

DOW JONES GLOBAL COMPLIANCE SYMPOSIUM	FEATURED SPEAKERS Alfred N. Rosa Director of Compliance & Senior Executive Counsel General Electric	LEARN MORE AND REGISTER
--	--	--------------------------------

Dow Jones Reprints: This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit www.djreprints.com

[See a sample reprint in PDF format.](#)

[Order a reprint of this article now](#)

THE WALL STREET JOURNAL.
WSJ.com

BUSINESS | JANUARY 27, 2012

Penney CEO Says Profit Won't Suffer

By KAREN TALLEY

[J.C. Penney](#) Co. will handle its more than \$1 billion transformation without borrowing and sees its earnings next year standing up to the upheaval, executives at the retailer said Thursday.



Getty Images

Penney's Ron Johnson, with Martha Stewart, in New York Wednesday.

The company will fund the transformation with cash flow from operations, said Chief Executive Ron Johnson at the second day of a two-day analyst meeting.

Investors were cheered as Penney vowed that 2012 earnings will meet or exceed those of 2010, which were \$2.16 a share on an adjusted basis, or \$1.59 on a Generally Accepted Accounting Principles reporting basis. The retailer's shares were up 17% midday on Thursday morning to about \$40.14.

J.C. Penney expects to spend \$800 million this year as it begins the transformation. The retailer will spend \$80 million a month on its promotional marketing.

Previously

[Penney Chief Thinks Different](#)

also involve a rearrangement of the selling space, opening up an area for entertainment and a place where customers can hang out, and building scores of "stores within a store" to better highlight and focus the merchandise.

"We are fundamentally reimagining every aspect of our business and we fully expect the bold and strategic changes we are making to our operations will result in improved profitability," Mr. Johnson said. "This should enable us to fund the transformation of J.C. Penney's store experience, while at the same time returning value to shareholders with steady earnings growth.

Mr. Johnson joined Penney only a few months ago. He formerly worked at [Apple Inc.](#), where he was credited with Apple stores' sleek appearance.

Still, J.C. Penney is adopting some caution, dropping quarterly sales or earnings guidance, and no longer reporting monthly same-store sales results.

The company said it is targeting \$900 million in expense cuts to be completed over the first two years of its transformation, ultimately lowering expenses below 30% of sales in two years.

While executives from J.C. Penney steered clear of discussing head count, there may be some shaving of the ranks. Chief Operating Officer Michael Kramer said there are "savings here" when it comes to simplifying the management structure at the retailer's Plano, Texas, headquarters, where there are 5,900 employees.

In addition, there likely won't be a need for as many store clerks changing price tags constantly for promotions, as one-day sales will be sharply curtailed.

The retailer will adopt three pricing tiers: everyday prices, monthlong values, and best prices, or clearance on the first and third Fridays of the month. The approach is a marked departure from the current percent-off, coupon, and limited-time promotions pervasive among department stores.

"The moves by J.C. Penney could help reinvigorate the mid-tier department stores," said Edward Yruma, retail analyst at KeyBanc Capital Markets.

Ultimately, though, "it is all subject to the economy and consumer spending trends," Carol Levenson, director of research at Gimme Credit, said.

Copyright 2011 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com