

JCPenney Corporation

Preparing for Class, Pensionomics Preview

On Thursday (6/18), JCPenney will host its highly anticipated *Pensionomics* class in NYC to fully address the pension accounting matter that has served as an overhang to the company's stock over the past 12 months. We expect the class to include presentations from its financial team (CFO, Treasurer, and Chief Accountant) as well as outside accounting firms. Key topics of discussion will likely include (1) an accounting comparison between JCP & others; (2) a summary of 2008 and 2009 YTD pension plan performance; (3) summary of Penney's \$340 million stock contribution to its pension plan; (4) update of the company's funded status (which appears very solid); and (5) 2010E expense/EPS sensitivity to the portfolio's return. We also believe JCPenney will raise its FY09 EPS view from \$0.50-0.65 to \$0.54-\$0.69 – the delta representing the accretion JCP generated by the aforementioned stock plan contribution in mid-May, which came after Penney had set guidance. Enclosed you will find details on each of these items to help prepare you for the upcoming class.

- Lesson #1: So, why is this only a headache for JCPenney?** SFAS 87's smoothing mechanisms on pension accounting was an effort to reduce the impacts of asset return and interest rate volatility on the pension cost that flows through financial statements. Although well intended, the multitude of "smoothing options" and variability in accepted input assumptions has resulted in an inconsistent standard of pension accounting across companies. For example, while most companies have chosen to amortize the difference between their expected and actual return over five years (the maximum permitted period), JCPenney instead uses a less aggressive accounting approach and captures the fair value of plan assets. As a result, in the JCP model, when actual and expected returns vary substantially (as they did in 2008), the market-related value of plan assets can diverge substantially from the fair value of plan assets -- taking a disproportionate toll on the income statement relative to companies adopting more aggressive accounting (smoothing) methods. More detail on smoothing mechanisms can be found on page 3.

Neutral

JCP, JCP US

Price: \$28.15

Price Target: \$28.00

Broadlines & Food Retailing

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Price Performance



JCPenney Corporation (JCP;JCP US)

	2008A	2009E	2010E
EPS (Operating) (\$)			
Q1 (Apr)	0.54A	0.11A	
Q2 (Jul)	0.52A	(0.12)	
Q3 (Oct)	0.55A	0.17	
Q4 (Jan)	0.93A	0.70	
FY	2.54A	0.89	1.20
P/E (Operating) FY	11.1A	31.6	23.5

Source: Company data, Reuters, J.P. Morgan estimates. 3Q07 & FY07 exclude tax benefit of \$0.14. Note: 09/10 estimates exclude non-cash pension charge.

Company Data

Price (\$)	28.15
Date Of Price	15 Jun 09
52-week Range (\$)	44.20 - 13.72
Mkt Cap (\$ mn)	6,277.45
Fiscal Year End	Jan
Shares O/S (mn)	223
Price Target (\$)	28.00
Price Target End Date	31 Dec 09

See page 11 for analyst certification and important disclosures.

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- **Lesson #2: How we got here.** Provided the shortfall of 2008 pension plan results to expectations (down 30.3% in 2008 compared to a projected return of +8.9%), pension expense increased substantially as two items occurred: (1) projected rate of return for FY09 decreased and (2) the amortization of actuarial loss increased. Recall, of the 4 main components that drive the pension expense calculation (service costs, interest costs, projected return on assets, and amortization of actuarial loss), the former two are based on LT pension modeling assumptions with minimal impact by market returns, whereas the latter two have a direct/high correlation with market performance.
- **Lesson #3: Review of current guidance on model impact of pension plan.** In 2007 and 2008, respectively, JCPenney recognized roughly \$97.0 million and \$133.0 million of pension income (via contra-SG&A) benefiting from higher-than-expected returns. Conversely, in FY09 we calculate that the company's 2009 qualified pension expense will be \$302 million following a ~\$20 million reduction (per 5/18 transaction, details within) from JCP's original guidance for a \$322 million expense. Therefore, 2Q09, 3Q09, and 4Q09 will have a qualified pension expense of roughly \$73.5 million, \$74.5 million, and \$74.5 million, respectively, which compares to 1Q09 expense of \$81 million. This year's expense reflects \$277 million of amortized actuarial losses with the \$25 million balance a net of the remaining 3 components that drive the pension plan income/expense calculation. In total, the impact is a \$0.83 non-cash hit to EPS and adds 171 bps to SG&A expense (as a % of sales). In addition, JCP expects to incur \$41 million of expenses related to its supplemental pension plan, although this is relatively in line with prior year amounts (\$43 million in 2008).
- **Lesson #4: Funded Status Has Been Addressed - Current Surplus:** Despite sustaining the significant one-year return loss on the portfolio, the company's funded status on the primary plan stood at 92.6% at year-end, down substantially from the 154.4% funding status held at 10/31/07. However, despite the deficiency in its funded status, the company was not required to make a cash contribution to its pension plan this year, provided it remained above the minimum funding requirements of 80% set forth by ERISA. JCP did anyway, announcing a voluntary stock contribution worth \$340 million (13.4 million shares) to its pension plan and augmented the company's funded ratio to ~104%. As a comparison, our coverage group (ex. JCP) had a funded status of ~78% at year-end. By our estimates, the transaction will be accretive to FY09 earnings by roughly \$0.035. Since JCPenney did not update either its 2Q09 or FY09 EPS guidance of (\$0.25)-(\$0.15) and \$0.50-\$0.65, respectively, when this transaction was announced, we believe it's plausible for the company to raise its guidance for both periods on Thursday.
- **Lesson #5: Looking at future sensitivity.** Recall the company's pension expense will be recurring (likely for several years; potentially 7) because of the amortization feature required under SFAS 87. Specifically, pension will be a drag on EPS in FY10 (unless JCP's pension assets rise > 33%, which is unlikely) – the magnitude of which is dependant on the performance of plan assets that are allocated as follows: equity (65-75%), fixed income (15-25%), real estate (5-15%), and cash/other (0-5%). **We are currently modeling FY10 pension expense of \$299 million, which implies an assumption of a roughly flat return on the portfolio's assets, which could prove conservative provided the SPX (since 1/31/09) and JCP stock (since pricing) are up 14.5% and 14.8%, respectively, representing nearly 70% of the portfolio combined.** On sensitivity, we estimate every percentage point of return (plus or minus) translates into roughly \$9 million of pension expense, 5 bps of SG&A, and \$0.02 of EPS – see sensitivity table outlined herein.

Accounting Class Preparation

To better prepare for pensionomics class, we have provided a review of accounting pronouncements and definitions. Below you will find (1) an edited excerpt of the description of the FAS No. 87 smoothing method of pension accounting and (2) the definitions of the four main components of net pension (income) expense. Both are from a document authored by J.P. Morgan's Accounting & Valuation analyst Dane Mott and his team in September 2004 titled - *Accounting Issues Pension Tension: Relapse or Recovery?* **For a copy of the complete note, please send a request to our team or Dane Mott, and we will be happy to send it to you.**

FAS No. 87 Smoothing Method

When the FASB drafted FAS No. 87 in the late 1970s and early 1980s, it studied how actuaries compute pension liabilities and funded status. The FASB was attempting to create a standard that, like actuarial methods, would recognize changes in assumptions and expectations over a long period consistent with the lengthy durations of pension obligations. This resulted in the FASB including many smoothing mechanisms in FAS No. 87.

Excerpt from: *Accounting Issues Pension Tension: Relapse or Recovery?* – September 2004, Dane Mott; Accounting & Valuation Analyst

FAS No. 87's smoothing mechanisms were intended to dampen the impacts of asset return and interest rate volatility on the pension cost that flows through financial statements. If anything has been learned from the performance of defined benefit pension plans, it is that under the smoothing mechanisms of FAS No. 87 the amount of pension cost that ends up being recorded is arbitrary and devoid of any substantive meaning. As will be discussed later, the broader implication of this reality is that impacts of pensions distort income statements and balance sheets [as JCPenney learned the hard way over the past 6-9 months].

Digging deeper, SFAS No. 87 does not have one smoothing mechanism, but rather a system of complicated smoothing mechanisms that are neither easily understood nor transparent. . . . the difference between the funded status and balance sheet asset (liability) is . . . separated into several buckets. The buckets are unrecognized actuarial (gain) loss, net, unrecognized prior service (benefit) cost, and unrecognized transition (asset) liability . . .

. . . To understand how complicated and arbitrary the smoothing mechanisms are, consider the treatment for unrecognized actuarial (gains) losses. Under FAS No. 87, unrecognized net actuarial (gains) losses may be recognized in earnings using several different methods. First, a company could elect to recognize the net deferred (gain) loss in earnings entirely in the period following its creation. Alternatively, a company could elect to amortize the net deferred (gain) loss on a systematic and rational basis; say straight-line over the employees' remaining service life. The third alternative is to amortize the net deferred (gain) loss into earnings using the "corridor" method. Under the corridor method, the excess of the net deferred (gain) loss over the greater of 10% of the PBO or the market-related value plan assets is amortized into pension cost. The maximum amortization period is the remaining service life of employees.

Before the corridor method can be applied to actuarial losses, the market-related value of plan assets must first be computed. Under FAS No. 87, companies calculate the expected return on plan assets component of net periodic pension income/(cost)

based on the market-related value of plan assets. The standard defines market-related value of plan assets as either “the fair market value or a calculated value that recognizes changes in fair value in a systematic and rational manner over not more than five years.” Based on the disclosures we have seen, we believe most companies have chosen to amortize the difference between their expected and actual return over five years, the maximum permitted period.

Any difference between expected returns and actual returns creates either an actuarial gain or loss that will be amortized into the market-related value of plan assets over the smoothing period. After the market-related value of plan assets is computed, it is used in the computation of the amount of the company’s unrecognized actuarial gain (loss) that is to be amortized into pension cost over a maximum period of the expected remaining service life of employees.

Table 1: Definitions of Four Main Components of Net Periodic Benefit (Income) Cost

Service cost	Service cost is the cost (present value) of the retirement benefits earned by the employees working during the current year. It represents wages that will be paid to them after they retire in return for their current services. As such, it is a form of deferred compensation and creates a liability to the employees. However, it is by necessity an estimate. The “true” amount depends on future events such as how long employees remain with the company and how long they live after retirement. The service cost component is a portion of the projected benefit obligation. Therefore, it is unaffected by the funded status of the plan.
Interest cost	Interest cost is the interest on the benefit obligation resulting from the deferred payment of the retirement benefits previously earned. In our view, this is really interest expense on debt owed to employees. It is calculated by multiplying the benefit obligation by the discount rate. Clearly, an increase in the benefit obligation will drive interest costs higher if discount rates remain constant. However, since the benefit obligation is a present value, it increases in value when discount rates drop. Therefore, the impact that a change in the projected benefit obligation can have on interest cost and earnings is complicated by the mathematics of present values.
Expected return on plan assets	The expected return on plan assets is a surrogate for the actual return on the assets in the fund. It is calculated by multiplying an expected long-term rate times a market-related value of plan assets. The market-related value can be calculated in a variety of ways. It is either the fair value of the assets in the portfolio or a calculated value that recognizes the change in fair value in a systematic and rational manner over no more than five years, e.g., a moving average. The objective of using an expected rate of return and a market-related value is to reduce the volatility of net pension cost. Rising plan assets will drive the market-related value higher and, in turn, drive up the expected return on plan assets but not as quickly as the actual market value. The reverse is true in declining markets. Using a market related value will smooth out the effects of a falling market.
Amortization of actuarial (gain) loss, net	Amortization of unrecognized net gains decrease pension cost (increase pension income), while amortization of unrecognized net losses increase pension cost. The unrecognized net gains and losses are a consequence of 1) the FASB’s decision to defer recognition of the actual return on the pension plan portfolio above or below the expected return and 2) changes in the benefit obligation as a result of changes in the various assumptions (discount rate, turnover, mortality, etc.) that are used to estimate it.

Source: J.P. Morgan. Bear Sterns, Accounting Issues Pension Tension: Relapse or Recovery?

Funded Status – One of the Better Plans

While already one of the better funded plans in our coverage group before the company’s recent stock transaction (see below), the contribution augmented the company’s funded ratio to roughly 104% from approximately 92.6% at the end of year. Notably, the funded status was down substantially from the 154.4% level held at 10/31/07. Despite the deficiency in its funded status at year-end, the company was not required to make a cash contribution to its pension plan this year, provided it remained above the minimum funding requirements of 80% set forth by ERISA.

Broadlines & Food Retail Coverage Group Snapshot

JCP was tied with RDK for the best funded status within our coverage group at year-end at 92.6%. On average, our coverage group had a funded status of 77.9% (excluding JCP) at year-end.

Table 2: Broadlines & Food Retail Pension Snapshot At FY08 YE

Retailer	PBO	FV	Funded Status \$	Funded Status %
Macy's	\$2,444.0	\$1,438.0	(\$1,006.0)	58.8%
Saks Fifth Ave.	\$148.7	\$95.3	(\$53.4)	64.1%
Kroger	\$2,266.0	\$1,513.0	(\$753.0)	66.8%
Safeway	\$2,009.0	\$1,512.7	(\$496.3)	75.3%
Big Lots	\$48.5	\$42.3	(\$6.3)	87.1%
SuperValu	\$1,940.0	\$1,700.0	(\$240.0)	87.6%
Target	\$1,948.0	\$1,771.0	(\$177.0)	90.9%
JCPenney	\$3,725.0	\$3,450.0	(\$275.0)	92.6%
Ruddick	\$228.7	\$211.9	(\$16.9)	92.6%
Group Average				77.9%

Source: Company reports.

U.S. Snapshot

In a recent (June 8, 2009) note titled *Accounting Issues: J.P. Morgan Pension Risk Ratios and the Mysterious Mechanics of Pension Yield Curves*, Accounting & Valuation analyst Dane Mott looked at a universe of companies starting with the Russell 3000 and expanding to include other companies screened in the FactSet U.S. universe using Compustat and Bloomberg as of May 19, 2009 and added any public companies disclosing pension obligations regardless of whether they were qualified or non-qualified pension plans. In total, the universe includes 3,204 companies (1,447 of these companies have defined benefit pension plans).

According to Dane Mott's analysis, if all of these plans were aggregated into a single plan, it would have \$1.338 trillion in plan assets, a projected benefit obligation of \$1.730 trillion, and therefore a 23% underfunded status of \$393 billion (the 23% underfunded status is comparable to the 22% underfunded status of the S&P 500 companies at year end). Between 1998 and 2008, these companies have injected \$465 billion into their pensions in the form of contributions (\$361 billion of those contributions have come since the beginning of 2002). In terms of funded status of the 1,447 companies, the average under-funded status was minus 32% versus the minus 22.1% in our coverage group, as outlined in the table above.

Recent Stock Contribution to Plan

On May 18th, JCPenney announced a voluntary stock contribution worth \$340 million (13.4 million shares) to its pension plan. While already one of the better funded plans in our coverage group before the news (as outlined above), the contribution augmented the company's funded ratio to roughly 104.0% from approximately 92.6% at year-end. The company cited 2 drivers for the transaction (1) confidence in its business/prospects for future growth and (2) a commitment to effectively/efficiently deliver the highest quality benefit programs to its associates.

Turning to our model, as outlined in greater detail below, the impact should be three-fold: (1) lower qualified pension expense in 2Q09-4Q09 of ~\$20.0 million, (2) \$131 million in cash tax benefits, and (3) a higher FD share count; the combination of

which should be modestly accretive to EPS – say roughly \$0.035 per share in FY09E.

Lower Pension Expense in 2009E . . . JCP's stock contribution to its pension plan will be accretive by (1) increasing the pension plan's asset size, which (2) inherently increases the projected return on the assets, which (3) lowers the qualified pension expense impacting the P&L this year (and beyond). Recall that pension expense is the sum of service cost, interest cost, and actuarial losses/gains subtracted by the projected return on the assets (JCP assumes a rate of return of +8.4%). We calculate that the company's 2009 qualified pension expense will be reduced by ~\$20 million to \$302 million for the year down from JCP's original guidance for a \$322 million expense. Therefore, we estimate 2Q09, 3Q09, and 4Q09 will have a qualified pension expense of roughly \$73.5 million, \$74.5 million, and \$74.5 million, respectively, which compares to 1Q09 expense of \$81 million. We estimate each quarter benefits by roughly \$0.02, totaling to \$0.06 of accretion from the contribution.

. . . Plus Cash Tax Benefits . . . The \$340 million contribution was fully tax-deductible and at a ~38.6% rate, taxes should be reduced by \$131 million this year. This increase in operating cash flow will be utilized to repurchase and restructure debt on the open market leading to interest savings in 4Q09 and FY10 of roughly a penny and \$0.03, respectively.

. . . With Some Drag from Higher Share Count. The aforementioned lower expense should be partially offset by the dilution from 13.4 million newly issued shares, which raises JCP's fully diluted share count to ~236.4 million from 223 million previously. We estimate the additional shares dilute this year's earnings by ~\$0.035.

All-in, we estimate JCP's transaction will be accretive to FY09 earnings by roughly \$0.035. Since JCPenney did not update either its 2Q09 or FY09 EPS guidance of (\$0.25)-(\$0.15) and \$0.50-\$0.65, respectively, when this transaction was announced, we believe it's plausible for the company to raise its guidance for both periods.

A Look Ahead – 2010 & Beyond

Looking ahead, it is highly likely that JCPenney will incur pension expense for the 2nd consecutive year in FY10 versus the pension credit the company enjoyed in both FY07 and FY08. In fact, JCP could incur pension expense for a number of years to come, depending on market conditions. Below we outline assumptions needed to model JCP's pension expense going forward as well as the results of our sensitivity analysis on FY10 pension expense.

Step #1: Modeling Assumptions Altered for 2010

JCP's 10-K filing with the SEC provided insight into the modeling assumptions needed to estimate JCPenney's FY10 pension expense. Importantly, we point out 5 items:

- **Discount Rate**: the company's discount rate was increased to 6.95% from 6.54% previously, having a net effect of decreasing pension liabilities (decreases service cost and increases interest cost, albeit at a lesser degree);
- **Salary Scale**: the salary scale assumption was reduced to 0% in 2009, reflecting frozen salaries, a 2.4% increase in 2010. Looking beyond next year, the company expects to return to its long-term salary progression rate of 4.7%. The changes to this year's salary assumption helps the company's PBO.
- **Projected Rate of Return**: as a result of 2008 negative returns and lowered expected future returns the projected rate of return was reduced to 8.4% from 8.9%, which increases the pension expense;
- **Accumulated Unrecognized Loss**: the accumulated unrecognized loss balance at 1/31/09 was \$2.3 billion, of which \$277 million was amortized, netting into a ~\$2.0 billion carry forward into 2009;
- **Asset Allocation**: the asset allocation is more/less similar to past years although range-bound, with equities expected to be between 65%-75%, fixed income between 15-25%, real estate between 5%-15%, and cash between 0%-5%. As a point of reference, assets on 1/31/09 were 64% in equities, 22% in fixed income, and 14% in real estate – which suggest a modestly more aggressive investment strategy in 2009, in our opinion. Importantly, within the equity portion of the asset allocation is now JCPenney's company stock equating to roughly 9% of total assets.

Step #2: FY10 Sensitivity Table

We have compiled a sensitivity table that helps gauge the magnitude of the expense to be incurred in FY10. Specifically, taking into account the company's revised pension assumptions (as outlined above) and assuming each remains static going forward, we estimate that if the pension assets returned +8.4%, in line with its projected rate of return, JCP would still have roughly \$222 million of pension expense (solely the primary plan) in FY10, or a \$0.60 drag to EPS. That said, on the positive side, this would compare favorably to FY09E by ~\$80 million or approximately \$0.23 per share.

We are currently modeling FY10 pension expense of \$299 million, which implies an assumption of a roughly flat return on the portfolio's assets, which could prove conservative provided the SPX (since 1/31/09) and JCP stock (since pricing) is up 14.5% and 14.8%, respectively, representing nearly 70% of the portfolio combined. As a reminder, JCP stated on 5/19 that as of the previous day's market close, its 2010 pension expense would be roughly \$270 million (implying a return of roughly +3% using our model). As outlined below, on sensitivity, every percentage point of return (plus or minus) translates into roughly \$9 million of pension expense, 5 bps of SG&A, and \$0.02 of EPS.

Table 3: FY10 Pension Expense Sensitivity Table

FY09 Plan Return	-30%	-25%	-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%	25%	30%
FV of Assets 1/31/2010	2653	2842.5	3032	3221.5	3411	3600.5	3790	3979.5	4169	4358.5	4548	4737.5	4927
Projected Rate of Return \	222.9	238.8	254.7	270.6	286.5	302.4	318.4	334.3	350.2	366.1	382.0	398.0	413.9
Actuarial Loss	449.2	422.2	395.1	368.0	340.9	311.6	281.8	252.0	222.2	192.5	162.7	132.9	103.1
Pension Expense	561.7	518.7	475.7	432.7	389.7	344.5	298.8	253.1	207.4	161.7	116.0	70.3	24.6
EPS per share impact	\$1.51	\$1.40	\$1.28	\$1.16	\$1.05	\$0.93	\$0.80	\$0.68	\$0.56	\$0.44	\$0.31	\$0.19	\$0.07
SG&A bps as % of sales	316	292	268	243	219	194	168	142	117	91	65	40	14
Accumulated Recognized Loss	3039.3	2876.9	2714.5	2552.1	2389.6	2229.5	2069.8	1910.1	1750.3	1590.6	1430.9	1271.2	1111.4

Source: J.P. Morgan estimates. Note: J.P. Morgan currently assuming a flat market return, which implies pension expense of \$298.8 million or an \$0.80 drag to EPS in FY10E

Investment Thesis & Ratings Summary

JCPenney: Valuation, Risks to the Rating, and Price Target Analysis

We rate JCPenney Neutral, and our \$28.00 December 2009 price target is predicated on a 50/50 weighted, blended P/E and EV/EBITDA multiple build. Importantly, we do not view our FY09 EPS estimate of \$0.89 as “normalized earnings” given the material hit JCP will incur as it marks to market its pension assets/liabilities, which at the end of the day is somewhat uncontrollable by the company. As a result, we believe a proper valuation approach to JCPenney is to “neutralize” this pension swing and account for both EBITDA and EPS on an adjusted basis. To this end, shares of JCPenney are currently trading at 16.4x our 2009E pro-forma EPS of \$1.72, well above its historical low-double-digit multiple average. In addition, it is currently trading at a 5.3x TTM EV/EBITDA multiple. In our price target build, we layer in assumptions to include a best, base, and worst case scenario for the stock – trading multiples vary by scenario and are determined based on historical trading ranges and peer valuations. For JCP, our base case scenario (50%) is based on an absolute P/E of 12.5x and EV/EBITDA multiple of 6.5x. Our best case scenario (25%) is based on an absolute P/E of 15.0x and EV/EBITDA multiple of 8.5x. Conversely, our worst case scenario (25%) is based on a P/E of 10.0x and an EV/EBITDA multiple of 4.5x.

Downside risks to our rating and price target include: (1) potential setbacks in the company's store opening and productivity plans, (2) poor launch execution or customer reluctance to purchase new private label/exclusive brands, (3) future challenges from today's uncertain macro backdrop, and (4) negative ramifications from a more promotional competitor at Macy's and/or Kohl's. Upside risks to our rating and price target include: (1) favorable YOY sell through of American Living and other private label/exclusive brands, (2) further retail consolidation, (3) positive margin benefits from a reduced promotional environment, (4) additional cost savings from better sourcing, and (5) the macro picture improving more than expected.

JCPenney Corporation: Summary of Financials

Income Statement - Annual	FY08A	FY09E	FY10E	Income Statement - Quarterly	1Q09A	2Q09E	3Q09E	4Q09E
Revenues	18,486	17,629	17,782	Revenues	3,884	3,930	4,193	5,623
COGS	11,571	10,903	10,954	COGS	2,310	2,444	2,539	3,610
Gross profit	6,915	6,726	6,828	Gross profit	1,574	1,485	1,654	2,013
SG&A	5,805	6,168	6,161	SG&A	1,474	1,466	1,530	1,698
Operating income	1,135	582	692	Operating income	106	25	129	321
EBITDA	1,604	1,069	742	EBITDA	106	25	129	321
Interest, net	225	256	247	Interest, net	63	66	65	62
Other Income	-	-	-	Other Income	-	-	-	-
Pretax income	910	326	445	Pretax income	43	(41)	64	259
Income taxes	343	121	163	Income taxes	18	(15)	24	95
Tax rate	37.7%	37.1%	36.5%	Tax rate	41.9%	37.0%	36.5%	36.5%
Net income - reported (GAAP)	572	205	283	Net income - reported (GAAP)	25	(26)	41	165
Diluted shares outstanding	223	229	236	Diluted shares outstanding	223	223	236	236
EPS - operating	2.54	0.89	1.20	EPS - operating	0.11	(0.12)	0.17	0.70
EPS - reported (GAAP)	2.57	0.89	1.20	EPS - reported (GAAP)	0.11	(0.12)	0.17	0.70
Balance Sheet and Cash Flow Data	FY08A	FY09E	FY10E	Ratio Analysis	FY08A	FY09E	FY10E	
Cash and cash equivalents	2,352	2,262	1,530	Sales growth	(6.9%)	(4.6%)	0.9%	
Accounts receivable	352	336	339	Same store sales growth	-	-	-	
Current assets	6,220	5,938	5,273	EBITDA growth	(30.7%)	(33.4%)	(30.6%)	
PP&E	5,367	5,496	5,329	EBIT growth	(39.9%)	(48.7%)	18.9%	
Goodwill	0	0	0	EPS growth - operating	(46.7%)	(64.9%)	34.3%	
Total assets	12,011	11,839	11,010	Gross margin	37.4%	38.2%	38.4%	
Short-term Debt	0	506	0	EBIT margin	6.1%	3.3%	3.9%	
Current liabilities	0	0	0	EBITDA margin	8.7%	6.1%	4.2%	
Long-term Debt	3,505	2,999	2,493	Inventory growth	(10.5%)	(5.0%)	-	
Total liabilities	2,794	3,208	2,802	Debt / EBITDA	2.2	3.3	3.4	
Shareholders' equity	4,155	4,147	4,217	D&A	469	487	495	
D&A	469	487	495	Change in working capital	58	100	33	
Change in working capital	58	100	33	Cash flow from operations	1,132	739	820	
Cash flow from operations	1,132	739	820	Enterprise value / Revenues	0.3	0.3	0.3	
Capex	(969)	(616)	(328)	Enterprise value / EBITDA	3.4	5.2	-	
Free cash flow	130	477	782	P / E	11.0	31.6	23.5	
Free cash flow / share	0.58	2.08	3.31	Dividends	0.80	0.80	0.80	

Source: Company reports and J.P. Morgan estimates.
Note: \$ in millions (except per-share data). Fiscal year ends Jan

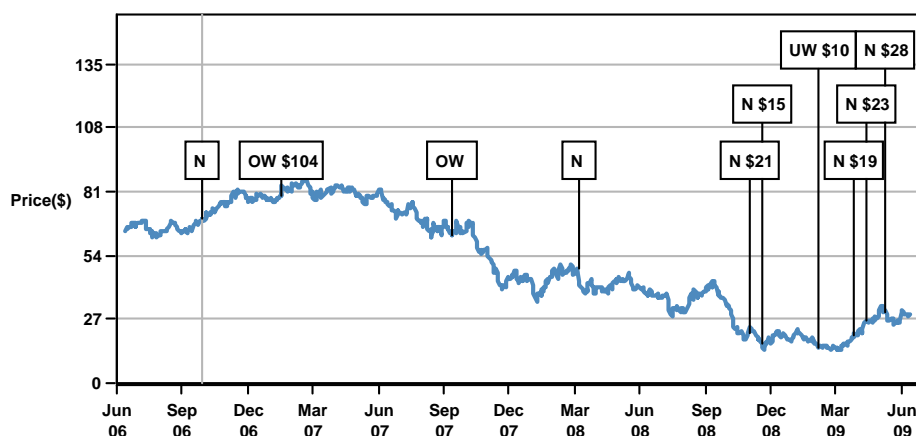
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JCPenney Corporation (JCP) Price Chart



Date	Rating	Share Price (\$)	Price Target (\$)
29-Sep-06	N	69.28	--
18-Jan-07	OW	79.61	104.00
13-Sep-07	OW	62.71	--
06-Mar-08	N	48.11	--
31-Oct-08	N	21.49	21.00
17-Nov-08	N	16.72	15.00
05-Feb-09	UW	15.42	10.00
27-Mar-09	N	20.15	19.00
13-Apr-09	N	26.52	23.00
08-May-09	N	30.07	28.00

Source: Reuters and J.P. Morgan; price data adjusted for stock splits and dividends.
 Break in coverage Oct 10, 2005 - Sep 29, 2006. This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
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