Transformation Update & Financial Results

SEARS HOLDINGS

Q3 2017 Earnings

November 30, 2017

Cautionary Statement

Regarding Forward-Looking Information

This presentation contains forward-looking statements under the federal securities laws, including statements about our transformation through our integrated retail strategy, the opportunities, some of which are quantified, presented by a framework for profit, our plans to redeploy and reconfigure our assets, our liquidity and ability to exercise financial flexibility as we meet our obligations and possible strategic transactions. Forward-looking statements, including these, are based on the current beliefs and expectations of our management and are subject to significant risks, assumptions and uncertainties that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. In addition, the framework for profit is not intended to provide guidance or predict results; instead, it is intended to provide dimensional context for the potential opportunities for increasing profitability if we are successful in achieving the potential results outlined, which is subject to significant assumptions, uncertainties and risks, including those identified in the presentation relating to maintaining, reversing or otherwise improving or achieving certain performance metrics, including member penetration, level of member engagement and retention rates. There can be no assurance that any of these efforts will be successful. The following additional factors, among others, could cause actual results to differ from those set forth in the forward-looking statements: our ability to offer merchandise and services that our customers want, including our proprietary brand products; our ability to successfully implement our integrated retail strategy to transform our business; our ability to successfully manage our inventory levels; initiatives to improve our liquidity through inventory management and other actions; competitive conditions in the retail and related services industries; worldwide economic conditions and business uncertainty, including the availability of consumer and commercial credit, changes in consumer confidence and spending, the impact of changing fuel prices, and changes in vendor relationships; vendors' lack of willingness to provide acceptable payment terms or otherwise restricting financing to purchase inventory or services; possible limits on our access to our domestic credit facility, which is subject to a borrowing base limitation and a springing fixed charge coverage ratio covenant, capital markets and other financing sources; our ability to successfully achieve our plans to generate liquidity through potential transactions or otherwise; our extensive reliance on computer systems, including legacy systems, to implement our integrated retail strategy, process transactions, summarize results, maintain customer, member, associate and Company data, and otherwise manage our business, which may be subject to disruptions or security breaches; the impact of seasonal buying patterns, including seasonal fluctuations due to weather conditions, which are difficult to forecast with certainty; our dependence on sources outside the United States for significant amounts of our merchandise; our reliance on third parties to provide us with services in connection with the administration of certain aspects of our business and the transfer of significant internal historical knowledge to such parties; impairment charges for goodwill and intangible assets or fixed-asset impairment for long-lived assets; our ability to attract, motivate and retain key executives and other associates; our ability to protect or preserve the image of our brands; the outcome of pending and/or future legal proceedings; and the timing and amount of required pension plan funding. Additionally, detailed descriptions of risk, uncertainties and factors relating to Sears Holdings are discussed in our most recent Annual Report on Form 10-K and other filings with the Securities and Exchange Commission. While we believe that our forecasts and assumptions are reasonable, we caution that actual results may differ materially. We intend the forward-looking statements to speak only as of the time made and do not undertake to update or revise them as more information becomes available, except as required by law.

Non-GAAP Financial Measures

In addition to our net loss attributable to Sears Holdings' shareholders determined in accordance with Generally Accepted Accounting Principles ("GAAP"), for purposes of evaluating operating performance, we use Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA"), as well as Adjusted Earnings per Share ("Adjusted EPS"). Adjusted EBITDA is computed as net loss attributable to Sears Holdings Corporation appearing on the Condensed Consolidated Statements of Operations excluding income tax (expense) benefit, interest expense, interest and investment loss, depreciation and amortization and gain on sales of assets. In addition, it is adjusted to exclude certain significant items as set forth below. Our management uses Adjusted EBITDA to evaluate the operating performance of our businesses, as well as executive compensation metrics, for comparable periods. Adjusted EBITDA should not be used by investors or other third parties as the sole basis for formulating investment decisions as it excludes a number of important cash and non-cash recurring items.

While Adjusted EBITDA is a non-GAAP financial measurement, management believes that it is an important indicator of ongoing operating performance, and useful to investors, because:

- Adjusted EBITDA excludes the effects of financings and investing activities by eliminating the effects of interest and depreciation costs;
- Management considers gains/(losses) on the sale of assets to result from investing decisions rather than ongoing operations; and
- Other significant items, while periodically affecting our results, may vary significantly from period to period and have a disproportionate effect in a given period, which affects comparability of results, including impairment charges related to fixed assets, closed store and severance charges, pension expense, amortization of the deferred Seritage gain, expenses associated with natural disasters, transaction costs associated with strategic initiatives, items associated with legal matters and other expenses. We have adjusted our results for these items to make our statements more comparable and therefore more useful to investors as the items are not representative of our ongoing operations and reflect past investment decisions.

See the appendix for reconciliations of the differences between the non-GAAP financial measures used in this presentation with the most comparable financial measures calculated in accordance with GAAP.

Q3 2017 Highlights

Financial Results

$ in millions	Q3 2017	Q3 2016
Total Revenues	$3,660	$5,029
Comp Store Sales	(15.3)%	(7.4)%
Gross Margin	$702	$962
Gross Margin Rate	19.2%	19.1%
SG&A Expenses	$1,339	$1,543
Net Loss	$(558)	$(748)
Adjusted EBITDA[(1)]	***$(275)***	***$(375)***

Operational Highlights

Expanded Small Concept Stores With New Appliances & Mattresses Stores in PA and HI

Reinstated Iconic Sears Wish Book With Launch Across Sears Digital Platforms

Introduced Unique "Whole Store on Sale" Holiday Campaign To Offer Even Greater Value

(1) Adjusted EBITDA is shown inclusive of additional rent expense of $40 million and $48 million in Q3 2017 and Q3 2016, respectively. From the inception of Seritage to date, we have received recapture notices on 38 properties, and also exercised our right to terminate the lease on 56 properties.

Progress on Our Transformation

Increasingly Confident in Our Future With Positive Momentum on Our Transformation

Enhancing Financial Performance	Increasing Financial Flexibility	Creating Value From Our Assets	Driving Our Transformation
Achieved $1.25 billion annualized cost savings target ahead of schedule	Agreement with PBGC to enable **monetization of 138 properties** **Paid down over $570 million** of our 2018 Term Loan borrowings in 2017	**Over $430 million** proceeds generated from real estate transactions, other asset sales, and commercial arrangements [1]	Opened **two DieHard Auto Centers** and **two Sears Appliances & Mattresses stores** Continued **expansion of Shop Your Way**

Additional Levers to Drive Profitability

- We will drive further improvements in our organization focused on *Best Members, Best Categories, Best Stores*
- We continue to pursue innovative store concepts, as well as in-store partnership and sub-division opportunities
- We are evaluating strategic options across our portfolio to unlock value from our assets and businesses

(1) Includes over $270 million in proceeds generated in Q3 2017 and $167 million in proceeds realized subsequent to third quarter end.

Increased Financial Flexibility

Enhanced Flexibility Though Pension Agreement With PBGC

- Entered into an agreement with the Pension Benefit Guaranty Corporation (PBGC) to release 138 of our properties from ring-fence arrangement in exchange for $407 million of contributions to our pension plans
  - Increases our financial flexibility by enabling the Company to monetize properties
  - Provides funding relief from contributions to the pension plans for the next two years

Enhanced Liquidity

- Generated net cash proceeds of over $270 million from real estate transactions and other asset sales in Q3
- Generated additional cash proceeds of approximately $167 million subsequent to quarter-end from real estate transactions and commercial arrangements, a portion of which were used to pay down the incremental real estate loans and our revolver borrowings

Debt Repayment

- Paid down nearly $325 million toward our Term Loan maturing June 2018 in November, bringing the outstanding balance to approximately $400 million
  - Brings our total 2018 Term Loan repayments during 2017 to approximately $570 million

Q3 Financial Position and Liquid Assets

Substantial Liquidity and Financial Flexibility

- Approximately $338 million in cash, availability on credit facility, and availability under the short-term borrowing basket as of the end of Q3 2017

Amounts in millions	Q3 2017	Proforma Q3 2017[1]	Q3 2016
Cash and cash equivalents	$200	$200	$258
Net availability on Credit Facility [2]	39	185	174
Availability under Short-Term Borrowing Basket [3]	99	120	2
Total Liquid Availability	**$338**	**$505**	**$434**

- Total long-term debt, including current portion of long-term debt and capital lease obligations, was approximately $3.3 billion at October 28, 2017.

(1) Proceeds of $167 million were generated through real estate transactions and commercial arrangements subsequent to the end of the third quarter. A portion of these proceeds were used to pay down the incremental real estate loans, with the remaining proceeds utilized to pay down our revolving credit facility. This has resulted in an adjusted availability on our revolving credit facility and general debt basket of $185 million and $120 million, respectively.
(2) Reflects effect of springing fixed charge coverage ratio covenant and borrowing base level.
(3) The short-term borrowing basket provides the ability to borrow with maturities inside of the ABL Maturity of July 2020. The short-term borrowing basket can be paid down and re-borrowed as desired. Availability on the short-term borrowing basket for Q3 2017 is stated less $40 million of commercial paper outstanding, $263 million of real estate loans outstanding, $185 million of incremental real estate loans outstanding and $413 million of Line of Credit loans outstanding under the Second Lien Credit Agreement.

Key Takeaways

1. Second consecutive quarter of at least $100 million improvement in Adjusted EBITDA and net loss

2. Achieved our annualized cost savings target of $1.25 billion ahead of schedule

3. Continued to unlock value from our assets and businesses through monetizations and other strategic alternatives

4. Increased financial flexibility through liquidity actions and amended pension plan agreement with PBGC

5. Continuing to drive improvements in our organization by focusing on our *Best Categories, Best Stores* and *Best Members*

SIMPLY Emma

ADAM LEVINE

smart sense

kmart

SHOP YOUR WAY

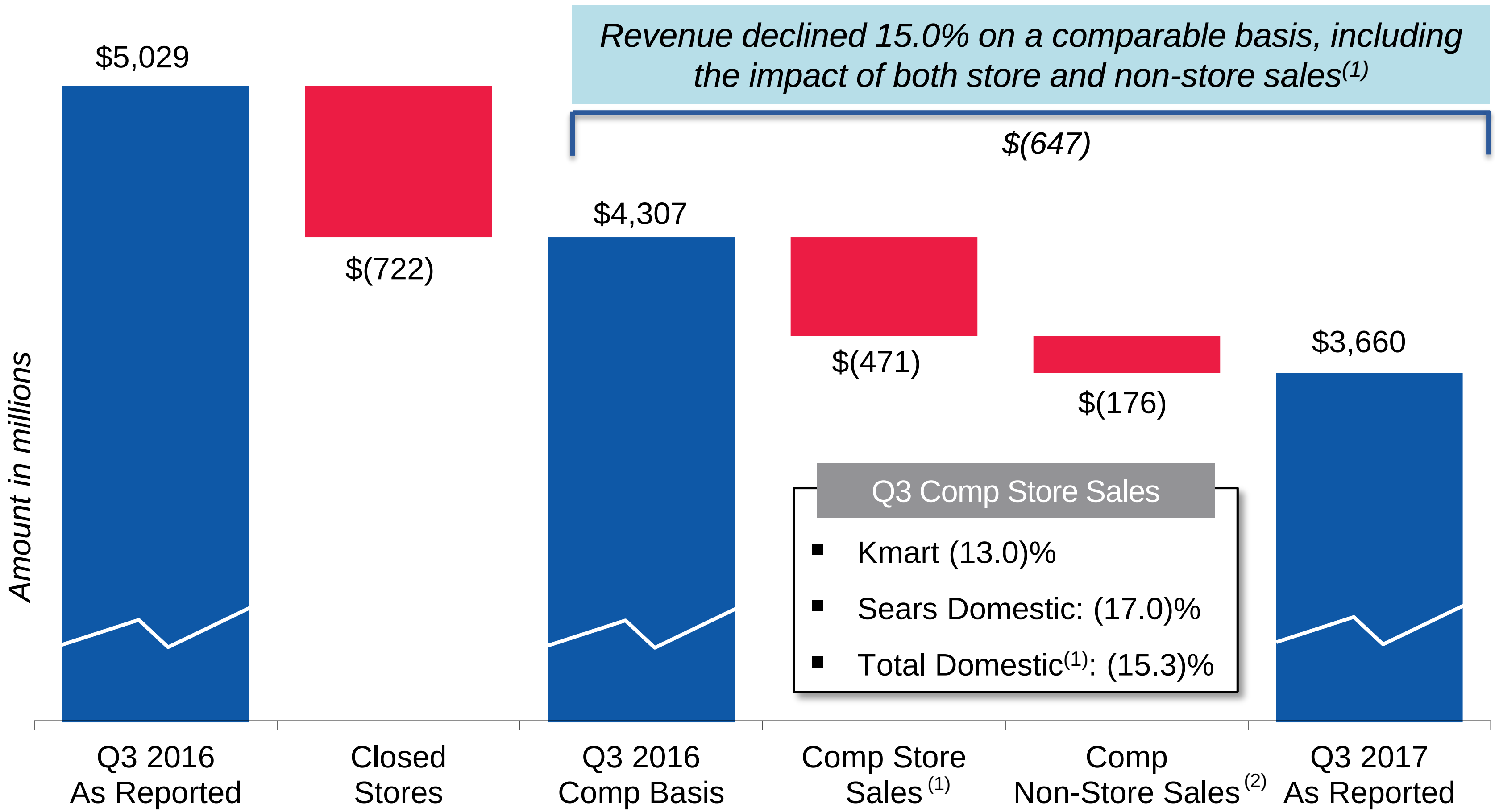
sears

connected solutions

Appendix

Q3 2017

Revenue Changes

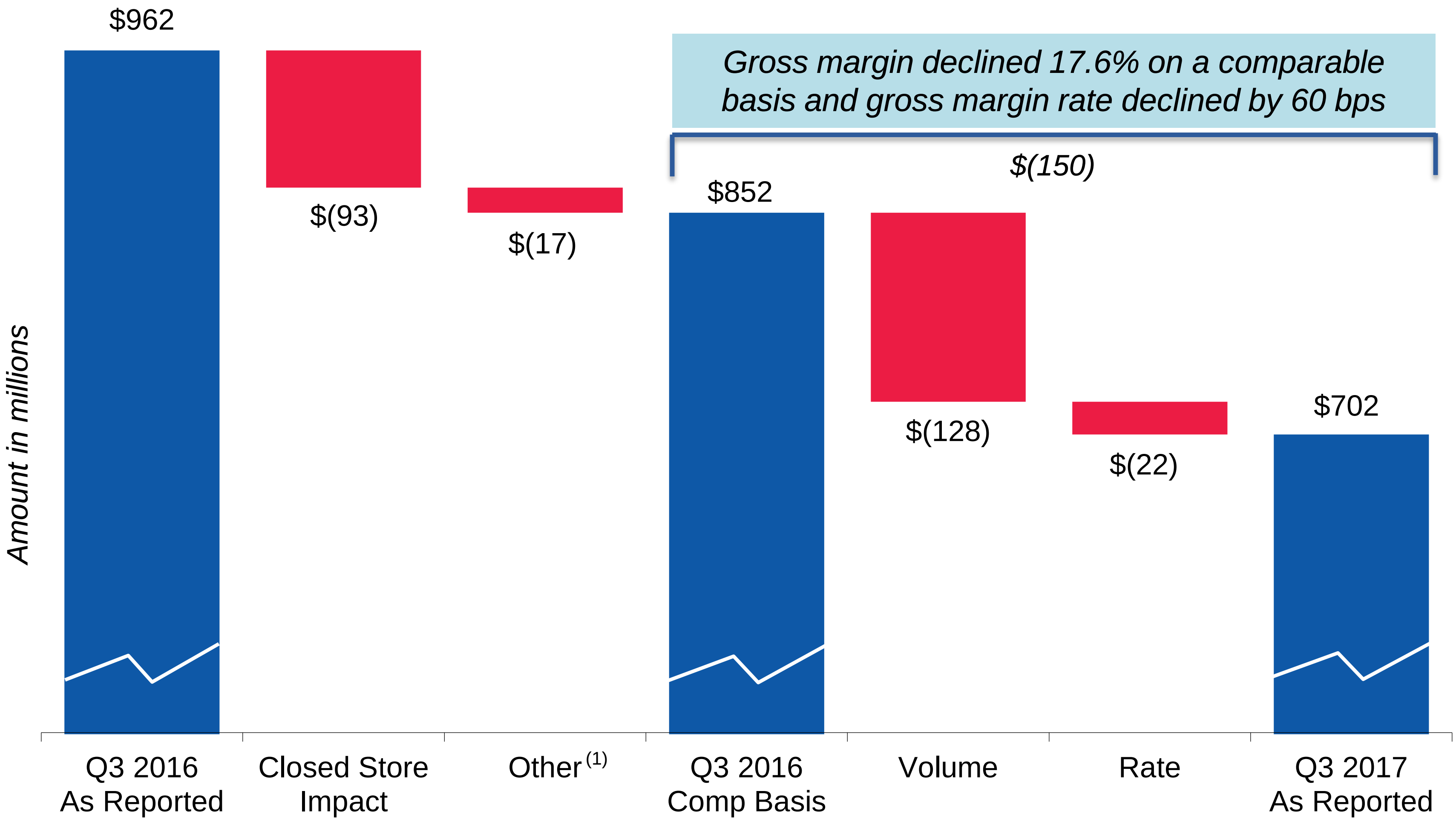


(1) Comparable store sales amounts include sales for all stores operating for a period of at least 12 full months (including remodeled and expanded stores, but excluding store relocations and stores that have undergone format changes), as well as sales from sears.com and kmart.com shipped directly to customers and have been adjusted for the change in the unshipped sales reserves recorded at the end of each reporting period.

(2) Comp Non-Store Sales represents revenue from ongoing business operations not directly associated with a store, as well as revenue from our ongoing relationships with Sears Hometown and Outlet Stores, Inc. and Lands' End. Note, the majority of the Comp Non-Store Sales decline is attributed to reduced revenue from Sears Hometown and Outlet Stores, Inc.

Q3 2017

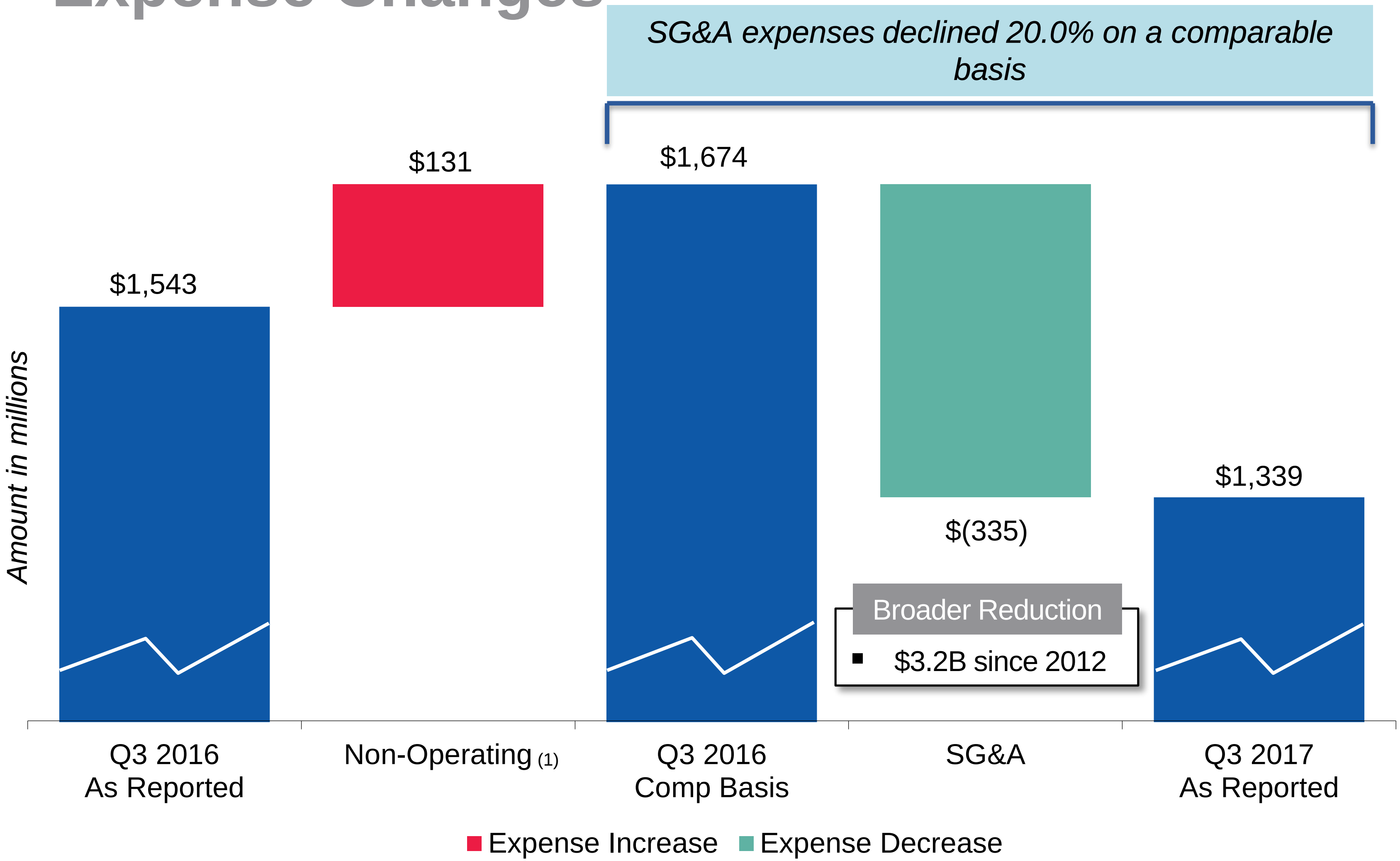
Gross Margin Changes



(1) Primarily consists of non-cash reserves, additional Seritage/JV rent expense of $40 million and $48 million, respectively in Q3 2017 and Q3 2016, and amortization of deferred Seritage gain.

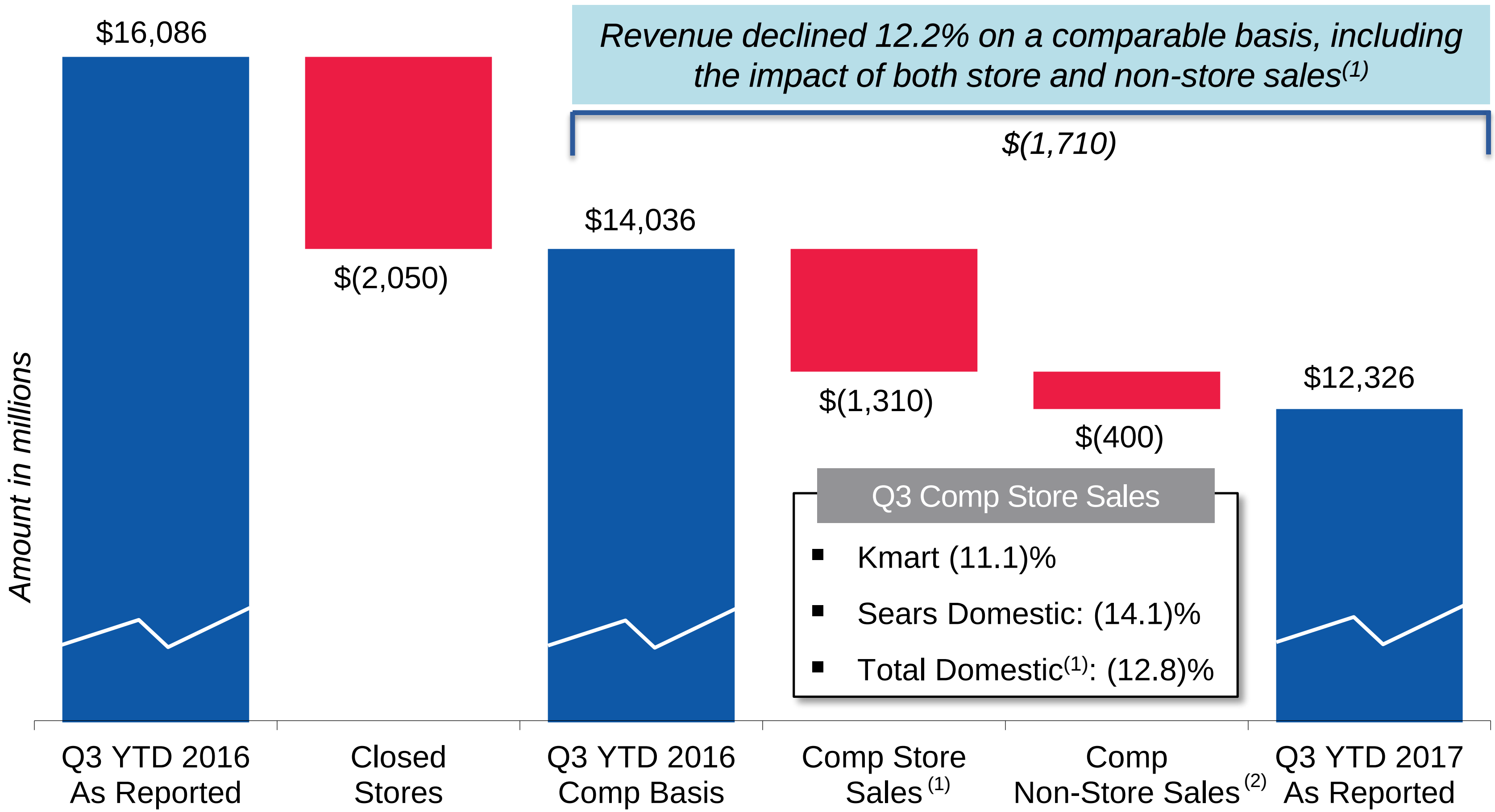
Q3 2017

Expense Changes



(1) Consists of closed store reserves, pension expense, expenses associated with natural disasters, transaction costs, legal items and other expenses.

Q3 YTD 2017
Revenue Changes



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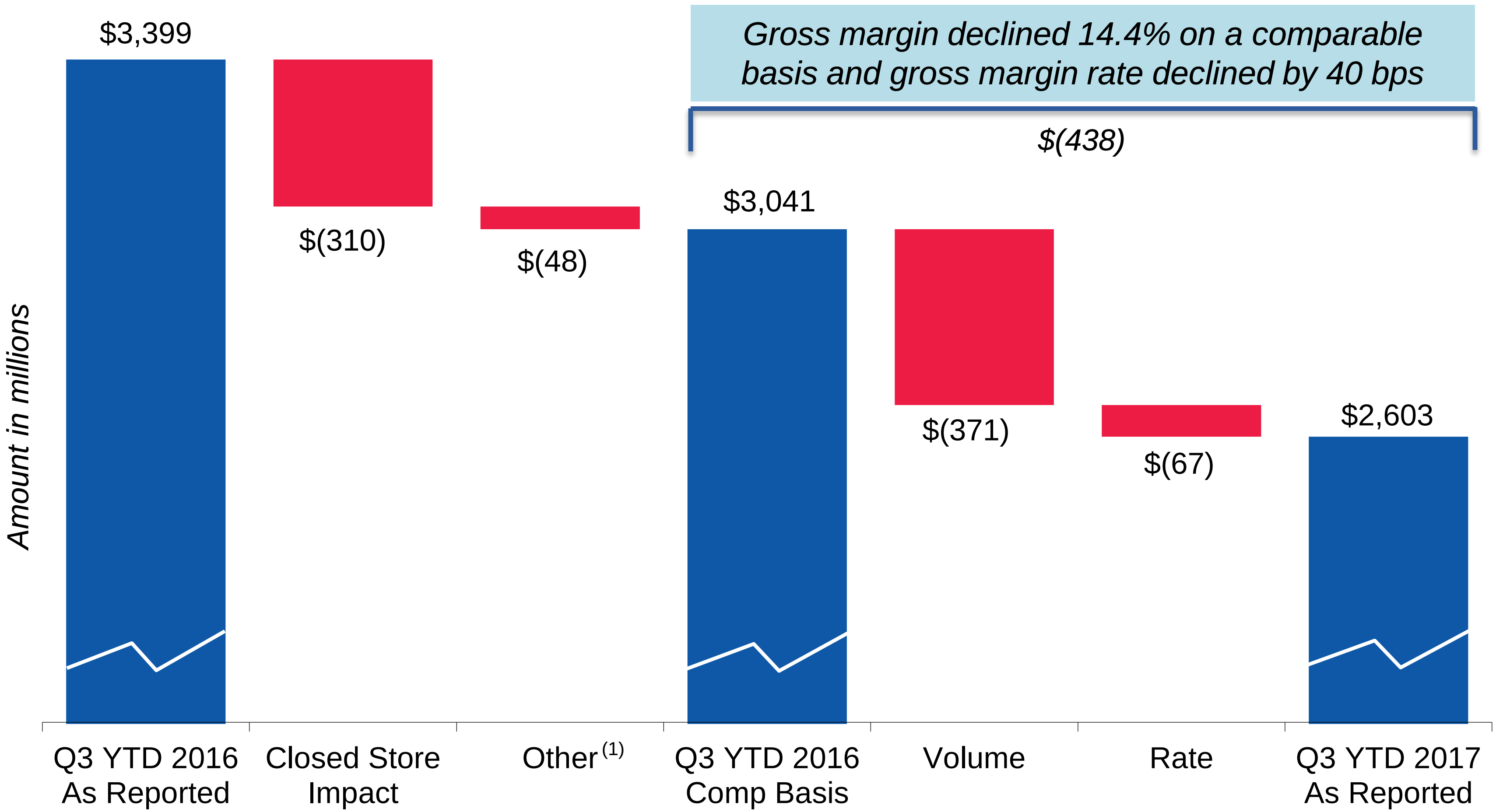
Q3 YTD 2017

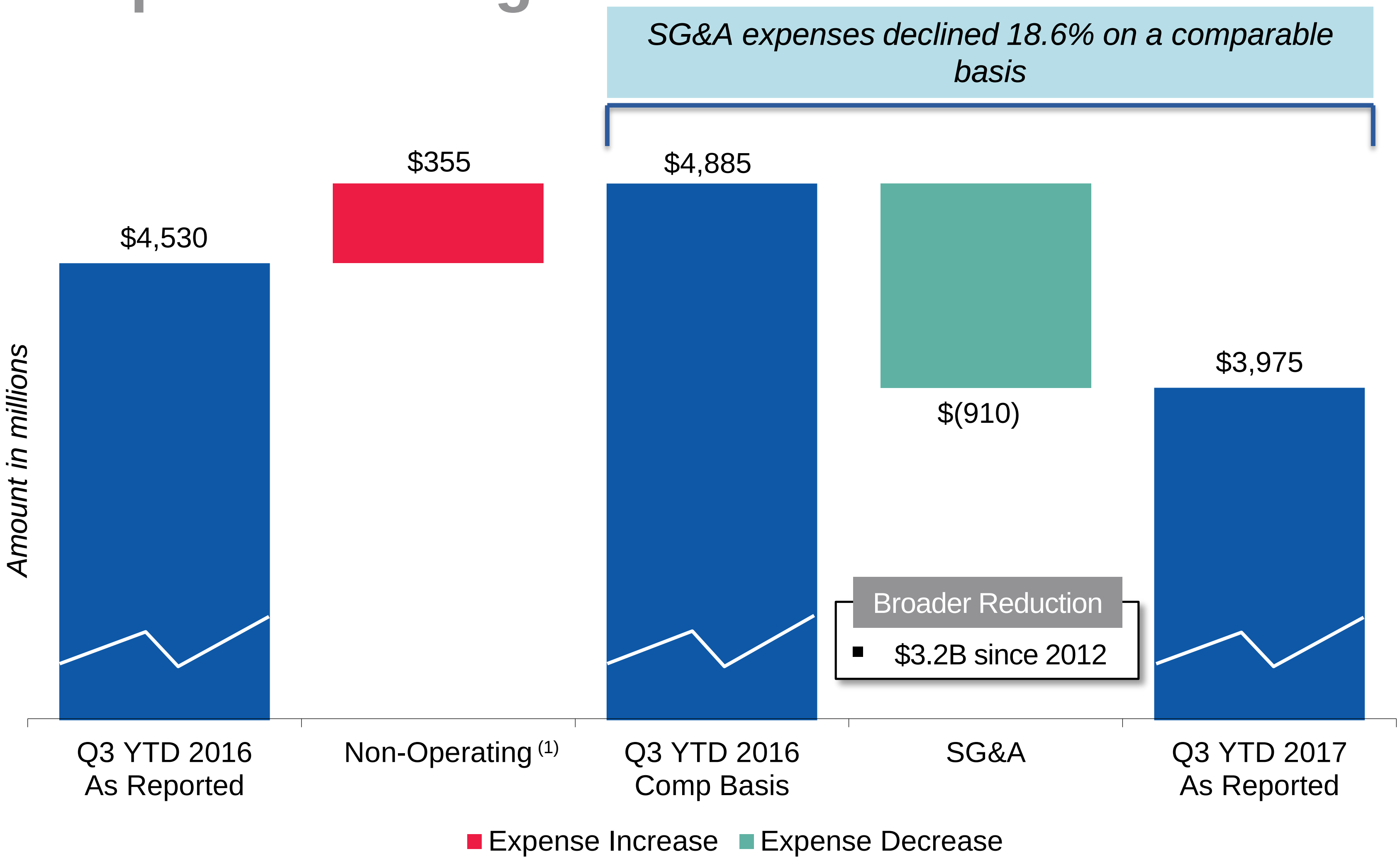
Gross Margin Changes



(1) Primarily consists of non-cash reserves, additional Seritage/JV rent expense of $129 million and $150 million, respectively in Q3 YTD 2017 and Q3 YTD 2016, and amortization of deferred Seritage gain.

Q3 YTD 2017

Expense Changes



(1) Consists of closed store reserves, pension expense, expenses associated with natural disasters, transaction costs, legal items and other expenses.

Consolidated Results

Q3 2017

millions, except per share data	Third Quarter 2017	Third Quarter 2016	Year-to-Date 2017	Year-to-Date 2016
REVENUES	$ 3,660	$ 5,029	$ 12,326	$ 16,086
NET LOSS ATTRIBUTABLE TO HOLDINGS' SHAREHOLDERS	(558)	(748)	(565)	(1,614)
NET LOSS PER DILUTED SHARE ATTRIBUTABLE TO HOLDINGS' SHAREHOLDERS	(5.19)	(6.99)	(5.27)	(15.10)
ADJUSTED NET LOSS ATTRIBUTABLE TO HOLDINGS' SHAREHOLDERS	(284)	(333)	(639)	(750)
ADJUSTED NET LOSS PER DILUTED SHARE ATTRIBUTABLE TO HOLDINGS' SHAREHOLDERS	$ (2.64)	$ (3.11)	$ (5.96)	$ (7.02)

Significant Items

Q3 2017

millions	Third Quarter		Year-to-Date	
	2017	2016	2017	2016
Net loss as reported	$ (558)	$ (748)	$ (565)	$ (1,614)
Pension Expense	155	45	337	135
Closed Store Reserve, Store Impairments and Severance	89	74	238	129
Gain on Sale of Trade name	-	-	(307)	-
Gain on Sales of Assets	(181)	(10)	(496)	(39)
Mark-to-Market Adjustments	-	6	11	18
Amortization of Deferred Seritage Gain	(12)	(14)	(37)	(41)
Other [(1)]	11	27	6	32
Tax Matters	212	287	174	630
As Adjusted	$ (284)	$ (333)	$ (639)	$ (750)

(1) Third quarter 2017 consisted of expenses associated with natural disasters and transaction costs associated with strategic initiatives, while third quarter 2016 consisted of expenses associated with legal matters, transaction costs associated with strategic initiatives and other expenses. YTD 2017 consisted of legal matters, expenses associated with natural disasters and transaction costs associated with strategic initiatives, while YTD 2016 consisted of expenses associated with legal matters, transaction costs associated with strategic initiatives and other expenses.

Reconciliation of Adjusted EBITDA to GAAP

Q3 2017

	Third Quarter		Year-to-Date	
millions	2017	2016	2017	2016
Net loss attributable to Holdings per statement of operations	$ (558)	$ (748)	$ (565)	$ (1,614)
Income tax expense (benefit)	3	11	(59)	39
Interest expense	136	105	387	289
Interest and investment loss	-	8	14	25
Operating loss	(419)	(624)	(223)	(1,261)
Depreciation and amortization	89	91	259	278
Gain on sales of assets	(316)	(51)	(1,437)	(166)
Before excluded items	(646)	(584)	(1,401)	(1,149)
Closed store reserve and severance	115	113	319	182
Pension expense	248	72	539	216
Other (1)	18	43	9	52
Amortization of deferred Seritage gain	(19)	(22)	(59)	(66)
Impairment charges	9	3	29	18
Adjusted EBITDA	$ (275)	$ (375)	$ (564)	$ (747)

(1) Third quarter 2017 consisted of expenses associated with natural disasters and transaction costs associated with strategic initiatives, while third quarter 2016 consisted of expenses associated with legal matters, transaction costs associated with strategic initiatives and other expenses. YTD 2017 consisted of legal matters, expenses associated with natural disasters and transaction costs associated with strategic initiatives, while YTD 2016 consisted of expenses associated with legal matters, transaction costs associated with strategic initiatives and other expenses.

Adjusted Segment Results

Q3 2017

millions	Quarter Ended October 28, 2017 Kmart	Quarter Ended October 28, 2017 Sears Domestic	Quarter Ended October 28, 2017 Sears Holdings	Quarter Ended October 29, 2016 Kmart	Quarter Ended October 29, 2016 Sears Domestic	Quarter Ended October 29, 2016 Sears Holdings
Merchandise sales and services	$ 1,175	$ 2,485	$ 3,660	$ 1,888	$ 3,141	$ 5,029
Gross margin dollars	229	514	743	315	663	978
Gross margin rate	*19.5%*	*20.7%*	*20.3%*	*16.7%*	*21.1%*	*19.4%*
Selling and administrative	324	694	1,018	484	869	1,353
Selling and administrative expense as a percentage of total revenues	*27.6%*	*247.9%*	*27.8%*	*25.6%*	*27.7%*	*26.9%*
Adjusted EBITDA	$ (95)	$ (180)	$ (275)	$ (169)	$ (206)	$ (375)
Depreciation and amortization	(19)	(70)	(89)	(17)	(74)	(91)
Gain on sales of assets	132	184	316	30	21	51
Special items						
Closed store reserve and severance	(87)	(28)	(115)	(107)	(6)	(113)
Pension expense	-	(248)	(248)	-	(72)	(72)
Other [(1)]	(9)	(9)	(18)	-	(43)	(43)
Amortization of deferred Seritage gain	3	16	19	4	18	22
Impairment charges	(3)	(6)	(9)	(3)	-	(3)
Operating loss	$ (78)	$ (341)	$ (419)	$ (262)	$ (362)	$ (624)

(1) Third quarter 2017 consisted of expenses associated with natural disasters and transaction costs associated with strategic initiatives, while third quarter 2016 consisted of expenses associated with legal matters, transaction costs associated with strategic initiatives and other expenses.

Adjusted Segment Results

YTD 2017

millions	39 Weeks Ended October 28, 2017 Kmart	39 Weeks Ended October 28, 2017 Sears Domestic	39 Weeks Ended October 28, 2017 Sears Holdings	39 Weeks Ended October 28, 2016 Kmart	39 Weeks Ended October 28, 2016 Sears Domestic	39 Weeks Ended October 28, 2016 Sears Holdings
Merchandise sales and services	$ 4,143	$ 8,183	$ 12,326	$ 6,248	9,838	$ 16,086
Gross margin dollars	844	1,864	2,708	1,225	2,210	3,435
Gross margin rate	*20.4%*	*22.8%*	*22.0%*	*19.6%*	*22.5%*	*21.4%*
Selling and administrative	1,039	2,233	3,272	1,520	2,662	4,182
Selling and administrative expense as a percentage of total revenues	*25.1%*	*27.3%*	*26.5%*	*24.3%*	*27.1%*	*26.0%*
Adjusted EBITDA	$ (195)	$ (369)	$ (564)	$ (295)	$ (452)	$ (747)
Depreciation and amortization	(46)	(213)	(259)	(51)	(227)	(278)
Gain on sales of assets	808	629	1,437	120	46	166
Special items						
Closed store reserve and severance	(189)	(130)	(319)	(159)	(23)	(182)
Pension expense	-	(539)	(539)	-	(216)	(216)
Other [1]	15	(24)	(9)	(8)	(44)	(52)
Amortization of deferred Seritage gain	9	50	59	13	53	66
Impairment charges	(11)	(18)	(29)	(7)	(11)	(18)
Operating income (loss)	$ 391	$ (614)	$ (223)	$ (387)	$ (874)	$ (1,261)

(1) YTD 2017 consisted of legal matters, expenses associated with natural disasters and transaction costs associated with strategic initiatives, while YTD 2016 consisted of expenses associated with legal matters, transaction costs associated with strategic initiatives and other

Reconciliation of Adjusted EPS to GAAP

Q3 2017

Quarter Ended October 28, 2017

millions, except per share data	GAAP	Adjustments: Pension Expense	Closed Store Reserve, Store Impairments and Severance	Gain on Sales of Assets	Amortization of Deferred Seritage Gain	Other [1]	Tax Matters	As Adjusted
Gross margin impact	$ 702	$ -	$ 60	$ -	$ (19)	$ -	$ -	$ 743
Selling and administrative impact	1,339	(248)	(55)	-	-	(18)	-	1,018
Depreciation and amortization impact	89	-	(19)	-	-	-	-	70
Impairment charges impact	9	-	(9)	-	-	-	-	-
Gain on sales of assets impact	(316)	-	-	290	-	-	-	(26)
Operating loss impact	(419)	248	143	(290)	(19)	18	-	(319)
Income tax expense impact	(3)	(93)	(54)	109	7	(7)	212	171
After tax and noncontrolling interests impact	(558)	155	89	(181)	(12)	11	212	(284)
Diluted loss per share impact	$ (5.19)	$ 1.44	$ 0.83	$ (1.68)	$ (0.11)	$ 0.10	$ 1.97	(2.64)

Quarter Ended October 29, 2016

millions, except per share data	GAAP	Adjustments: Pension Expense	Closed Store Reserve, Store Impairments and Severance	Gain on Sales of Assets	Mark-to-Market Adjustments	Amortization of Deferred Seritage Gain	Other [2]	Tax Matters	As Adjusted
Gross margin impact	$ 962	$ -	$ 38	$ -	$ -	$ (22)	$ -	$ -	$ 978
Selling and administrative impact	1,543	(72)	(75)	-	-	-	(43)	-	1,353
Depreciation and amortization impact	91	-	(2)	-	-	-	-	-	89
Impairment charges impact	3	-	(3)	-	-	-	-	-	-
Gain on sales of assets impact	(51)	-	-	16	-	-	-	-	(35)
Operating loss impact	(624)	72	118	(16)	-	(22)	43	-	(429)
Interest and investment loss impact	(8)	-	-	-	9	-	-	-	1
Income tax expense impact	(11)	(27)	(44)	6	(3)	8	(16)	287	200
After tax and noncontrolling interests impact	(748)	45	74	(10)	6	(14)	27	287	(333)
Diluted loss per share impact	$ (6.99)	$ 0.42	$ 0.69	$ (0.09)	$ 0.06	$ (0.13)	$ 0.25	$ 2.68	$ (3.11)

[1] Consisted of expenses associated with natural disasters and transaction costs associated with strategic initiatives.

[2] Consisted of expenses associated with legal matters, transaction costs associated with strategic initiatives and other expenses.

Reconciliation of Adjusted EPS to GAAP

YTD 2017

39 Weeks Ended October 28, 2017

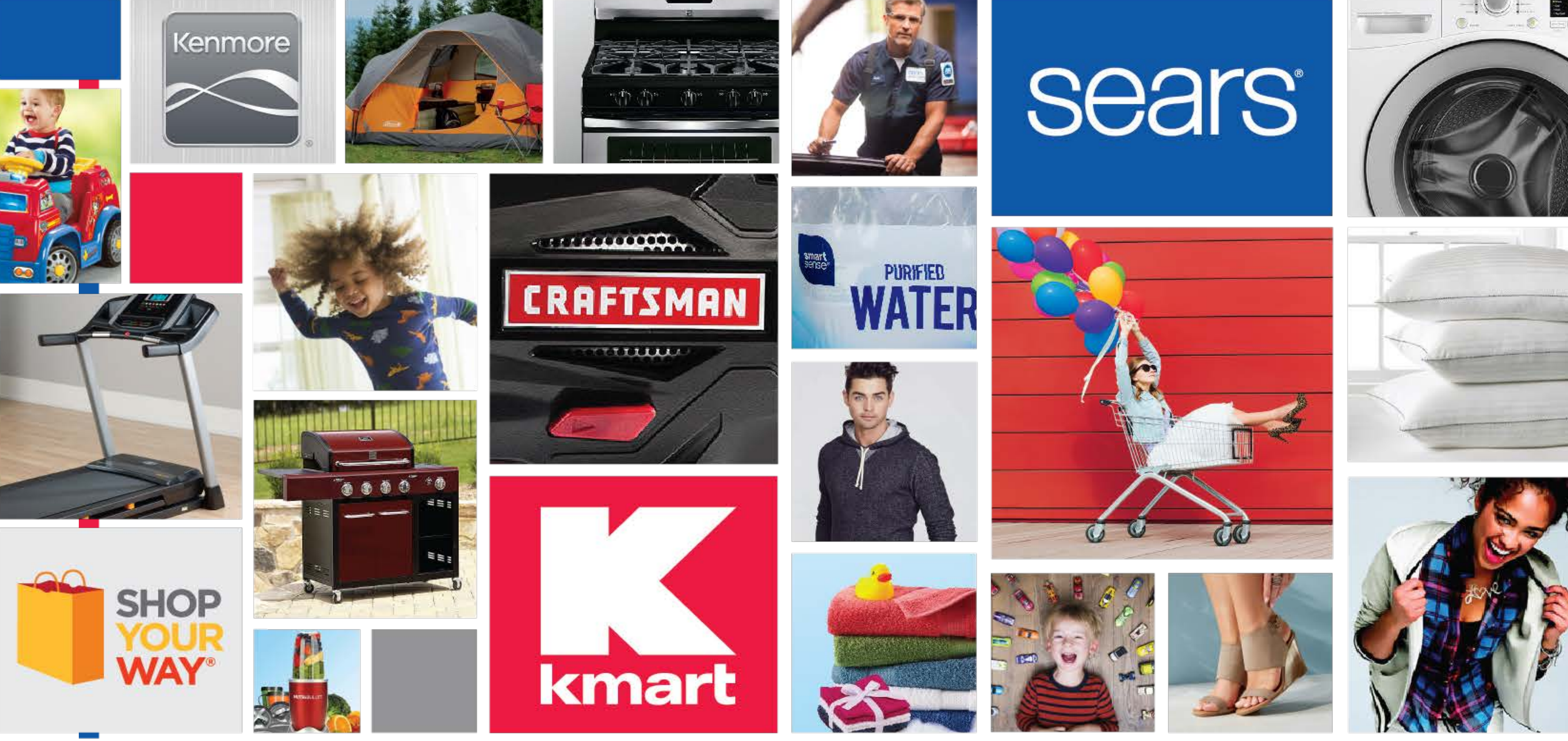
millions, except per share data	GAAP	Adjustments: Pension Expense	Adjustments: Closed Store Reserve, Store Impairments and Severance	Adjustments: Gain on sale of Trade name	Adjustments: Gain on Sales of Assets	Adjustments: Mark-to-Market Adjustments	Adjustments: Amortization of Deferred Seritage Gain	Adjustments: Other [1]	Adjustments: Tax Matters	As Adjusted
Gross margin impact	$ 2,603	$ -	$ 164	$ -	$ -	$ -	$ (59)	$ -	$ -	$ 2,708
Selling and administrative impact	3,975	(539)	(155)	-	-	-	-	(9)	-	3,272
Depreciation and amortization impact	259	-	(33)	-	-	-	-	-	-	226
Impairment charges impact	29	-	(29)	-	-	-	-	-	-	-
Gain on sales of assets impact	(1,437)	-	-	492	794	-	-	-	-	(151)
Operating loss impact	(223)	539	381	(492)	(794)	-	(59)	9	-	(639)
Interest and investment loss impact	(14)	-	-	-	-	17	-	-	-	3
Income tax benefit impact	59	(202)	(143)	185	298	(6)	22	(3)	174	384
After tax and noncontrolling interests impact	(565)	337	238	(307)	(496)	11	(37)	6	174	(639)
Diluted loss per share impact	$ (5.27)	$ 3.14	$ 2.21	$ (2.86)	$ (4.62)	$ 0.10	$ (0.34)	$ 0.06	$ 1.62	$ (5.96)

39 Weeks Ended October 29, 2016

millions, except per share data	GAAP	Adjustments: Pension Expense	Adjustments: Closed Store Reserve, Store Impairments and Severance	Adjustments: Gain on Sales of Assets	Adjustments: Mark-to-Market Adjustments	Adjustments: Amortization of Deferred Seritage Gain	Adjustments: Other [2]	Adjustments: Tax Matters	As Adjusted
Gross margin impact	$ 3,399	$ -	$ 102	$ -	$ -	$ (66)	$ -	$ -	$ 3,435
Selling and administrative impact	4,530	(216)	(80)	-	-	-	(52)	-	4,182
Depreciation and amortization impact	278	-	(7)	-	-	-	-	-	271
Impairment charges impact	18	-	(18)	-	-	-	-	-	-
Gain on sales of assets impact	(166)	-	-	63	-	-	-	-	(103)
Operating loss impact	(1,261)	216	207	(63)	-	(66)	52	-	(915)
Interest and investment loss impact	(25)	-	-	-	29	-	-	-	4
Income tax expense impact	(39)	(81)	(78)	24	(11)	25	(20)	630	450
After tax and noncontrolling interests impact	(1,614)	135	129	(39)	18	(41)	32	630	(750)
Diluted loss per share impact	$ (15.10)	$ 1.26	$ 1.21	$ (0.36)	$ 0.17	$ (0.39)	$ 0.30	$ 5.89	$ (7.02)

[1] Consisted of legal matters, expenses associated with natural disasters and transaction costs associated with strategic initiatives.

[2] Consisted of expenses associated with legal matters, transaction costs associated with strategic initiatives and other expenses.



SEARS HOLDINGS