. And we're going to intensify our focus on juniors and girls plus and boys husky.

And third, we're going to capitalize on this growing trend where customers are spending more in their home in the robust housing market. We will deliver this best-in-class experience so that we can help the customer refresh her home.

We are going to refresh her home with new appliances, with Ashley's Furniture, with window treatments, with soft home and with flooring. There is no other mid tier department store who can offer the assortment, the brands and the value of J. C. Penney.

And we believe that this home refresh idea is a big idea. The pilots and the initiatives are all exceeding our financial expectations. And we see an extremely bright future for J. C. Penney in this space.

So, not only will these initiatives drive sales growth of the next three years, but our research shows that beauty, special sizes and home are difficult to replicate as a pure play e-commerce retailer.

So, Joe discussed the steps we are taking to help her find what she is looking for quickly. In order to achieve this, we are implementing mobile technology in the store to free up the Associates' time so we can shift more payroll from task to service and to selling.

In 2016, as Joe mentioned, we retrained all 100,000 associates to our new customer service standards. And this improved service is bringing excitement and entertainment back to the store, and we know this is critically important for the brick-and-mortar retail environment. This improved in-store service is also driving our culture where we are attaching sales, we are improving our brand reputation. And this is something also that cannot be replicated online.

And Mike Amend and Mike Robbins discussed the steps we are taking to help the customer find what she is looking for, both in-store and online. And to achieve this, our supply chain and online teams are partnering together to deliver a much improved customer experience.

Mike Amend and the omni-channel team have done an outstanding job of improving our digital and mobile technology. And in the past 10 months, the omni-channel team has improved online functionality, updated our mobile app, expanded our SKU assortment by over 50% and, in partnership with Joe and the storage team, we have launched [both this] chain wide.

Mike Robbins, our EVP of Supply Chain, discussed how we will leverage our existing network of DCs in our over 1,000 stores to deliver online products to our customers at a lower cost to J. C. Penney and an abbreviated timeframe to our customer, which is a true win-win. In 2017 over 95% of our store online orders will be delivered in two days or less, accomplished without a membership fee.

So, Ed brought it home and outlined the plans to bring J. C. Penney back to profitability in 2016 while delivering sustainable sales growth and profit over the next three years. We have reaffirmed our $1 billion EBITDA target for 2016, and we are very confident in our ability to meet or beat our $1.2 billion target for 2017.

And as we look toward 2019, we're forecasting we will achieve the following: a net income between $450 million and $500 million, an EPS of approximately $1.50, a debt-to-EBITDA ratio of less than two times while delivering a sales CAGR of approximately 3%. We believe this sales growth is achievable, if not conservative, based on the early results of our new Sephora locations, our center core update and our home refresh strategy, which includes appliances.

We will continue to manage our expenses and maintain our focus as a very fiscally disciplined company. And this will give us the ability to achieve an EBITDA rate of approximately 11% by 2019.

So we are very pleased with the progress we have already made. But, as you can see, we are very excited about the future of J. C. Penney.

As I close, I'd like to update you on our mission as a company. So a few years ago, one of our past CEOs defined our mission to become America's favorite store. Although this is quite noble, it is rather ambiguous. And we believe we need to be just a little bit more focused.

So we're going to update our mission: to help our customers find what she loves with less time, money and effort. Every step we take, every initiative we execute will bring us closer to making this mission a reality.

So I want to personally, again, thank you for your time today. I'm going to invite my management team back to the stage, where we're going to take Q&A. And Trent Kruse will come out and walk you through the logistics of the Q&A process.

Thank you.

QUESTIONS AND ANSWERS

Trent Kruse - *J. C. Penney Company, Inc. - VP IR and Communications*

So we will get everybody back up on stage. John, Mary Beth, if you could join us up here as well? Appreciate you guys, obviously, coming out today. And as the management team gathers here I just wanted to let you know the logistics of the Q&A. I think we've got some mics placed here and here, so just feel free to come on up. But do let us know your name and the firm that you are with, just so that those listening can have the opportunity to get the full Q&A program in its entirety.

So we will give you a couple minutes to gather your questions and then we will be ready for you.

Marvin Ellison - *J. C. Penney Company, Inc. - Chairman, President, and CEO*

Two members of the management team that didn't present joining us on stage -- we have Brent Evensen, our Head of HR; and we have Therace Risch, our Chief Information Officer. I think you recognize everybody else.

Trent Kruse - *J. C. Penney Company, Inc. - VP IR and Communications*

(inaudible) I'm sorry, you guys -- these two mics so the webcast can hear everybody.

Brian Nagel - *Oppenheimer & Co. - Analyst*

So Brian Nagel from Oppenheimer. Thanks for the presentation today. The question I have just with respect to the sales growth you expect over the next few years, the $1.2 [billion to $1.9 billion] you laid out, is there a way to -- you obviously talked a lot about the different initiatives there. But how would we think about if one or a few of those have a disproportionate impact upon that?

Look at the sales. Other factors that are going to drive sales more than other factors (inaudible)? Thanks.

Marvin Ellison - *J. C. Penney Company, Inc. - Chairman, President, and CEO*

I'll take the first part of it and I'll let Ed provide some context and I will let John, from a merchandising perspective.

I think we said we look at that number as a very achievable number, just based on the test and learn environment. I think it's well chronicled that during the past era a lot of decisions were made off-the-cuff with no real data.

And so we are very disciplined around testing, learning and rolling out and having very specific hurdle rates in place before we decide to move forward. So with center core, with the expansion of Sephora and more aggressive growth plan for Sephora with appliances and some of the other initiatives we talked about like active and private brands growth, we are very confident that we can achieve it.

Now, if one area takes off more than another one, we are going to manage to that. But we see that as a bonus, not as a negative. We also believe that, even going into 2017, the $1.2 billion of EBITDA -- we think we're going to beat it. That's our goal.

But we are confident because the test and learn rigor we put in place really reinforces the fact that we are going to hit these numbers, because we can back at historical trends on what we learned from the tests and what we gained from the rollout, and the parallels are very close.

I'll let Ed provide some more context and then let John talk more about the confidence the merchants have in what we're trying to do in the stores.

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

First, the sales I think we laid out work $1.2 billion to $1.7 billion. But I like to $1.9 billion number. In some ways, we like all of our initiatives same. Right?

But certain ones like around beauty, which we know a lot in really high-margin, and we are excited about how Sephora continues to deliver and some of the initiatives we have around that, and then things we are doing around Home Store, where we are putting new categories in that are not taking away from other categories. And we know we have space in predominantly all of our stores, because we are not as productive as we want to be.

And as we ramp that connectivity back up, we have the space to put those in without cannibalizing other areas. And we feel really good about that, whether it's -- obviously, appliance is a big one, but even Ashley's Furniture and Empire.

And we are looking for other things. Right? So my guess is by the time we get to 2019 we will have other initiatives to roll into that as well, other new categories to put in, particularly around home.

Those are the two that come to mind. I'll let John see if he's got --

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John Tighe - *J. C. Penney Company, Inc. - EVP and Chief Merchant*

Just quickly to answer that question, we don't have a crystal ball. And the teams are working tirelessly to change and fix every business across the whole store.

What we have laid out today are the ones we think have been proved out and showed great promise based on the results we've initially seen.

Marvin has mentioned this multiple times in the past. But they also are less contingent on weather. The last few years, weather has been quite a volatile factor in running a retail company.

So I think these are great ways for us to have a defensible position as well as insulate ourselves from all the weather cost of issues that go on out in the industry. But we are not giving up on all the other things we do. Right? Fixing private brand touches every part of the store. And the team, and many of them are here, are working tirelessly to make those businesses better every day.

Carla Casella - *JPMorgan - Analyst*

Carla Casella, JPMorgan. A question, given all the store closures we are hearing from some of your competitors -- is that typically --? From the recent closures, is that generally a positive for you in those malls? Or is it bad? And then what is your view towards your own continuing to rationalize the store base over time?

Marvin Ellison - *J. C. Penney Company, Inc. - Chairman, President, and CEO*

On the earnings call last week, we noted that when we look at the data, when we have experienced closures in the malls will share our stores with Macy?s and Sears, it's a net positive to J. C. Penney. A couple reasons why -- number one, it's very well-telegraphed. So it doesn't happen immediately. We know it's coming, so it gives us an opportunity to build a battle plan and start to take market share.

The other thing is when a competitor closes a store in the mall, typically it's an underperforming store, which means it's not driving a lot of traffic in the first place. So, oftentimes, when an underperforming retail closes, the mall operators, which Ed and I have had extensive conversations with all of them about what are your contingency plans for anchors closing, most have very good plans in place which creates, in some cases, more traffic.

Now, we are aware that we have certain malls that are dependent on these anchors. And all malls are not created equal. But we're pretty confident, net-net, that this is going to be a positive for us as a Company based on historical trends.

The other point, I think, that is worth noting is that we have no expectation or desire to run stores that are unprofitable. So the moment we have a store that is either four-wall cash flow negative or it is dilutive from a profit standpoint or does not fit strategically in our omni-channel strategy, we're going to rationalize that story out the fleet because it creates no shareholder value. But we closed 40 stores last year, 70 stores this year, I think the year prior, 2014, roughly 33-35 stores.

So we have been rationalizing the fleet. And we're going to continue to do that.

But as Mike Amend, as Mike Robbins talked about, we do see power in our stores. And I'll let Mike Amend talk a little bit more about e-commerce in the store and the value around the connectivity of both.

Mike Amend - *J. C. Penney Company, Inc. - EVP, Omnichannel*

Thanks, Marvin. Like I said in the talk earlier, a third of orders today are picked up in the store. We see that as actually an opportunity just to continue to grow.

When you think about the convenience factor of customers being able to pick an item up when they want and not have something that maybe gets taken back that they have to then go back and track to a carrier to pick up, if you think about the opportunity for them to -- if they pick the item up inside the store, often times, if it's apparel, sometimes they may want to see it, touch it, try it on.

They can return it right there, as I mentioned. Returns go back to the store, a vast majority of our returns go back to the store.

As Mike Robbins talked, we are certainly using those stores as fulfillment centers, right, and leveraging all that inventory that we have in stores to then fill customers' demand across the web. And so we see that as a very critical component and we think, frankly, it's 50% now but we're going to continue to drive that upward.

And Joe and the store's team has been just phenomenal partners in terms of helping drive that. And what I would tell you -- it's like from a store -- stores, in terms of workload with customers, kind of ebb and flow. So the other thing that we see being able to drive that demand is a great opportunity for us to fill in that productivity gap and continue to raise productivity of stores even higher by leveraging that online demand in stores to fulfill those customers' needs, which is just going to be a huge benefit for us as we continue to move forward.

John Tighe - *J. C. Penney Company, Inc. - EVP and Chief Merchant*

I would just add, as a team working together, in a nine-week period we rolled out buy [online], picked up in store in 775 stores, so 775 stores in the nine-week period. And we have a 94% fill rate, which is significantly above the industry standard from a buy on line pickup in store standpoint. And I think there are several of us who have lived through some buy online pick up in store in the past as well as individuals on Mike's team, on my store ops team, so very happy with how the stores are adapting to that change and very comfortable with the direction we are heading.

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

Neely Tamminga, Piper Jaffray. Thank you very much for taking the time to prepare and share with us today all of your initiatives.

I have -- and Joe, seriously, that visual kind of hit really close to home with the buy side and the sell side in this room, I'm sure, a lot of emails. Okay.

So Marvin, a question for you, and then a question for you, Mary Beth, as well. Appliances alone could get you $1.5 billion. At what point do you pace the communication around your topline plans, given rolling this out to 500 stores? Is this something you would be willing, on the other side of holiday, to even say, you know what, we were really, really right or we are kind of pacing about where we thought? How should we think about the pace of communication around this longer-term plan for you?

And for Mary Beth, you alluded to doing more with more efficiency on your loyalty program. You're delivering more and it's costing less. So I don't know if you and Ed could together explain to us in the financial world how you were able to do that, because it's not always the case for us when we hear people do that. Thank you.

Marvin Ellison - *J. C. Penney Company, Inc. - Chairman, President, and CEO*

Actually, I will take the appliance question. I will let Mary Beth and Ed talk about loyalty.

We are very excited about appliances, but the excitement is based on data. It's not based on just an exuberance of hope. The data has been pretty compelling. So I think the short answer is we are constrained by the calendar in how many stores we can set this year.

We typically are not interested in disrupting the store during holiday. So we basically work with Mary Beth's team in the store environment and partnership with Joe's team to figure out what were the drop-dead dates that we can no longer be in the stores disrupting the footprint and in the fall season kind of highlighted those specific dates, and then we asked the question, how many stores can we open?

We are doing about 40 a week, and that's quite a few. So we've been very pleased with the quality of the work and we've been very pleased with the response from the customers.

So we will get to slightly over 500 stores this year. We will immediately start to evaluate the rest of the fleet, and we are already doing that. And within the 500-plus stores we are going to roll out this year, we are going to have some unique footprints that we are testing to see can we make appliances work in a smaller square footage store and can we make the space as productive as we have in the stores we've been in thus far.

And so, we will keep you updated, but we are very confident that we will be coming back post-holiday with an expansion plan into 2017 that will probably begin after Christmas to a definite number of stores that we think we will also put appliances in. But that's yet to be determined.

But we are very confident that the sales number could be significant to the business, just based on a couple of factors. Number one, the market is growing at 30%. And that growth is driven primarily by the robust housing market and innovation. We are very fortunate to have two of the most innovative brands in our stores, LG and Samsung. So that puts us in a great position.

Number two, we have the second leader in market share that share 400-plus models with us and they are donating share. And we are going to be aggressive to make sure that we are positioned to get as much of that donation of share as we can.

And the third piece is, as John noted, this is a female-dominated purchase and our female customers are very comfortable shopping in JCPenney. And because of their comfort, we are picking up a disproportionate number of those female customers that want an appliance and we think that's going to give us the ability to be more effective than other retailers because of our high penetration of female consumers that already shop us.

And because we are going to have the adjacencies in the stores well thought out with the expansion of window, with the soft home category that John mentioned, as well as Ashley's and Empire that we are testing, but we have high hopes for.

So we will keep you updated. We will be very transparent about the success of appliances and very transparent regarding the future growth. But, again, we agree with you. The sales number could be greater than what we've outlined, but we are being appropriately conservative because we want to continue to learn what the business offers. With that, I hand it over to Mary Beth and Ed.

Mary Beth West - *J. C. Penney Company, Inc. - EVP and Chief Customer and Marketing Officer*

So we both (inaudible). We started the program and it really had two issues. There were fundamental customer issues that I talked about, where they weren't that pleased with some of the components of the program. And then if you looked at it from a J.C.Penney perspective, there were two issues that really -- it's incredibly expensive and it was so expensive we couldn't actually afford to try to drive loyalty because it cost us so much money.

We did a lot of analytical rigor to try to get to the right solution. We did everything from what we call a max diff test, which is forced rankings of customers about what was most important to them, first, second, and third. And then we also did a conjoint analysis to do a forced bundling of the benefits to see where we had to get the most traction.

And then, just to echo Marvin's point on the test and learn environment, we put it in 85% of the country in order to get the learning.

One of the biggest changes we made in order to improve the profitability was we went from an earn ratio of spend $100 and essentially get one point, or $1, to you spent $200 and get $1. And what was important was what we found in the conjoint analysis is that people were willing to move to the higher earn ratio if we could provide your points don't expire, and the economics of that were just far better than where we started from.

So, again, it's really early days, but our focus in the short term has been on transitioning people in the legacy program smoothly over to the new program, and then in the back half of the year really driving enrollment. And I'll turn it over.

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

I think Mary Beth explained that great. The only thing I would add is that the old program was basically breakeven from an economic standpoint, which is relatively hard to do with a loyalty program because it was so rich that it only got to breakeven. We expect this one to be obviously accretive to the overall bottom line and we expect to be a material benefit to gross margin throughout the remainder of this year and into 2017.

David Glick - *Buckingham Research Group - Analyst*

David Glick, Buckingham Research Group. Ed, a couple questions for you. You may be surprised to get this question, but if you track on your EBITDA goals to 2019, at what point would you consider from a leverage ratio standpoint you would be at a point where you could began to return capital to shareholders via a dividend or a buyback? And then, I have a follow-up.

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

I am glad to get that question. We laid out obviously a goal to delever, and that is our stated goal and we will delever.

The 2% -- or the two times net debt to EBITDA ratio, I would not describe that as a goal. I think that is where our plans get us. We will continue to make decisions on what's the best way to reward our shareholders and we will have to take it from there.

But at some point, we would like to be a dividend company. Share buybacks are a possibility. But I think we're still a couple years away from having those talks seriously, but obviously if we do execute on this before we get to 2019, we are going to have to have those discussions.

David Glick - *Buckingham Research Group - Analyst*

Great, and then just a question on NOLs and how you factor that into your net income projection and the future benefits there that you see.

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

We did not factor it into the net income. We expect by 2019, if we hit these plans, that we will be paying an effective -- or be booking an effective tax rate from a GAAP standpoint. We do -- it is baked into the free cash flow because we don't expect to effectively be paying any -- or not much cash taxes between now and 2019, so we don't really start to be a full cash taxpayer until in the 2020 some time.

David Glick - *Buckingham Research Group - Analyst*

So that net income projection does assume a higher pretax number, that you -- for 2019?

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

Yes, I mean, it assumes an effective tax rate in the high 30%s.

David Glick - *Buckingham Research Group - Analyst*

(multiple speakers). Okay, thank you.

Matt Boss - *JPMorgan - Analyst*

Matt Boss, JPMorgan. Just within your 3% to 4% same-store sales CAGR in the next three years, what would be the embedded traffic assumption? And do you have any competitor consolidation baked into that, particularly on the appliance side?

Marvin Ellison - *J. C. Penney Company, Inc. - Chairman, President, and CEO*

I don't know that we can give you the specificity of the traffic assumptions. I will let Ed take that one. Maybe he can provide some level of clarity beyond the way I'm looking at it.

But we have not baked in any consolidation at all. We're just looking at pure growth rate. We are looking at the macroeconomic data that we have reviewed, based on public data, but also based on sources that we use internally to help us to understand the marketplace, and consistently I think we are all hearing the same thing about the robust housing market coming out of the really difficult housing market recession and the growth rate. So, our assumptions on appliances is just really based on growth rate and based off of the ability to just take basic market share.

I think what I should say also is that we have no aspirations to be number one in market share in appliances. In order to be number one in market share, you have to have a commitment to hold inventory, and we have no desire to hold inventory. We will manage this business with display-only product, leveraging the inventory of our supplier. That helps our cash position; that helps our turns. And we think that's a much more effective way for us to manage the business.

But we think we can be disruptive. And we think we can serve a unique customer segment really well, based on the brands that we have and the convenience of our store locations. And Ed, I don't know about the traffic assumptions. I don't know if you have a different thought on it.

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

The only thing I would add is traffic has been slightly negative, although we were positive in July. That has continued a multiyear trend, although we continue -- we get some visibility into the industry and we continue to outpace the industry in traffic.

We also continue to run positive conversions, so the net for as long as -- or at least as long as I've been here, that traffic has been down and conversions offset that. So we continue to see transactions in comp stores up low single digits.

And that is really the assumption go forward. We would continue to expect to see transactions in the low single digits. AUR probably up slightly, with appliance will have a significant impact on AUR, and then UPT is probably down slightly, mostly because of appliances will probably bring the UPTs down per transaction. But we still expect conversion to be able to offset slightly weaker traffic.

Matt Boss - *JPMorgan - Analyst*

And then just to follow up, on the private label going to 65% to 70%, how many private-label brands do you have today? Is this an expansion of the number of brands that you have today? Is it a consolidation of some of your national brands? Just any help on how you get to the 65% to 70% over time would be great.

Marvin Ellison - *J. C. Penney Company, Inc. - Chairman, President, and CEO*

Let me give you a high level, then I will let John give you his thoughts. The key for us is the research that Mary Beth gave us on what the customer wants.

And what we found out is that the customer didn't really know the difference between our private brands and national brands in some categories. But more importantly, the customer identified national brands only as the perception-shifting brands that made a difference, Levi, Nike, KitchenAid, the brands that just carry a certain cachet.

And so, what -- the way we are looking at it is that we are not getting out of the national brands business, but we want to lean into the perception-shifting brands, and I think John did a nice job of showing the private brand and the key national brand.

But then we have a lot of labels that's in the middle. And the simple question that I am asking of John, and John is asking of his team, is if it's just a label and is not a perception-shifting brand, can we take this on ourselves as a private brand and can we do it with higher quality at a lower cost, which will create higher profit for us and, in most cases, a better value for the customer? That's the way we are thinking about it at a high level. I can let John kind of talk about the exercise that his team is going through and the kind of portfolio rolling intent strategy that he is rolling out with his team.

John Tighe - *J. C. Penney Company, Inc. - EVP and Chief Merchant*

Sure. And I don't want to repeat what Marvin just said, but we look at our portfolio all the time, and whether there is gaps or whether there is opportunities to develop private brands ourselves, we'll do that.

We just launched Boutique Plus, which is a millennial brand for the plus-size woman. We just launched Belle + Sky, which is a fast-fashion brand for the contemporary customer in missy. We just launched Michael -- MSX Michael Strahan, which is an active line with Michael Strahan. So we look for those gaps in the assortment and we look to ourselves to develop first and leverage our design team, as well as our strong partnerships with international sourcing.

And we edit that group, also. There is a huge opportunity for us to continue to grow the core private brands and make them bigger, looking for extensions.

Think of Liz Claiborne, right? We own that brand. It's been terrific in apparel. We've just recently really relaunched our whole handbag floor in the past year or so, and the results have been great. We're rolling out into shoes, looking for opportunities to extend some of the apparel brands into other categories, like accessories and shoes and handbags.

You'll see Worthington and a.n.a. shoes this fall. But there's opportunities for us to take our strongest brands and make them bigger. I could go on and on. JF, for instance, in men's, which is a great millennial suiting brand, has great market share already, but there's not extensions, right, so we are launching men's shoes this fall. We are looking at do we go into the basics area and do we start having men's accessories and basics in JF to expand the brand to complete the full lifestyle.

So, it's a great opportunity for us to leverage our power brands, as well as develop new niche brands that could then turn into tomorrow's power brands.

Marvin Ellison - *J. C. Penney Company, Inc. - Chairman, President, and CEO*

And based on the past history here, we are a little sensitive to overreaching. So we are adopting our version of the Hippocratic oath of first do no harm to the business.

So we were reluctant to set our target because the concern was we go on this march to hit the number, but as we just evaluate everything that John just said and evaluate the perception-shifting brands, the national labels that really don't resonate in our private brands, we really get to the numbers that John laid out. And we want to be very methodical and not try to jump from where we are today to 70% next year because we know that will disrupt the business too dramatically.

So we have this march that we are on and we think we can get there without dissatisfying customers, but also get there in a way that's going to be really happy for the business.

But John and his merchant team deserve a lot of credit for just getting the business back healthy because he had to edit out -- the team edited out a lot of brands that were just not resonating at all and did it in a way that we didn't kill ourselves from a private standpoint along the way.

So, we think we can get there and we think that that's how we're going to win. We believe that's the most effective way to create differentiation, also.

Mary Beth West - *J. C. Penney Company, Inc. - EVP and Chief Customer and Marketing Officer*

Maybe I could just add one point on that. The other big opportunity we have with those brands is in so many of the categories, whether it's denim or active, leveraging those perception-shifting brands to truly give us credibility in that category and then taking our private brand to pivot off of that brand, whether it be a Nike or a Levi's, it really helps us to deliver great value message.

Because it shows that we've got those perception-shifting brands, which really does change her mind about whether or not she wants to visit us the first time, particularly from an acquisition standpoint, but then providing the great value of those private brands simultaneously also helps deliver a wonderful value message.

Jeff Van Sinderen - *B. Riley & Co. - Analyst*

Jeff Van Sinderen, B. Riley. Just wanted to ask you a little bit more about -- you're trying to make the experience faster, easier, cheaper for the customer, and I'm just wondering if maybe you make changes to the loyalty program or make other initiatives to compete a little more effectively with the ease of and, arguably, cheapness, after you paid the fee, of Amazon Prime.

And then another topic, just in terms of checkout, you guys have a good problem at this point where at peak times you actually have lines. But maybe you can just touch on how you maybe speed up the process of getting through checkout at peak times. Thank you.

Marvin Ellison - *J. C. Penney Company, Inc. - Chairman, President, and CEO*

I will take the first part and then I will let Joe and Therace talk about what we are doing at point of sale for checkout.

I think Mike Amend explained our strategy when you think about competing with these very effective pure-play e-commerce companies. I am of the belief that any brick-and-mortar retailer that tries to compete with a pure-play e-commerce company playing their game is just headed down a losing path and just don't know it. And so, we understand there is no way we can outmaneuver a pure-play e-commerce competitor by trying to be a better e-commerce retailer.

We think we can compete by being an omnichannel retailer, by leveraging the convenience of 1,000 stores, not only from a pickup and a delivery, but also from a geographic location. There are certain places that are just hard to ship to in the US and they are expensive to ship to. So strategically, we may decide to keep a store in our fleet primarily because it isn't the right geographic location and gives us ease to a customer population that would be more expensive to ship to if that store didn't exist.

So my short answer is we spend a lot of time looking at all the dominant e-commerce retailers and learning from them, but we have no desire to try to compete with them in that space head to head. We are going to improve our mobile app, which we've done and Mike mentioned that there are more releases coming, improve the speed, the navigation, the search capabilities of our digital platform, expand the assortment, but then leverage what we think is our competitive advantage and that is associates in 1,000 locations to try to make it easier for the customer, and that's the way we are thinking about it from a competition standpoint.

We think that at the end of the day there are two things I would ask any investor analyst to look when you are looking at pure play versus brick and mortar, and that is the customer acquisition cost for a pure play e-commerce company, number one, and the rate of their cost of delivery relative to their rate of revenue growth. Those are the two metrics that will give you an indication of the sustainability of the current strategy.

And for us, from a cost of acquisition, much lower than a pure play, and cost of delivery is significantly lower when you factor in that 50% of the transactions touch the store in some shape, form, or fashion. So we think we can compete there versus as a pure e-commerce company. I will let Joe and Therace talk about what we are doing on point of sale.

Therace Risch - *J. C. Penney Company, Inc. - EVP, Chief Information Officer*

I will start. Joe's team and my team are working very closely together on the actual technology at point of sale and we've made meaningful investments this year and have more planned for next year.

We've replaced 7,000 of our oldest registers or just finishing that process this year. For the oldest registers that will be left, we've upgraded the memory, so that just makes the machine faster as we work through it.

Our teams are working together to streamline the actual software that we use. That is also making the process faster. We are in the process of rolling out, and will be done before peak season, making sure that every one of our registers across the chain has a 2D barcode scanner that again is faster, especially for people bringing a mobile coupon in. And we are also making sure that our handheld device that we use at checkout is well positioned to take us through for line busting in the holiday season.

So, we really are putting a lot of attention around making sure that checkout experience is as fast as possible and we have investments planned for next year.

Joe McFarland - *J. C. Penney Company, Inc. - EVP, Stores*

I will just expand on what Therace said. So she mentioned the 7,000 new registers. So when you think about register speed, those 7,000 new registers that we replaced, if you think about it in terms of scan time per item, those oldest registers when you would scan an item, it would take 3.7 seconds per item to process. But we replaced those 7,000 registers with the new registers that are 0.8 seconds per item to scan, so a significant reduction.

Therace mentioned the 18,000 2D scanners. It may not sound like a big deal, certainly is a big deal as we continue to market to customers via text. Our old scan guns were unable to scan a smartphone coupon, and so when a customer would come in with a coupon on their smartphone, we had a lot of scanners throughout the chain that were unable to scan those. The associates would then have to hand input the UPC code on all of those coupons.

Our handheld Libby devices, we've been in the process of refreshing 7,000 of those. The battery life on those was about two hours, and so as we are going through we are getting up to battery life of eight hours. So we will have 7,000 new devices redeployed prior to our peak holiday season.

In addition, we will be testing things as we move forward, like dedicated cashiers. How do we improve the staffing at our register quads? We've continued to implement new things, new processes in place for how we manage the customers at the quads, and what I would tell you is on our customer service scorecard, that is the area of the customer service scorecard that we have seen the most significant improvement in service over the last 90 days.

So we feel good about where we are going. Again, I think we have a long way to go. We are very cognizant of that and we'll continue to make those improvements necessary to make that a seamless checkout experience.

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

(inaudible) 7,000 new registers and 7,000 updated and upgraded handheld devices, two 7,000s, just to make sure you guys understand it is two separate components.

Oliver Chen - *Cowen and Company - Analyst*

Oliver Chen, Cowen and Company. There is so many interesting, powerful changes happening with the consumer focus and underpinned by great service. What would you highlight as the risk factors in terms of achieving the comp-store sales trajectory in the context of a volatile traffic environment?

Also, in your customer experience surveys, what are you identifying as opportunities from that survey?

Marvin Ellison - *J. C. Penney Company, Inc. - Chairman, President, and CEO*

I will take the first part, and I will let Joe and I will let Mary Beth also chime in on the second part.

Oliver, quite candidly everything within our control I feel really good about. I feel really good about the potential of getting into this appliance space and picking up great volume and acquiring new customers. I also believe that this will allow us to get to that credit goal that Ed spoke of. We are finding out today the roughly 70% of our appliance transactions are occurring on a JCPenney credit card. That is significant for us, specifically because we are lagging all of our peers from a percent of our total revenue on our proprietary card.

So we feel great about appliances. We feel great about Sephora. We continue to be blown away; no matter what we do, strategically, it seems to work. It just goes to the strength of the brand and how well it resonates. And so, we are going to be announcing later in the year about a more aggressive growth plan for 2017 based on our learnings this year.

So I can keep going, but everything within our control we feel great about because we've gone through such a rigorous process to test it, to pressure test it, and to learn from it before we spent the capital to roll it out.

The things that we don't control, obviously we can't control the macro environment. We can't control consumer confidence. But I think we all agree that this year has been interesting in those two areas already, and we believe we are competing well in spite of some of the challenges that we may see in the marketplace. So, very, very confident in the things we control, and the things that we don't control, we don't worry about them. We just have contingency plans in place to adjust when necessary.

I will let Joe talk about service, what's working and what are some of the remaining opportunities. And if Mary Beth has additional input, she can also provide it.

Joe McFarland - *J. C. Penney Company, Inc. - EVP, Stores*

Sure, so let me start with the customer survey. So in the past, just the pure amount of metrics we had around customers, there were close to 36 different customer metrics that we would measure each individual store in the chain on.

And as Mary Beth and her team continued to dig into the consumer research, a lot of those metrics did not matter. And as you would go store to store, everybody was best in class at something and a lot of times those somethings really did not matter to the customer.

So we pared those metrics back, as we have about 12 different customer service metrics that we measure. They are all aligned now around that Worth campaign, so as we laid out the Worth campaign from an advertising standpoint, we also made it a brand promise in the store.

We designed our training this year all around the Worth platform and making certain that we were aligned with what man was looking for in the store. That was the experience that we were in fact training for and delivering on, the things that were truly important.

So we've really been focused on things like friendly -- the friendliness of our associates, the greeting of our associates. And while we have made nice improvements in things like greet and friendly, we are still far below where we need to be. Our friendliness score still hovers in the high 70s, and that is, again, with improvements made.

So we continue to listen to that feedback. We review the feedback every single week. It's one of the first things that I receive every single Sunday. I receive our customer scorecard. We talk about it consistently. We are also tying that into our performance appraisals as we go forward and how we are paying based on what we deliver to that customer.

I think it's important to note that we really did a level-set on service this year, and I mentioned that we rolled out our Worth training program at our general manager conference. And the difference this year is every general manager went back to their individual store after that general managers conference and sat down in small groups of eight to 10 associates. And the general manager personally trained every single associate on what our Worth behaviors are. And again, those Worth behaviors from a service standpoint are all tied directly to the consumer insights work that Mary Beth and her team had done.

So I think we're really pleased with that level-set, pleased that we are making progress. Not pleased at the level we are at today, but happy with the progress and know that we certainly have a long way to go.

We have seen a nice improvement in checkout experience, but still know that where we are at today is far below what the expectation is. So we certainly don't just look at an improvement in scores and get this false sense of security that we are better, and that's okay. We have kind of an end goal of where we need to be, and that is best in class.

As we think about our focus going forward, the way that I close our broadcast every single week, that Monday broadcast we do, is with the inverted pyramid, putting the customers at the top of that pyramid, along with the associate, and talking about how we service those customers through our warrior values, and when we combine the inverted pyramid and the warrior values, the goal is to get to being the number one customer service retailer, period. So, that is really kind of current state of where we are at.

Marvin Ellison - *J. C. Penney Company, Inc. - Chairman, President, and CEO*

The only thing I'll add, and I think Joe answered the question completely, is that our associates are not unfriendly. They are just busy, and busy creates the perception of being unfriendly.

And that goes to the 60% task that we are dealing with today. When you are trying to run to finish the next checklist or the next audit or take the next conference call, you appear to be unfriendly. So, we've got to rip this task out, which we are in the process of doing, and that will itself help us to improve the overall scores.

Mark Altschwager - *Robert W. Baird & Company, Inc. - Analyst*

Mark Altschwager, Baird. First, to follow up, Marvin, on some of your last comments, the targets do outline a very stable macro picture for the next three years. So can you talk about some of your contingency plans and how the investments might shift, should the broader environment not be as stable?

And then, secondly, I think for Mike, just going back to some of the supply-chain initiatives and in-season chase capabilities, can you talk about how that's going to ramp over the next couple of years and what that will mean from an inventory turn perspective as we look at the three-year plan?

Marvin Ellison - *J. C. Penney Company, Inc. - Chairman, President, and CEO*

I think on the macro, probably the best way for me to describe our perception is that we are just -- we are looking for flat growth. We are not looking for any robust growth from a GDP standpoint. We're not looking for robust growth in job formation. We are just basically looking for status quo.

So our perception is if the last 12 to 18 months is status quo, we are forecasting that that status quo sustains itself for the next two to three years.

We have contingency plans, like most retailers, in case the economy from a macro perspective deteriorates. There are specific steps that we are planning to take if that occurs.

But the one thing we are very confident in is that, God forbid that does happen, value becomes even more important. So we think the whole value focus, and everything falls underneath the value proposition, puts us in a really good position.

I will be very candid. I think when I joined the Company, having grown up shopping at JCPenney and being a student and someone who loves retail my entire life, the first thing I noticed is that I believed we had an elevated perception of JCPenney to the customer. If you are walking in JCPenney as a customer, more than likely you're trying to save money. Otherwise, there are other places that you can be.

So I think for us, we were, I think, elevating the perception of JCPenney and therefore offering the customer something that she was not looking for. The number one thing she wants from us is a value. Value doesn't mean cheap. It doesn't oftentime mean it's the lowest price. It means you get more for your money. That is the whole Penney's Worth brand statement.

So we believe the whole value focus, the whole private brands focus, actually will give us more protection, God forbid we do have an economic downturn, because we are going to be already positioned as a low-cost leader. And with the renewed discipline that this team has taken on from an expense management standpoint, we are going to continue to operate this business very fiscally responsible, regardless of the economic environment. We think that only allows us to benefit more if the economy starts to soften.

So, we do have contingency plans, but, again, we are looking for status quo and we think that's probably the most effective way to think about it.

Mike Robbins - *J. C. Penney Company, Inc. - EVP, Supply Chain*

What I would say about ramping the supply-chain initiatives, we've already started making some of the changes that I've talked about.

So just in the last few months, we started ordering slightly smaller orders, bringing them in, using more holdbacks or holding back quite a bit, three or four times as much, even five times as much over Father's Day, that we did the year before in our distribution centers before we allocate to the DCs. So we've already started seeing some of the benefits of that now. We believe we will see more benefits of that in the fall, as we got better at that as the spring and the summer started going.

But you are really going to see, I think, even more in the spring season as we worked with John's team on really looking at reducing the cycle times of our design cycle, reducing the speed or increasing the speed of our different options through our distribution network. We will really start hitting dividends on that much bigger in the spring.

And I think we will just keep learning. As time goes on, we are going to do that. We are going to figure out where that makes sense, where it doesn't make sense, and we will keep tweaking those models. We have new technology tools that Therace's team is rolling out that are just finishing up. Some of those things have already been put in up through the spring. Some of them are finishing up right now. And we are going to be better at those and using those in going through training and testing and piloting those things.

So, it's probably never an end game. We are always going to continue to get better, but we are really excited about that.

John Tighe - *J. C. Penney Company, Inc. - EVP and Chief Merchant*

I would just make a comment. You talked about refining our product development and design process. Part of that will go in buying in smaller chunks, not buying a whole season at a time, but maybe going in and buying a month at a time.

The customer is looking at things differently, so it could be warm in the winter and cooler in the spring. The old days of buying the whole spring set at one shot or the whole fall delivery comes in in September, those days have gone, probably never to return.

So I think as we define our new process of product development, I think looking at writing orders in smaller chunks and smaller deliveries will help with churn, will help with what Mike described about having small order quantities and being more right.

Our biggest problem, I should say, with margin in the past are two things. One, getting in and out of brands, right? That's expensive. And then, having too much inventory in the wrong stuff. That sounds so rudimentary, but that is when we get in trouble with private brand is when you're backed up on something that you don't want. So as we move into the future, we will be taking things in a more kind of paced way and delivering smaller quantities and having more design cycles and it being more right with the plan.

Lorraine Hutchinson - *BofA Merrill Lynch - Analyst*

Lorraine Hutchinson, BofA. You spoke about selling a distribution center and we know the headquarters sale is coming up. Are there any other areas for asset monetization that might help with the delever process, above and beyond your free cash flow?

And then, secondly, and I think you talked about pricing optimization and testing regional pricing, can you talk about how that jibes with your omnichannel and online strategy?

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

The two that we have baked into the plan that you saw today are the sale of the home office, which we're currently under contract for and in a due diligence period, and then we are starting to market Buena Vista -- or Buena Park. It will hopefully close later this year or potentially early next year.

Nothing else is in the plan. We still have some of the fringe land, a little bit of our track two, maybe 20, 30 acres left to sell, which we will continue to try and monetize that. And then, there's still a handful of stores that we continue to look at that may have more value to other people than they have to us. So we continue to look at that and we continue to have discussions, but nothing is baked in the plan or nothing is imminent on any of those.

Marvin Ellison - *J. C. Penney Company, Inc. - Chairman, President, and CEO*

From a pricing standpoint, I think we are going to start slow. But let me give you a perspective, and Ed mentioned this. In our current environment, as we sit here today, our prices are identical in our Manhattan store as they are in Oklahoma City, identical in San Francisco as it is in Jackson, Tennessee. We have one pricing system for the entire chain for 1,000-plus stores, and no retailer our size has such a non-dynamic pricing structure as we do.

So, the first thing we're going to do is two things. Number one, we need the system to give us the ability to do market-based pricing, but also to build -- to just build out more automated. We have a very rudimentary process today and we all know that one of the greatest drivers of margin and service is price. But we have an inability to have any degree of nimbleness. If it happens to be warm, unseasonably warm, in Atlanta in November and December, we can't control the price of goods that customers would pay more for just in the normal course of a purchase. We have this static one way of pricing.

And so, the first step is just to what I call make very fundamental adjustments to price relative to the demographic and relative to weather patterns.

And from a congruency of price in store and online, the goal is to be congruent. And where we are not congruent, the customer always gets the lowest price. So that is the best way to solve it. Give the associate the empowerment that if the customer comes in the store and something on the shelf cost more than what they have on the mobile device, they always get the lowest price and give the associate the ability to make that decision. And that kind of solves any technology constraints you may have to be 100% congruent chain-wide.

Trent Kruse - *J. C. Penney Company, Inc. - VP IR and Communications*

I think that wraps us up for today. We are butting up against 1 o'clock, so we really appreciate everybody coming out. I hope you learned something and I appreciate all your interest in J.C.Penney.

Marvin Ellison - *J. C. Penney Company, Inc. - Chairman, President, and CEO*

Thank you. Thanks very much, everyone.

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