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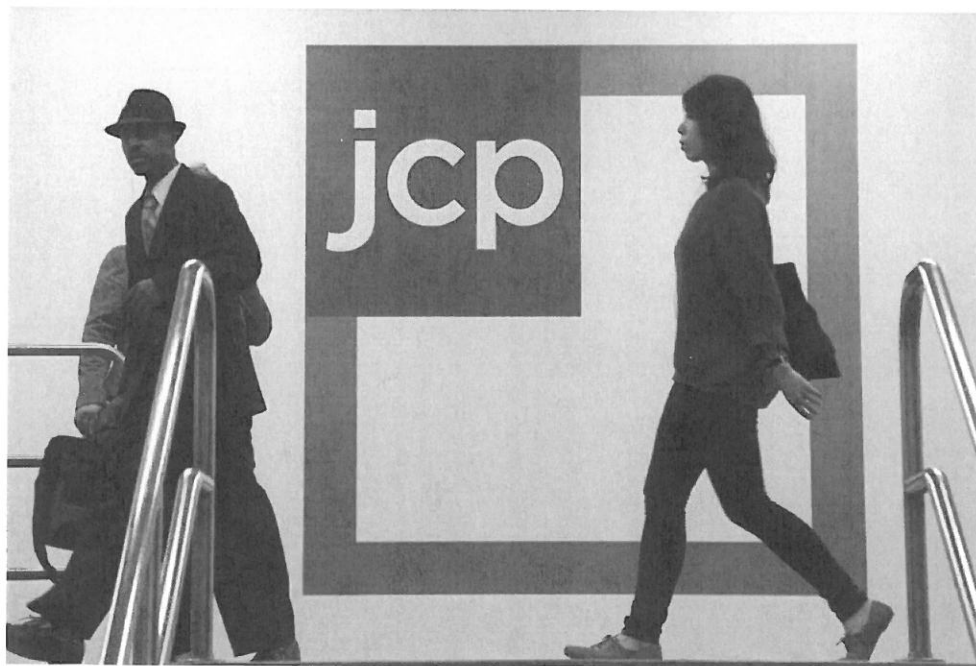
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J.C. Penney reports smaller quarterly loss as sales improve

Associated Press Friday, August 12, 2016



Credit: The Associated Press

FILE - In this April 9, 2013, file photo, customers arrive at a J.C. Penney store in New York. J.C. Penney reports financial results Friday, Aug. 12, 2016. (AP Photo/Mark Lennihan, File)



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NEW YORK — After a tough start to the year, J.C. Penney's business enjoyed a bounce in the second quarter, fueled by efforts to bring back appliances and spruce up other sections of the store.



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▶ The Plano, Texas-based department store chain reported a smaller loss for the second quarter compared to a year earlier as sales improved. CEO Marvin Ellison believes the company can maintain the momentum with a slew of new brands and other enticements coming in the next few months.

In addition to its own efforts, Penney is benefiting from store closings by Macy's and Sears Holdings Inc. Ellison told analysts Friday the company has seen sales improve in malls where its rivals shuttered their stores.

Macy's just announced plans to close another 100 stores early next year, on top of 40 this past spring. Ailing Sears, which remains a key appliance seller, said in April it would shutter 68 Kmart units and 10 Sears stores by early September. Penney closed 40 stores last year and plans to shut seven this year.

"We're going to continue to scrutinize the number of stores, but if we believe a store can be a strategic initiative to help us to get products to customers faster, it will stay within our portfolio," Ellison said. "If we believe that a store is insignificant ... then those stores are no longer going to be around."

One key strategy: appliances, which Penney has put in 500 stores so far and is also selling online. Penney had quit that category more than 30 years ago. But Ellison said the appliance business is exceeding expectations and that one-third of its appliance customers are new to Penney. He believes Penney will increase its market share in that category as Sears closes more stores.

The news is encouraging, but Penney is still trying to recover from a catastrophic reinvention plan under former CEO Ron Johnson that sent sales and profits into free-fall in 2012 and 2013. Business stabilized under Mike Ullman, who came back to the helm in 2013 after Johnson was pushed out. Under Ellison, who has been CEO since 2015, Penney is looking for new ways to increase sales while playing catch up in e-commerce.

Like other department stores, J.C. Penney is trying to adjust to changing shopping patterns. Consumers are shifting their spending away from clothing and toward experiences like beauty treatments or toward furnishing their homes. When they do buy clothes, it's more often at off-price stores or online as Amazon moves more into apparel.

That's why Penney wants to be less reliant on clothing, and is focusing efforts on its home area. It's also expanding the 574 Sephora beauty shops it has in the stores and

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is updating its beauty salons, now branded Salon by InStyle. In addition, it's expanding its store-label brands such as St. John's Bay and Arizona, which help differentiate itself from competitors.

But it's also looking at national brands. Penney will launch the Clinique brand in a select number of stores this fall. It also brought Nike Kids to 350 of its stores in time for the back-to-school season. And it's planning to relaunch the Nike brand next spring.

The company has a ways to go in e-commerce, but just spruced up its mobile app and launched a service that allows shoppers to buy online and pick items up at the store.

Penney reported a loss of \$56 million, or 18 cents per share, in the quarter that ended July 30. That compares with a loss of \$117 million, or 38 cents per share, a year ago. Adjusted for certain items, the loss was 5 cents per share, which was much smaller than the 14 cent loss estimated by FactSet. Revenue rose 1.5 percent to \$2.92 billion from \$2.87 billion. That was slightly below the \$2.93 billion estimate from FactSet.

Revenue at stores open at least a year rose 2.2 percent, which matched the estimate from Wall Street analysts. In the first quarter, Penney reported a 0.4 percent dip in that measure, reversing five straight quarters of growth.

Its shares rose 3.5 percent to \$10.28 in midday trading. Penney shares have climbed 49 percent since the beginning of the year. The stock has climbed 19 percent in the last 12 months.

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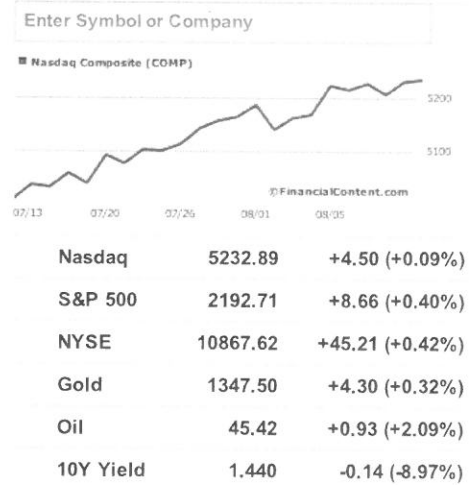
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