

JCPenney (JCP) 4Q16 Results: Better than Expectations; Major Store Restructuring Plans

Figure 1. JCPenney 4Q16 Key Metrics

	4Q16	4Q15	YoY Change
Revenues (USD Mil.)	\$3,961.0	\$3,996.0	(0.9)%
Gross Margin	33.1%	34.1%	(100) bps
SG&A/Sales	23.4%	24.1%	(70) bps
Operating Margin	6.9%	(0.5)%	740 bps
Adjusted EPS (USD)	\$0.64	\$0.39	64.1%

Source: Company reports/Fung Global Retail & Technology

- **JCPenney reported 4Q16 adjusted EPS of \$0.64, beating the consensus estimate of \$0.61. Reported 4Q16 revenues of \$4.0 billion were down 0.9% from the year-ago period. Total comps were down 0.7% versus the consensus estimate of a 0.5% decline.**
- **The company announced major store closure plans that include closing two distribution centers and 130–140 stores over the next few months. The total store closures represent about 13%–14% of the company’s store portfolio and less than 5% of total sales.**
- **With the announced store closures, the company expects adjusted EPS of \$0.40–\$0.65 for FY17. Comps are expected to be (1)%–1%. Gross margin is expected to be up 20–40 basis points versus 2016.**

4Q16 Results

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December was the best-performing month in the quarter and the company delivered low-single-digit comps for the combined December and January period.

Gross margin was 33.1%, down from 34.1% in the year-ago quarter and missing consensus of 34.1%. This was primarily due to increased promotions and accelerated growth in online and appliance sales. Home, Sephora, salon and fine jewelry were the top-performing categories. The Southeast and Pacific regions were the best-performing regions of the country. Comps for apparel categories and men’s, kids’ and women’s were all below the company comp for the quarter.

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FY17 Outlook

With the announced store closure plans, JCPenney now expects adjusted EPS of \$0.40–\$0.65 for FY17. Comps are expected to be (1)%–1%. Gross margin is expected to be up 20–40 basis points versus 2016.

The company plans to expand its online offerings and to increase its number of online SKUs by more than 140% in 1Q17, on top of 40% SKU growth in 4Q16. With expanded partnerships with activewear retailers such as Nike and Adidas, JCPenney expects to see improvement in the activewear category and some lift in sales in women's apparel. For the overall women's apparel category, the company will work on simplifying the floor and achieving a better balance between casual and professional wear.

Regarding supply chain initiatives, the company expects its speed-to-market time will be reduced by 40% for some trend-driven private label brands.



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Deborah Weinswig, CPA

Managing Director
Fung Global Retail & Technology
New York: 917.655.6790
Hong Kong: 852.6119.1779
China: 86.186.1420.3016
deborahweinswig@fung1937.com

Jing Wang

Research Associate

Hong Kong:

8th Floor, LiFung Tower
888 Cheung Sha Wan Road, Kowloon
Hong Kong
Tel: 852 2300 4406

London:

242–246 Marylebone Road
London, NW1 6JQ
United Kingdom
Tel: 44 (0)20 7616 8988

New York:

1359 Broadway, 9th Floor
New York, NY 10018
Tel: 646 839 7017

FungGlobalRetailTech.com