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**Sears Holdings' Third Quarter 2017
Pre-Recorded Conference Call Transcript
November 30, 2017**

Operator:

Good day, ladies and gentlemen, and welcome to the Sears Holdings Corp. third quarter 2017 earnings conference call. [Operator instructions]

Chris Brathwaite:

Thank you, operator. Ladies and gentlemen, welcome to the Sears Holdings earnings call. I am Chris Brathwaite, Vice President of Corporate Communications for Sears Holdings and I am joined today by Rob Riecker, our Chief Financial Officer. This morning, we released our third quarter results for 2017, which are available on the investors section of our website under Events and Presentations. You can access the accompanying slide presentation for our call today through the same section of the website.

Moving to slide 2, I would like to remind you that today's discussion will contain forward-looking statements related to future events and expectations. These statements are based on current expectations and the current economic environment or are based on potential opportunities and actual results may differ materially from those expressed or implied in the forward-looking statements. Factors that could cause the Company's actual results to differ materially from those listed in today's press release can be found in the presentation for today's call that is posted at the Investor Information section of searsholdings.com and in our most recent Annual Report on Form 10-K and other SEC filings. Finally, we assume no obligation to update the information presented on this call, except as required by law.

In addition, as noted on slide 3, our discussion will include certain non-GAAP financial measures. Reconciliations to the most directly comparable GAAP financial measures can be found in the presentation and today's earnings release. Any reference in our discussion today to EBITDA means Adjusted EBITDA, as defined in the presentation.

I will now hand off the call to Rob.

Rob Riecker:

Thanks, Chris.

Good morning and thank you for joining our call.

First, let's turn to slide 4 to review key year-over-year financial performance measures and some of the operational developments.

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I am pleased to report that in the third quarter of 2017, we achieved a second consecutive quarter of year-over-year improvement of \$100 million in Adjusted EBITDA, while our reported Net Loss was reduced by nearly \$200 million. The strategic actions we are taking, including the fundamental restructuring of our operations, have resulted in meaningful progress in our performance enhancement efforts. Through these initiatives, we have achieved our annualized cost savings target of \$1.25 billion ahead of schedule.

We remain focused on streamlining our operations, right-sizing our store footprint, reducing our operating expenses and taking incremental actions to further improve our financial performance despite a challenging retail environment. We also continue to take action to improve our liquidity position and financial flexibility, which I will cover in more detail later in the call.

We reported total revenues of \$3.7 billion in the third quarter of 2017, compared to \$5.0 billion in the same quarter last year, representing a decrease of approximately \$1.4 billion. Strategic store closures contributed to over half of this decline, while comparable store sales contributed to approximately \$471 million of the decline. Comparable stores were negatively impacted by the closure of a series of pharmacies in open Kmart stores, as well as the reduction in consumer electronic assortments in both our Kmart and Sears stores.

Across the Gulf Coast and Puerto Rico, our dedicated associates worked hard to reopen our Kmart and Sears stores affected by the hurricanes as soon as it was safe to do so in order to serve the impacted communities. I am proud of the efforts of our associates who went above and beyond to help the affected communities recover and begin to rebuild in the wake of hurricanes Harvey, Irma and Maria.

Moreover, before and immediately after the storms, our logistics team at Sears Holdings redirected inventory of critical items to local distribution centers and stores. This decision helped to ensure these key products – including thousands of generators, pressure washers, fans and flashlights – were available to the impacted communities along the Gulf and in Puerto Rico as soon as possible.

In addition to making the crucial rebuilding materials available to those in need, Sears Holdings partnered with the American Red Cross and the Federal Emergency Management Agency (FEMA) to provide hands-on relief in the devastated areas. In Texas, we transformed the parking lot of one of our Sears stores in the severely impacted area of Port Arthur into a staging area and converted a recently closed Auto Center location into a field hospital. In Puerto Rico, the Company's thousands of dedicated associates quickly established Comfort Zones at all of our open stores on the island to give customers a place to sit, charge their devices, enjoy air conditioning and allow their children to play.

We also leveraged our popular Shop Your Way membership platform to further help and serve our members during this difficult time. The Company quickly established store and region pages on our ShopYourWay.com that provided members with information on when and where they'd be able to purchase critical rebuilding supplies. Moreover, our Shop Your Way member services team made personal phone calls to hundreds of members in devastated areas across the Gulf Coast and Puerto Rico to offer Sears Holdings' support and assistance, where possible.

The actions taken by our dedicated Shop Your Way team in the wake of the hurricanes are a clear demonstration of Sears Holdings' commitment to serving our members. Our hearts and thoughts remain with those that were impacted by the devastating events and we will continue to work hard to serve and support our affected members and communities.

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From an operational perspective, we are increasingly focused on our transformation toward becoming a member-centric, integrated retailer and finding new ways to engage and better serve our members.

Building on the success of the dedicated concept stores we began opening earlier this year in Colorado and Texas, we recently opened two new Sears Appliances & Mattress stores in Camp Hill, Pennsylvania and Honolulu, Hawaii. This unique retail concept leverages technologies to showcase two of our Company's strongest categories – appliances and mattresses – while continuing to offer the expertise and capability of our leading integrated services.

We are also looking forward to the 2017 holiday season as Sears Holdings has several initiatives in place to deliver the best value and services to our members during this busy shopping season. November 1st marked the launch of the unique, whole-store on sale holiday campaign at all of our Sears and Kmart stores. We are also offering our members the option to purchase their products online and ship them to the store for free, where our associates will even deliver the items to their cars to make their shopping experience as easy and convenient as possible.

This year, based on feedback from our members, we are also bringing back the beloved and iconic Sears Wish Book, bringing members all of their favorite gifts in one place. We reinvented the Wish Book for 2017 – reclaiming its place as the definitive source for thousands of gift options for every member of the family.

Moving to slide 5, we continue to achieve significant progress on our transformation.

We are pleased to have achieved our \$1.25 in annualized cost savings target well ahead of schedule. We have taken the necessary steps to offset continued revenue pressures in a difficult retail environment and become a more competitive, efficient and agile retailer. We will continue to drive improvements in our organization by focusing on our best members, best categories and best stores.

On November 7th, we entered into an agreement with the Pension Benefit Guaranty Corporation that provides for the release of 138 of our properties from a ring-fenced arrangement in exchange for the payment of approximately \$407 million into the Sears pension plan. This agreement is a positive step forward for our Company as it provides us with the flexibility to monetize these properties and will also help us continue to meet all of our pension obligations.

We further improved our financial flexibility by paying down outstanding borrowings under our Term Loan maturing in June 2018 by \$325 million subsequent to quarter end, thereby reducing the outstanding balance to approximately \$400 million. Year-to-date, we paid down approximately \$570 million of Term Loan borrowings due in 2018.

We also continued to right-size our store footprint and unlock value from our assets in the third quarter. We generated net cash proceeds of over \$270 million through real estate and other asset sales in this quarter, and an additional \$167 million from real estate transactions and commercial arrangements subsequent to the end of the third quarter. We have used these proceeds to pay down debt, as I'll explain in more detail on the next slide.

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Following the successful opening of the DieHard Auto Center in San Antonio earlier this year, we opened two new DieHard Auto Centers in the Detroit suburbs of Troy and Roseville, Michigan. We continue to leverage new technology and our experienced associates to unlock the full value of our iconic and widely trusted brands and businesses, including DieHard and Sears Auto Centers.

As I mentioned before, we continue to build on the momentum around our dedicated concept stores as evidence by the recently opened Sears Appliances and Mattress stores in Camp Hill, Pennsylvania and Honolulu, Hawaii. These innovative smaller-format stores continue to showcase our Company's unique integrated retail capabilities by combining new technology, our strongest categories and in-store experts. We intend to open similar innovative concept stores moving forward as we sharpen our focus on new ways to best serve our members.

We are also driving our transformation through our further innovations to our Shop Your Way membership platform. Through Shop Your Way's unique combination of technology and people-led services, we are transforming each member's experience to be highly personalized, whether through the curated offers they receive based on their preferences or through their one-on-one interaction with any of our 3,000-plus personal shoppers. With 10 million new members joining the platform in the last 12 months alone, Shop Your Way has significant momentum as we continue to expand the ecosystem of partnerships, services and events offered on the platform.

On slide 6, I will provide more detail around the actions we have taken during the quarter to increase our financial flexibility.

As I mentioned previously, Sears Holdings recently entered into an agreement with the Pension Benefit Guaranty Corporation (PBGC) to release 138 of our properties from ring-fenced arrangements in exchange for a contribution of approximately \$407 million to the Sears pension plan. Following this contribution, the Company will be relieved of the obligation to make further contributions to the pension plans for two years – apart from a \$20 million supplemental payment due in 2018 – and the remaining properties will no longer be ring-fenced, enabling the Company to monetize the properties. This positive step forward supports our Company's commitment to honor our obligations to the associates and retirees covered by the pension plans.

As I mentioned earlier, we meaningfully improved our financial flexibility through real estate sales and other asset sales, with net cash proceeds of \$270 million in the third quarter and an additional \$167 million generated through real estate transactions and commercial arrangements since quarter-end.

We used a portion of the cash proceeds generated in the third quarter to reduce the amounts outstanding under the 2017 Real Estate Loan to \$384 million, with the remaining proceeds utilized to pay down our revolving credit facility and a portion of the incremental real estate loan.

As of today, we have also paid down \$325 million toward our Term Loan maturing in June of 2018, which reduces the outstanding balance to approximately \$400 million. This debt repayment brings our total 2018 Term Loan repayments during 2017 year-to-date to approximately \$570 million.

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We have also reduced the \$200 million incremental real estate loan made in October under the Second Amended and Restated Loan Agreement to \$165 million subsequent to quarter end. The outstanding principal amount of the 2016 Real Estate Loan was \$263 million as of the end of the third quarter.

Moving to the next slide, I would like to review our financial position in light of the various actions we have taken during the quarter.

At the end of the quarter, we had a cash balance of approximately \$200 million, compared to \$258 million at the end of the prior year quarter.

At October 28, 2017, the amount available to borrow under our revolving credit facility was approximately \$39 million, compared to \$174 million at October 29, 2016.

We ended the quarter with \$99 million of availability under our short-term borrowing basket, compared to \$2 million at October 29, 2016.

After giving effect to additional cash proceeds of \$167 million generated through real estate transactions and commercial arrangements subsequent to quarter end, availability on our revolving credit facility and short-term borrowing debt basket was approximately \$185 million and \$120 million, respectively.

So, to conclude, let's move on to slide 8.

In summary, we remain fully committed to returning the Company to profitability and further improving financial flexibility to remain competitive in a very challenging retail environment.

We are seeing clear progress through initiatives of our strategic restructuring and transformation, which enabled us to achieve substantial improvements to both our Adjusted EBITDA and net loss in the third quarter of 2017.

We continue to evaluate innovative ways to deliver the best value and service for our members. To this end, we will build on the success of our recently opened dedicated concept stores to continue delivering specialized integrated retail experiences to our members in the upcoming quarters.

As we continue to take action to reduce our operating losses and to improve our performance, we are also committed to taking further decisive steps to strengthen our financial flexibility. Our strategic agreement with PBGC is a great example of our commitment to continue meeting all of our financial obligations. As we sharpen our focus on our best stores, best categories and best members, we will build on the momentum of our actions to date and be better equipped to support our continued transformation.

We are increasingly confident in our future and remain committed to delivering more value and better services for our members through our integrated retail offerings.

We look forward to continuing to report progress on our actions.