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Webinar Presentation:

BELK, INC.

Robert C. Pike, Senior Industry Analyst

November 3, 2015

BELK
Today's Agenda

1. Economic Overview
2. Company Profile & 2Q16 Summary
3. Financial History
4. Key Events & Developments
5. Strategic Initiatives
6. Issues, Observations & Conclusions
7. Q&A

ECONOMIC OVERVIEW
U.S. Unemployment Rate

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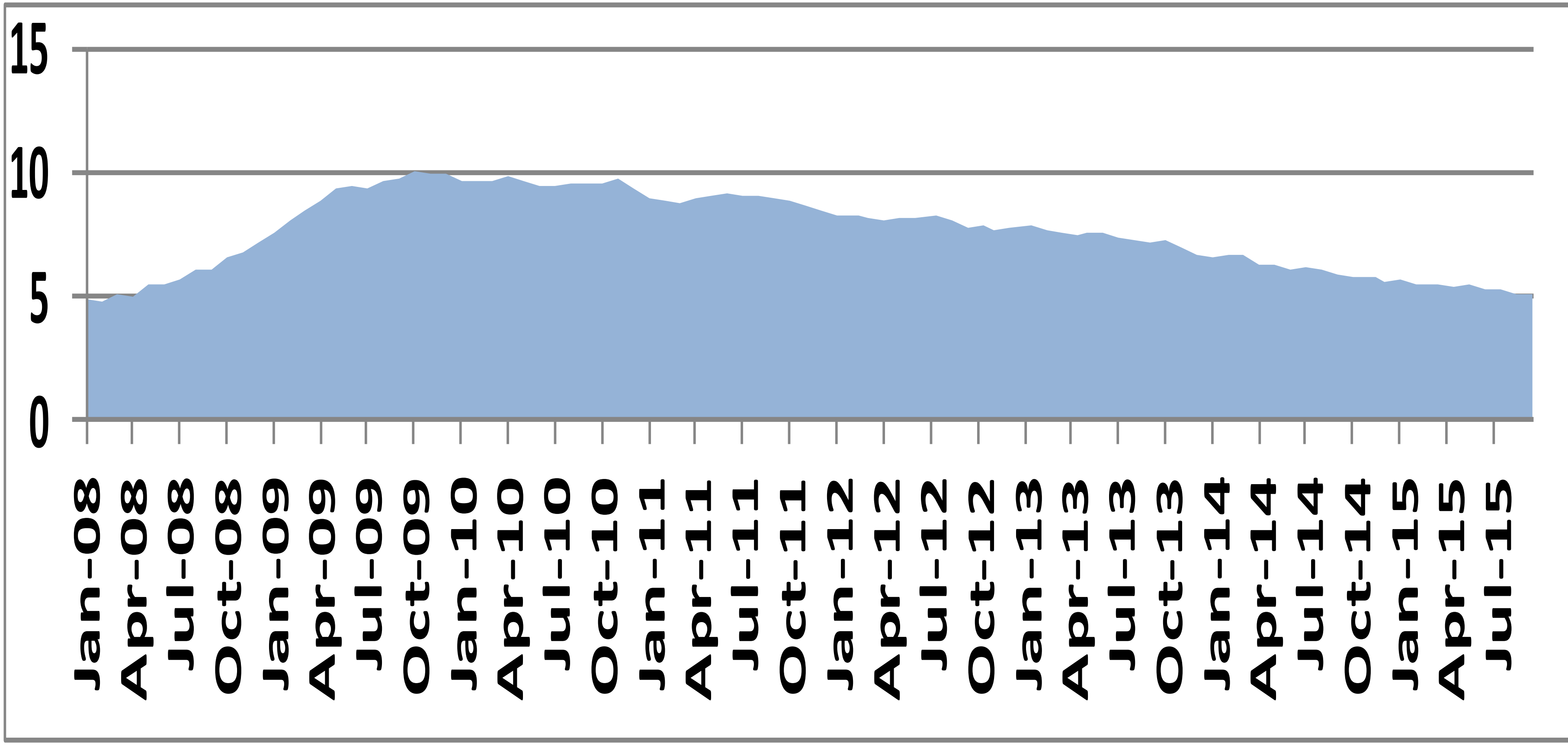
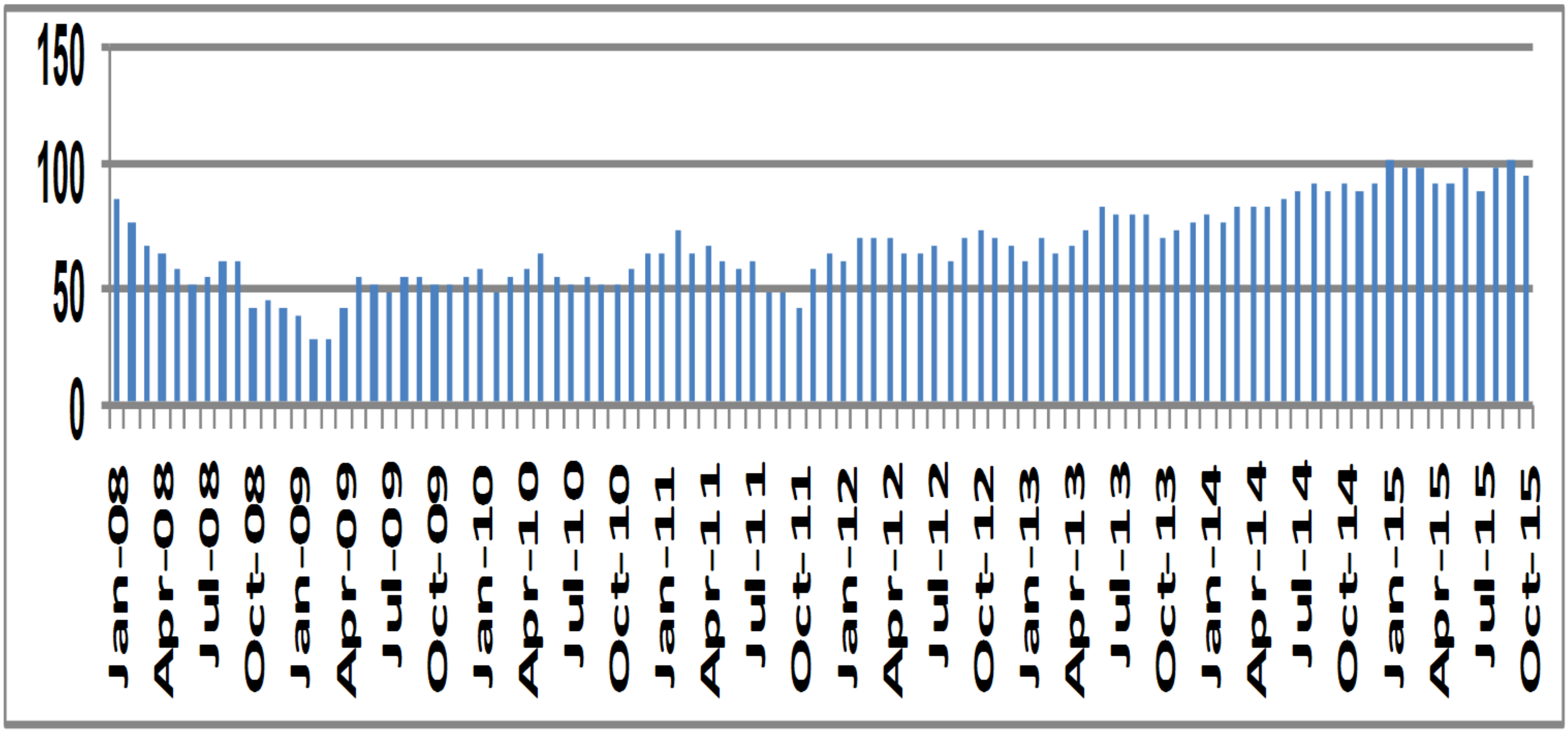


ECONOMIC OVERVIEW
Consumer Confidence



BELK
Profile

- **Business:** **Regional Department Store Operator (founded: 1888)**
- **HQ:** **Charlotte, NC**
- **Employees:** **24K-25K employees (full-time and part-time)**
- **Store Count (a/o 8/1/15):** **296 (in 16 states)**
  - **Change over Last 12 Months: (1.0%) – net decrease of three stores**
  - **Change since January 2011: (3.0%) – net decrease of nine stores**
  - **Approximately 52% owned**
  - **Average Store Size: 76K square feet (Range: 60K to >100K)**
- **Other Facilities:** **Five distribution and e-commerce fulfillment centers (two owned) as well as two corporate office locations in Charlotte.**

BELK
Profile

- **Target Market/Customer:**
  - **Small-to-medium markets.**
  - **The "Modern Southern Woman."**

- **Merchandise Mix:**

		(% of Sales)	
		1H2016	1H2015
• Women's	-	36%	36%
• Cosmetics, Shoes & Accessories	-	33%	32%
• Men's	-	17%	17%
• Home	-	7%	8%
• Children's	-	7%	7%

- **Competition:** **Macy's, Dillard's, Nordstrom, Kohl's, Target, Sears, TJX, Wal-Mart, J.C. Penney, and Amazon, among others.**

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Key Executives

Name	Title	Joined Belk
Thomas M. Belk, Jr.	Chairman & CEO	1981
John R. Belk	COO	1986
David B. Zant	President & Chief Merchandising Officer	2001
Adam M. Orvos	EVP & CFO	2006
Ralph A. Pitts	EVP, General Counsel & Secretary	1998

Key Shareholders

Name	Class A * Ownership	Class B * Ownership
Thomas M. Belk, Jr.	10.8%	5.1%
John R. Belk	11.0%	3.6%
H.W. McKay Belk	9.1%	<1.0%
Other Belk Family Members & Related Interests	>80.0%	>5.0%

* Each Class A share of common stock is entitled to 10 votes compared to 1 vote for each share of Class B common stock.

** All directors and executive officers as a group owned 18.4% of the Class A shares and 28.8% of the Class B shares a/o 10/1/15.

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2Q16 Summary – Operating Performance

- **2Q16 Total Revenue: $917MM [$4.15B over last 12 months]**
  - **+1.2% increase in 2Q16 [+2.6% increase over LTM period]**
- **2Q16 Same-Store Sales:**
  - **+1.2% increase [+2.3% year-to-date]**
- **2Q16 Gross Margin: 32.6% [vs. 33.3% in 2Q15]**
- **2Q16 EBITDA: $78.5MM [vs. $94.9MM in 2Q15]**
  - **$423.6MM over the past 12 months [a +0.6% increase]**
- **2Q16 EBITDA Margin: 8.6% [vs. 10.5% in 2Q15]**
- **2Q16 Free Cash Flow: $46.6MM [vs. $35.3MM in 2Q15]**

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2Q16 Summary – Operating Performance

- **Revenue:**
  - **Increase due to higher S/S sales offset by slight decrease in store count.**
  - **S/S sales driven by 35.6% increase in online sales, offset by 1.0% decline at traditional stores.**
  - **S/S sales were function of (1) 1.0% increase in average selling prices, (2) reduced customer traffic in stores, and (3) flat number of units sold.**
  - **Online sales = 7.5% of total revenue (vs. 5.6% in 2Q15).**
  - **Similar YTD trends.**

- **Product Performance:**
  - ***Good* – Men's and women's apparel, especially activewear.**
  - ***Poor* – Home.**

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2Q16 Summary – Operating Performance

- **Profitability:**
  - **EBITDA fell b/c of lower gross margins and higher SG&A.**
  - **Gross margins down b/c of growth of e-commerce - higher shipping & distribution costs.**
  - **SG&A increased 8.1%.**
  - **Inventory declined 1.7% - modest positive effect.**

- **Free Cash Flow:**
  - **CFO and free cash flow were both significantly positive. The reasons:**
    (1) $14.5MM of net income;
    (2) a $34.1MM reduction of working capital; and,
    (3) $47MM of CAPX.

  - **CAPX decreased 21% b/c more spent last year on expanding e-commerce distribution center.**

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2Q16 Summary - Liquidity

- **Cash (a/o 8/1/15): $184MM [vs. $159MM a/o 8/2/14]**
    - **Increase attributable to free cash flow generation.**

- **R/C Available: $485MM of $500MM Sr Unsecured Revolving Credit Facility, due October 22, 2019 (Agent = Wells Fargo)**
    - **Zero borrowings at the end of 2Q16**
    - **$14.7MM of letters of credit issued**

- **Total Liquidity: Approx. $670MM [vs. $495MM a/o 8/2/14]**

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2Q16 Summary – Debt & Leverage

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- **Debt (a/o 8/1/15): $322MM [vs. $413MM a/o 8/2/14]**
- **Net Debt: $138MM [vs. $254MM a/o 8/2/14]**
  - **Net Debt decreased $116MM.**
- **Rent-Adj Debt-to-EBITDAR: 1.9x [vs. 2.1x a/o 8/2/14]**
- **Principal Components of Debt**
  - **$ 0MM outstanding under $500MM R/C, due 2019**
  - **$125MM Senior Notes, due August 2017**
  - **$ 50MM Senior Notes, due November 2020**
  - **$100MM Senior Notes, due January 2022**
  - **$ 47MM capital leases & other debt**

N.B.: <$6MM of debt matures over the next twelve months.

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2Q16 Summary – Other Items

Principal Contractual Obligations & Commitments *

• Operating Leases:	$ 522MM
• Letters of Credit:	$ 15MM
• Purchasing:	$ 86MM
• Pension & Other Post-Retirement Benefits:	$ 94MM

GCS Rating/Outlook

- Moderate Risk, "C"/negative outlook

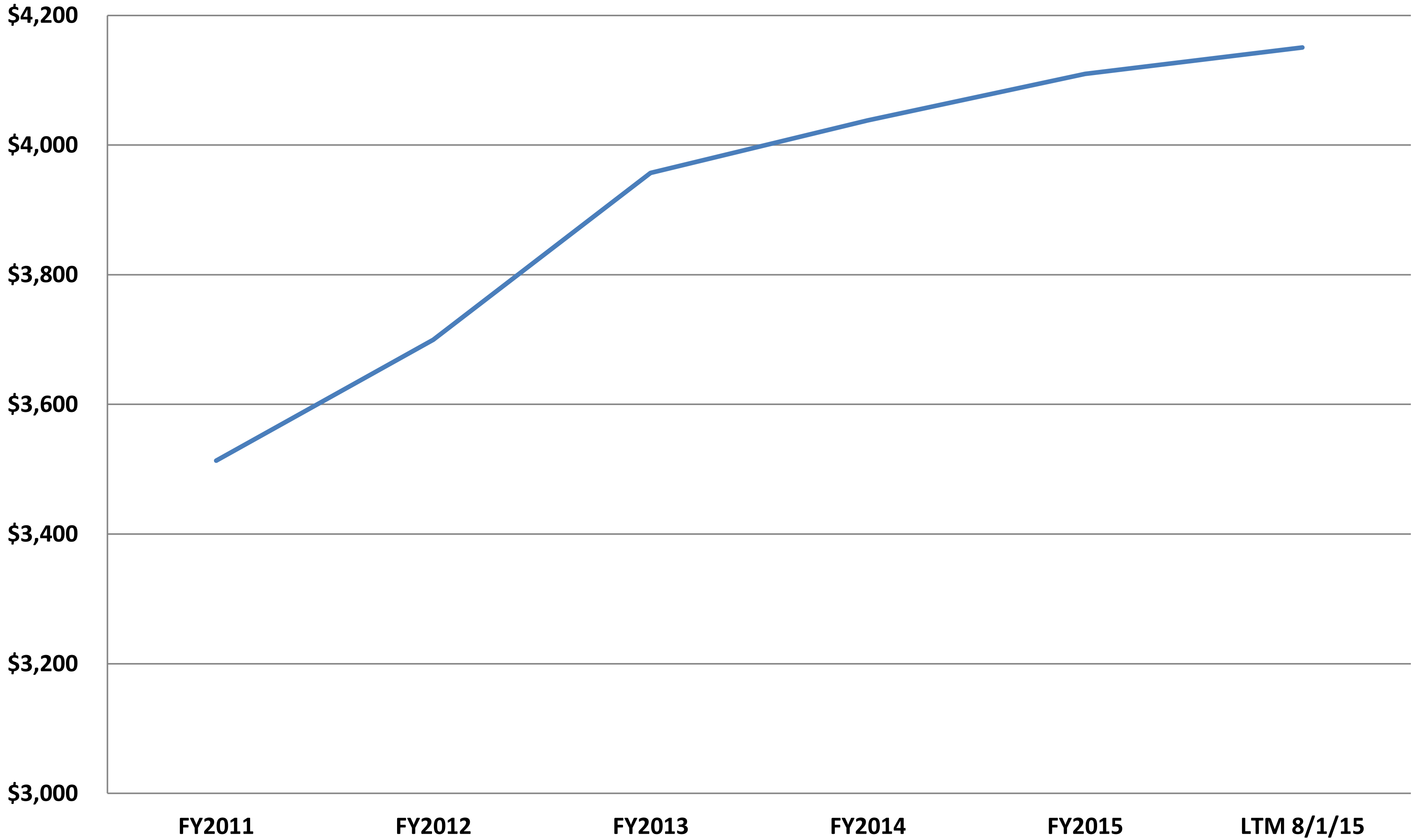
PROs
- ➢ Moderate Leverage
- ➢ Good liquidity
- ➢ Solid asset protection

CONs
- ➢ Weak in-store customer traffic
- ➢ Declining profit margins
- ➢ Heavy CAPX plans
- ➢ Competition
- ➢ Pending LBO

* Excluding Debt Service.

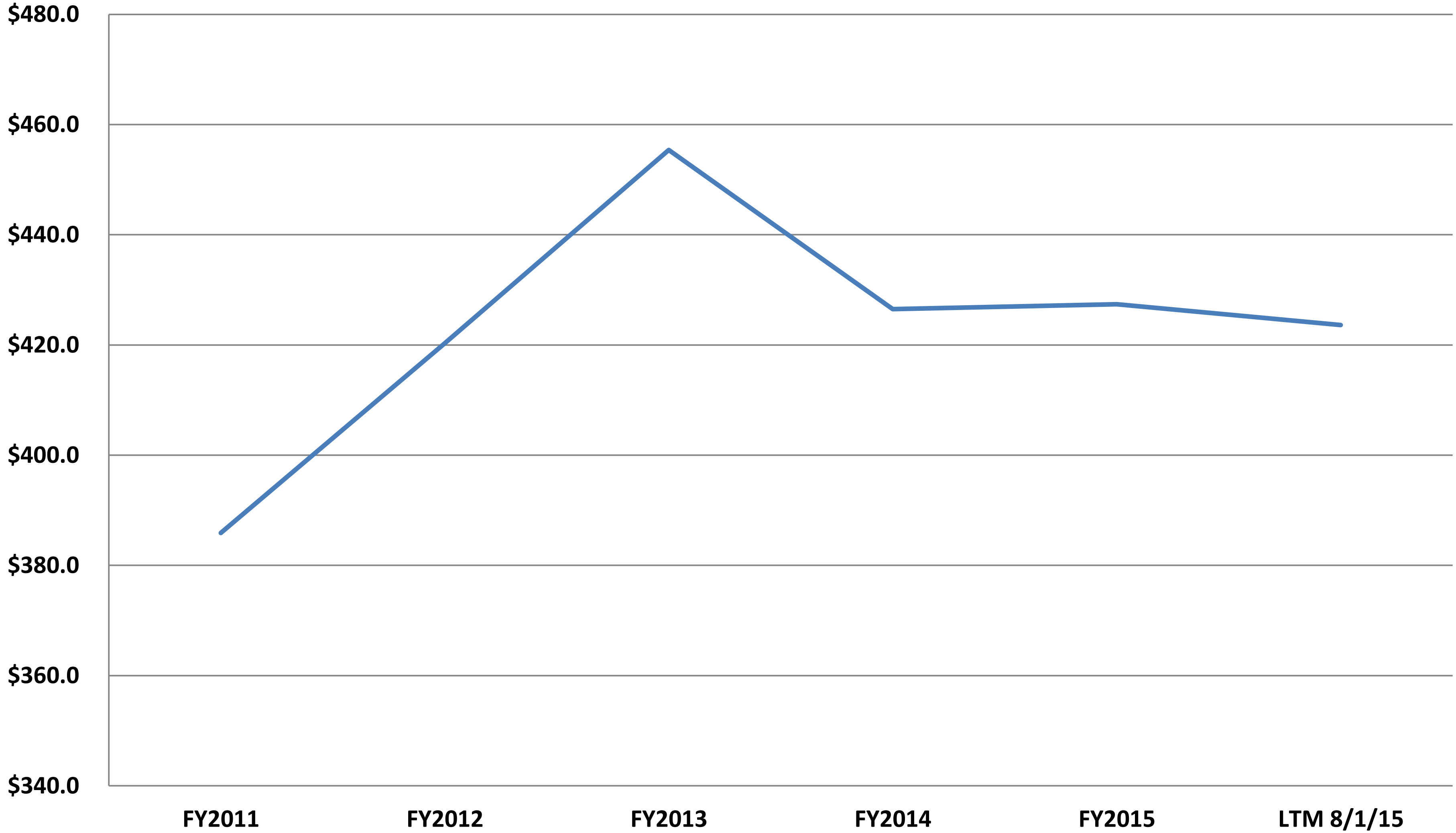
Financial History

BELK
Financial History - Revenue ($ in MMs)



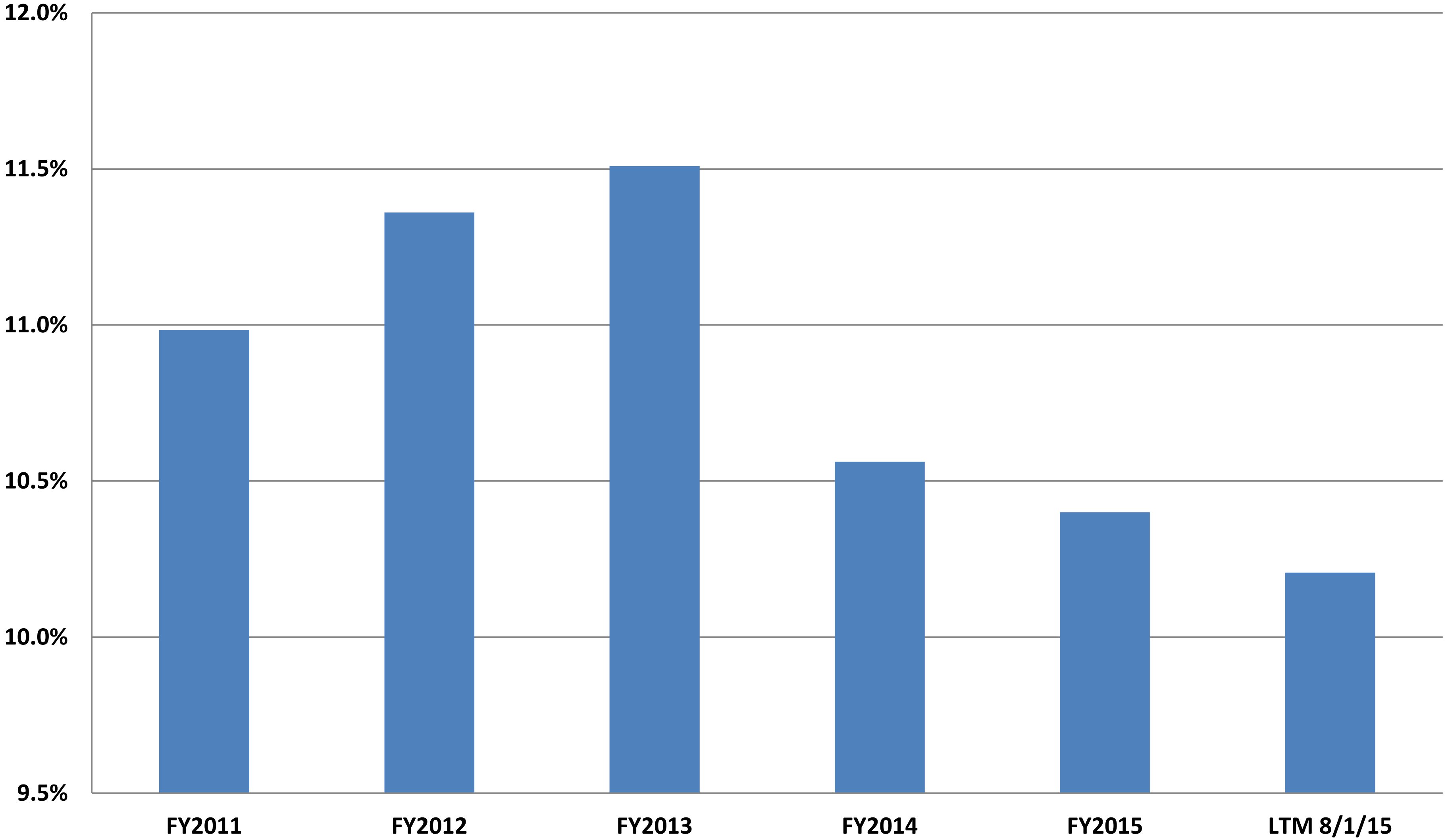
N.B.: Steady rise reflects consistent S/S growth of 1.5%-6.3%/yr, driven mainly by online expansion.

BELK
Financial History - EBITDA ($ in MMs)



N.B.: Sharp improvement in FY2011-FY2013 due to opg leverage from strong S/S sales, followed by more recent decline and leveling-off caused by investment in online and other strategic initiatives.

BELK
Financial History - EBITDA Margin



BELK
Financial History - Free Cash Flow ($ in MMs)

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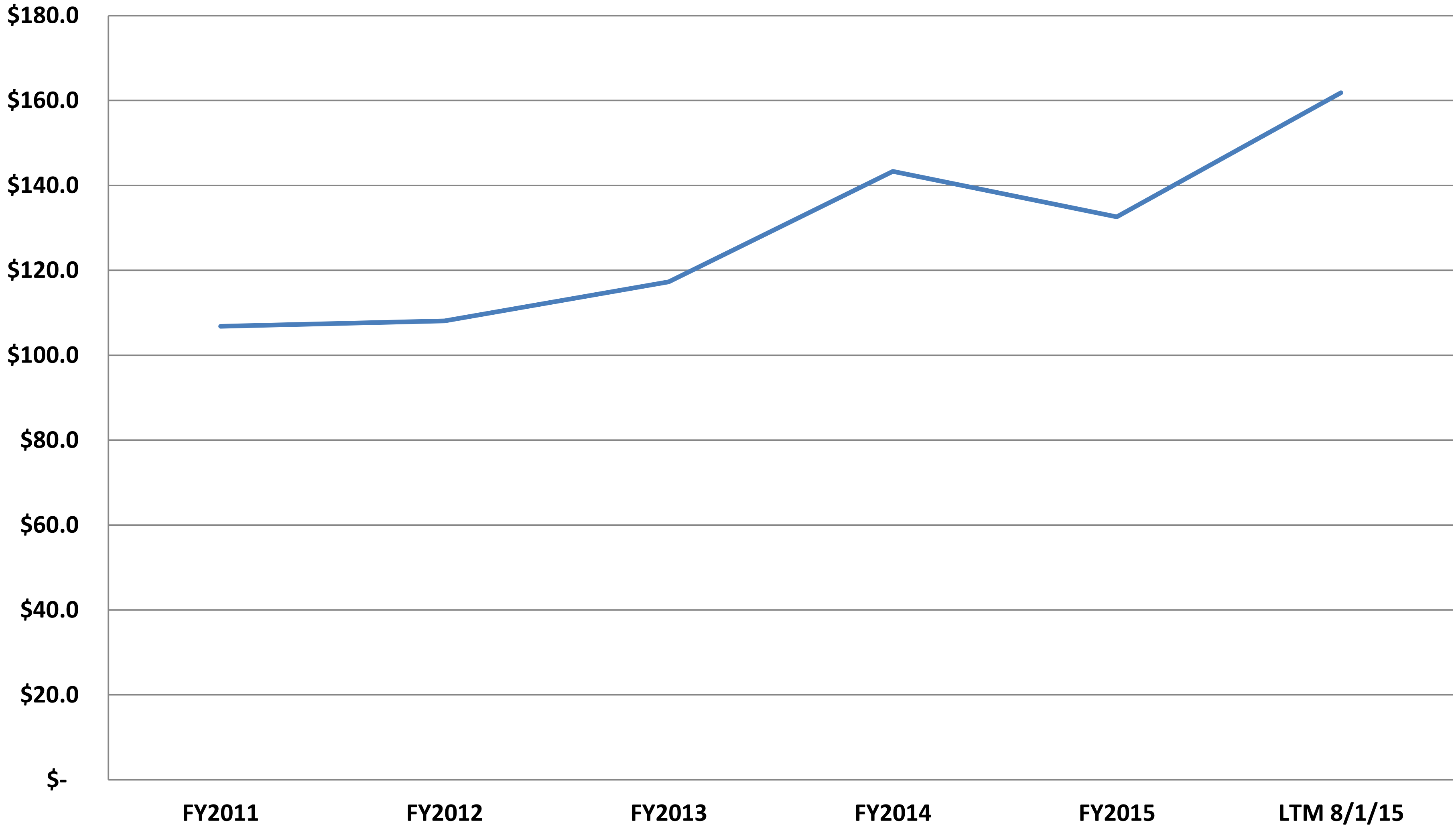
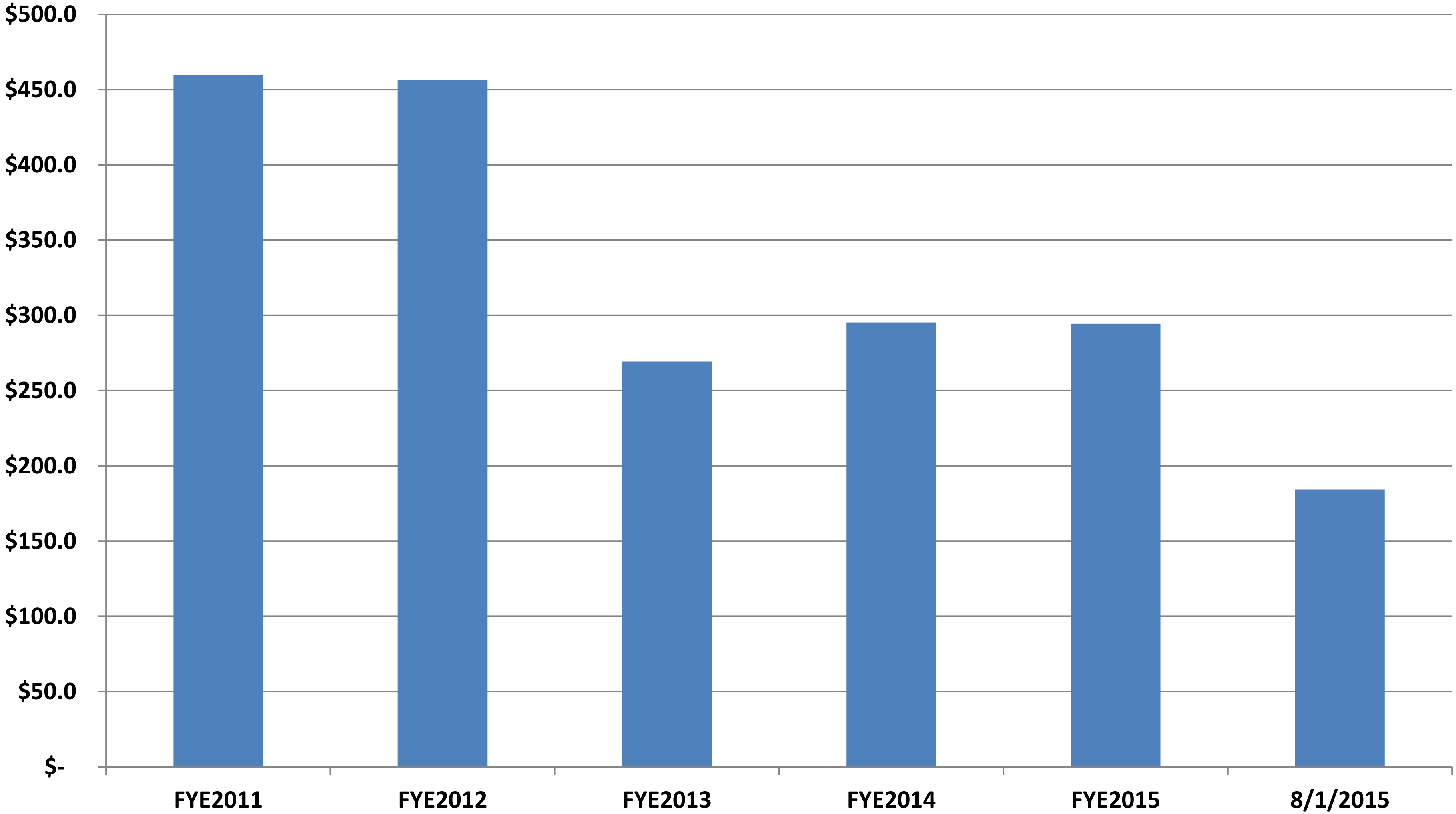


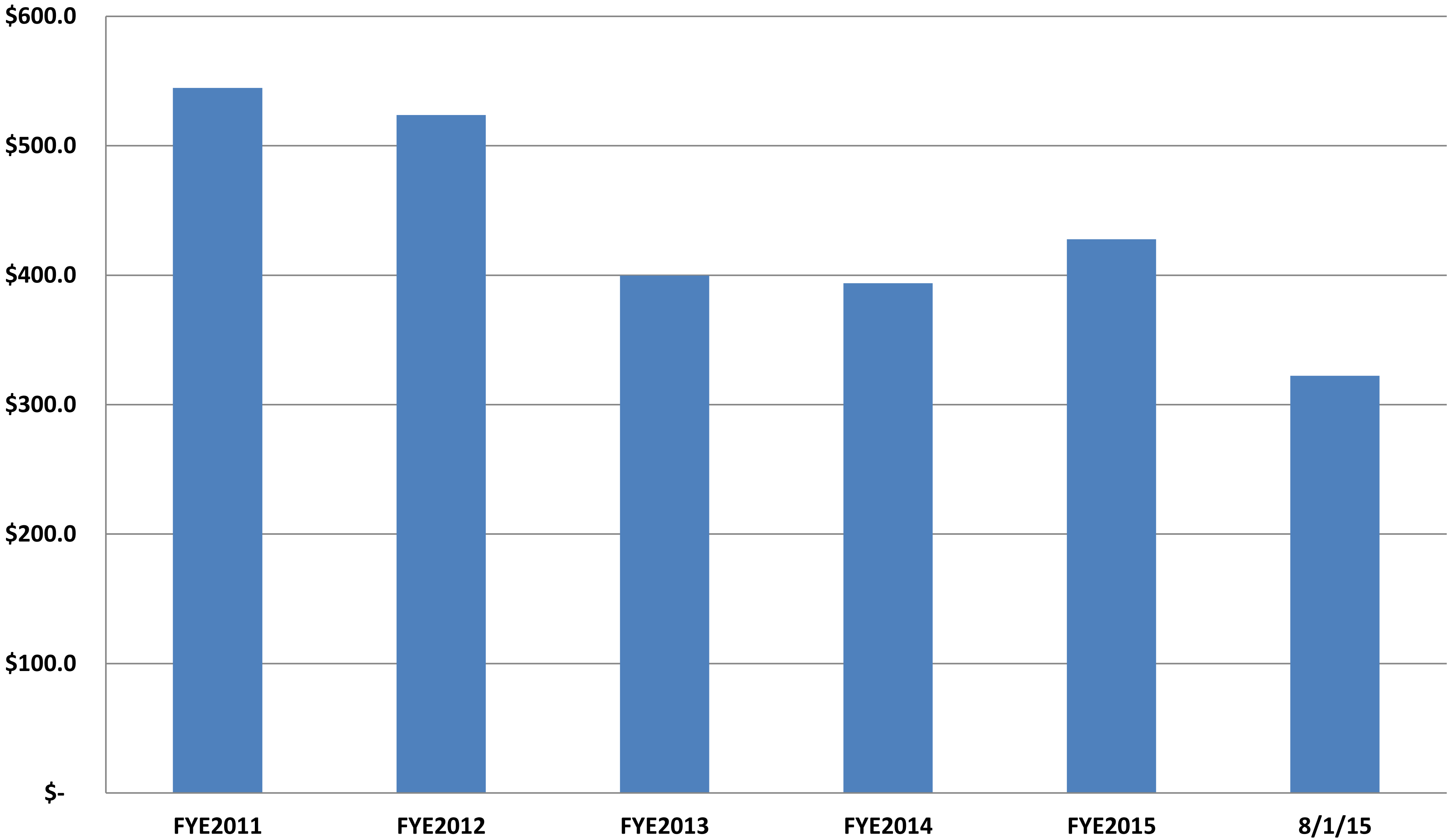
N.B.: FCF has shown reasonably steady improvement despite escalating CAPX, which has climbed from $80MM to over $230MM per annum.

BELK
Financial History – Cash & Equivalents ($ in MMs)



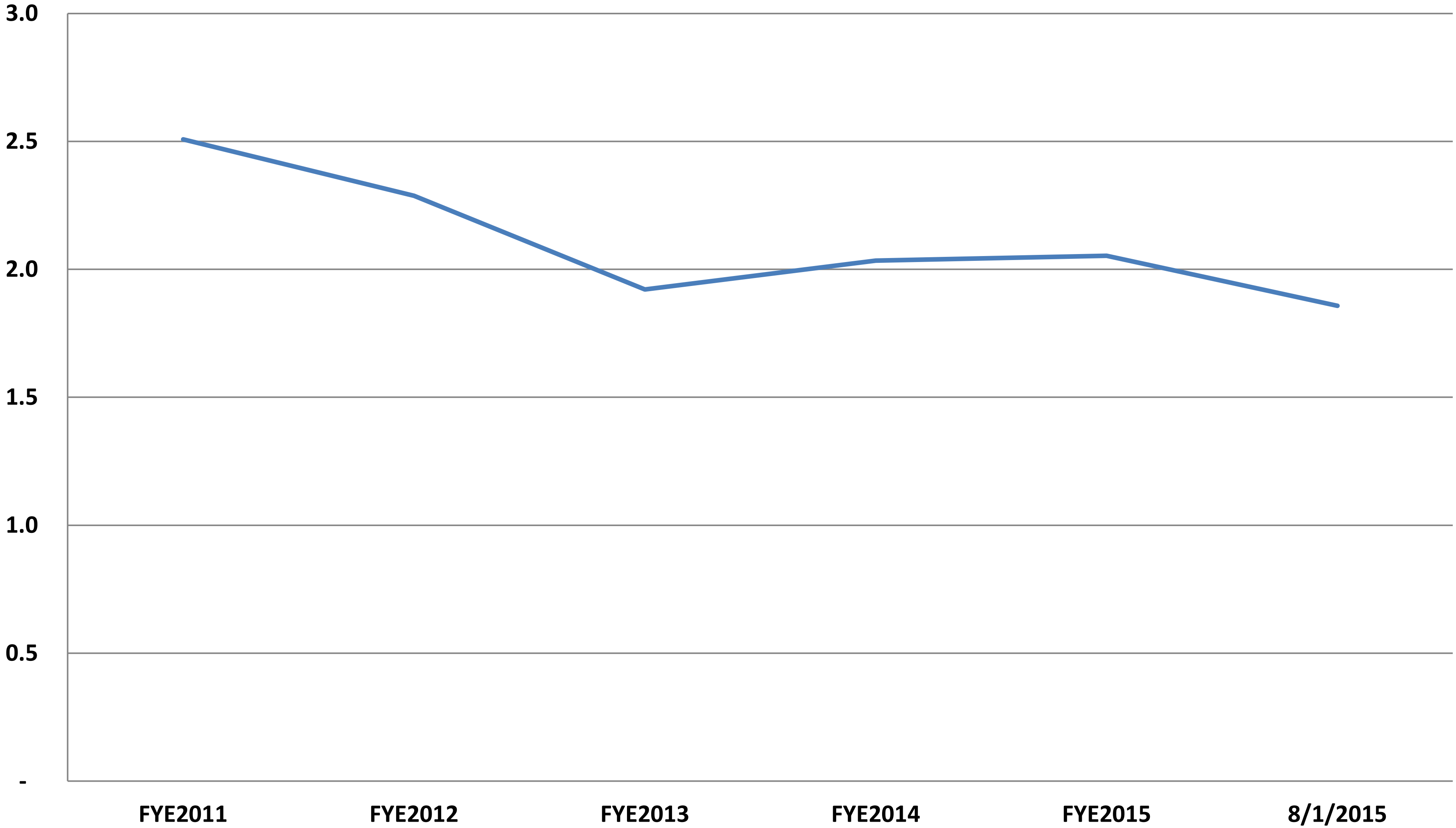
N.B.: Healthy cash levels despite decline, which reflects debt repayment and increased shareholder distributions.

BELK
Financial History - Debt ($ in MMs)



N.B.: Indebtedness managed prudently, with excess cash flow used to reduce debt load.

BELK
Financial History - Rent-Adjusted Leverage



N.B.: Lower debt has translated to generally better, moderate leverage, despite weaker profitability.

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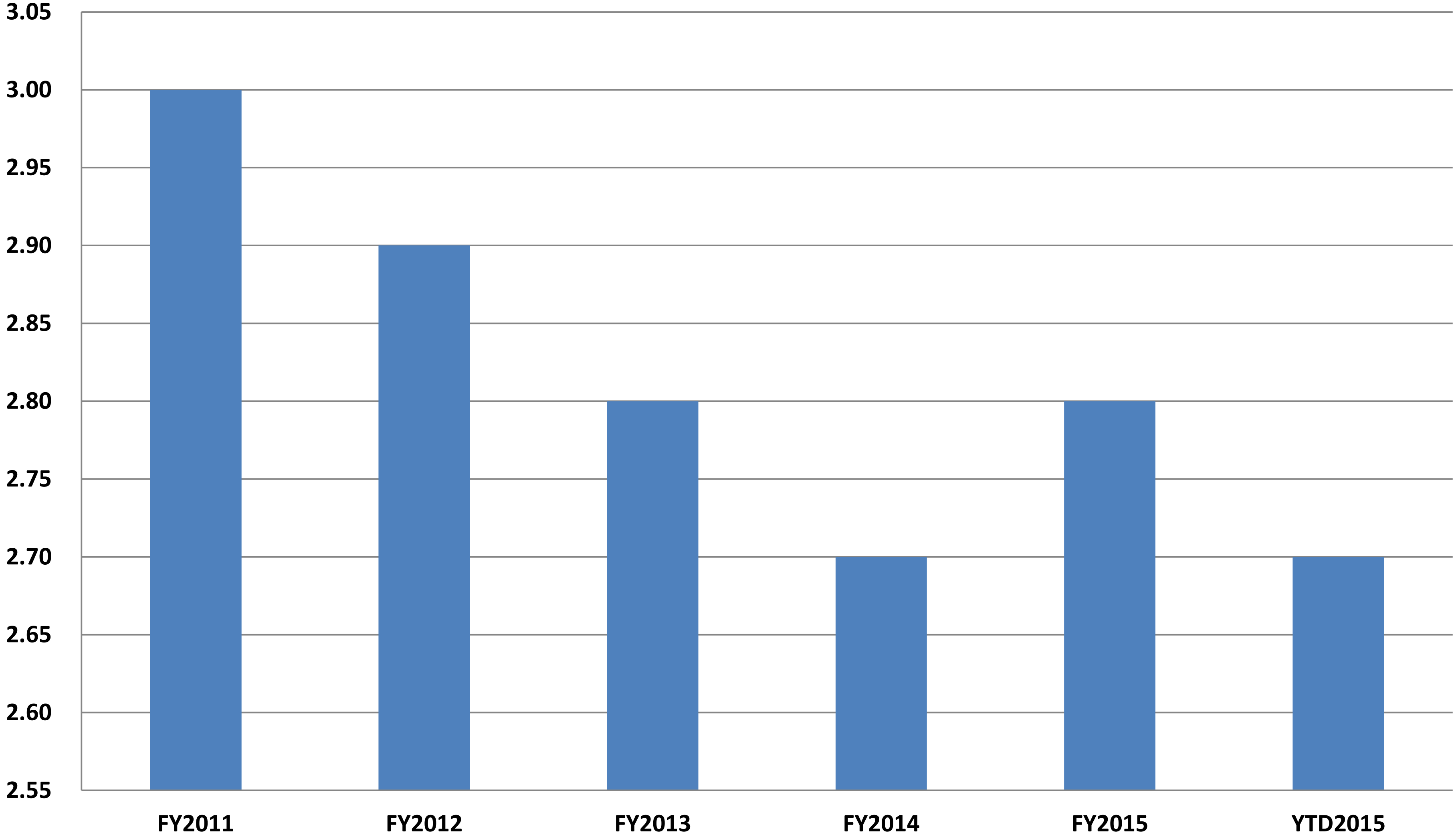
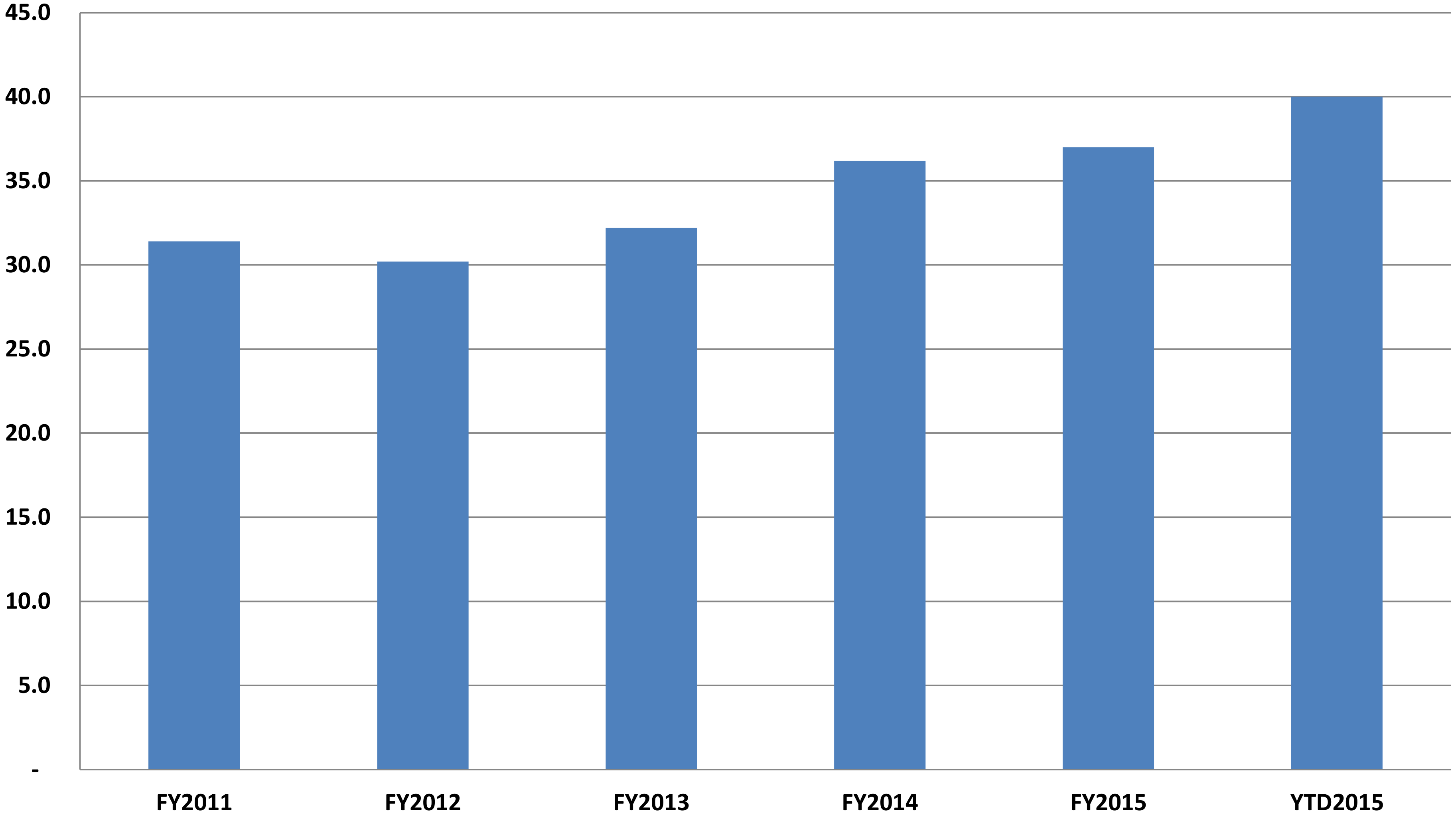
Financial History - Inventory Turnover



BELK
Financial History - Payable Days



N.B.: Gradual increase in payable days has been largely offset by higher inventory, resulting in moderate W/C swings.

BELK
Key Events & Developments

- **1888:** Founded by William Henry Belk with first store in Monroe, NC.
- **2010:** Adopted new logo & tagline – "Modern. Southern. Style."
- **2013:** Initiated $700MM investment program to develop omni-channel capabilities, expand flagship stores, and improve IT, supply chain and customer service.
- **November 2013:** Launched new tech platform, including new merchandising system.
- **July 2014:** Promoted David Zant to President & Chief Merchandising Officer, following Kathryn Bufano's departure to join Bon-Ton as its new CEO.
- **2Q2015:** Announced $47MM expansion of S.C. e-commerce fulfillment center.
- **March 2015:** Opened two new stores in Jacksonville, FL, and Bristol, TN.

BELK
Key Events & Developments

SYCAMORE PARTNERS BUYOUT

- **Strategic evaluation process commenced in August 2014 - resulted in hiring Goldman Sachs in January 2015 to explore options more fully.**

- **Agreement reached to sell to Sycamore for $68/share in August. Enterprise Value = $3.1B (including net debt).**

- **No significant change in executive management expected.**

- **Belk, Inc. will be the surviving legal entity, though owned by new parent company called "Bear Parent, Inc."**

- **Proposed Financing:**
  - **$1.6B-$1.8B 1st-Lien Term Loan (Morgan Stanley, BoA, etc.)**
  - **$ 550MM 2nd-Lien Term Loan (GSO Capital Partners)**
  - **$ 659MM new equity from Sycamore**
  - **$ 26MM management roll-over equity**
  - **$ 138MM existing net debt**

- **Scheduled Closing: 4Q16.**

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SYCAMORE PORTOLIO INVESTMENTS

Company	GCS Rating (Outlook)
Aeropostale	F+ (--)
Hot Topic	E- (stable)
Coldwater Creek (post-bankruptcy)	--
Jones New York	--
Torrid	--
Talbots	--
Nine West	--
Kasper Group	--
MGF Sourcing	--
Kurt Geiger	--
Pathlight Capital	--
EMP	--

BELK
Strategic Initiatives

- **Three-Year Investment Program.**
  - **Plan to Spend $450MM, mostly CAPX, between FY2016 and FY2018.**
    - **Follows $600MM spent over the past three years.**
      - **Expanded South Carolina e-commerce fulfillment center.**
      - **Project "SMART."**
    - **$230MM on e-commerce & omni-channel capabilities.**
    - **$110MM on creating compelling shopping environments – i.e., new stores, expansions and remodels.**
    - **$45MM on IT that delivers new business capabilities.**
    - **$65MM on supply chain projects that align distribution capabilities to support the omni-channel initiative.**

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Strategic Initiatives

- **Revamp Stores.**

  - **More "Flagships".**
    - **Largest stores in portfolio: 21, or 7.0% of total, as of FYE2015.**
    - **Attract more traffic by offering more and, frequently, higher-value amenities such as hair salons, spas, restaurants, and optical centers, as well as more premium brands.**
    - **Included in the $110MM spending program set aside for enhanced shopping experiences.**
    - **Risk: Instead of luring more customers, remodeling/renovation periods may do the opposite since construction tends to deter customer visits.**

  - **Merchandising & Marketing.**
    - **"Modern. Southern. Style."**
    - **Product assortments tailored to local market demand.**
    - **Broad-based marketing approach using traditional advertising, in-store promotions, and, increasingly, internet and social media.**
    - **"The Road South."**

BELK
Issues, Observations & Conclusions

- **Sycamore Buyout.**
  - **High Price = Heavy Leverage.**
    - **>6.5x EBITDAR.**
    - **Incremental interest expense constrains cash flow.**
  - **No Change in Management or Strategy.**
    - **Issue: No synergies.**
    - **But savings are anticipated from Project SMART and other strategies in FY2018 – details not disclosed.**
  - **Checkered History of Sycamore Investments.**
    - **Aeropostale – “Distressed” per GCS**
    - **Hot Topic – “High Risk” per GCS**
    - **Coldwater Creek – recently emerged from bankruptcy as an internet/catalog-only retailer.**

BELK
Issues, Observations & Conclusions

- **Weakening Profitability.**
  - **Buyout Comes at/near peak of market.**
    - **Operating margins fell sharply in 2Q16 following more gradual decline since 2012.**
  - **Shift to More E-Commerce Business Is Main Reason.**
    - **Purpose: Boost revenue to offset decline at traditional stores.**
    - **Issue/Risk: Decline in operating income so far has not justified the strategy.**
    - **Higher IT costs.**
    - **Higher shipping & distribution costs.**
  - **Higher Average Selling Prices Have Not Sufficiently Mitigated Decline in Profitability.**

BELK
Issues, Observations & Conclusions

- **Expect Tighter Cash Flow.**
  - **Reasons:**
    - **Weaker profit margins.**
    - **Higher interest expense from surge in debt.**
    - **Higher CAPX for strategic initiatives.**
  - **Breakeven Analysis:**
    - **Minimum Annual EBITDA Requirements: $360MM-$440MM**
    - **Assumes $160MM-$240MM/year of interest on $2.7B of pro forma debt and CAPX of $200MM/year.**
    - **Actual LTM EBITDA fell about 4% below the high-end of this range.**
  - **Principal Risk Mitigant: New $800MM asset-based revolver should enhance liquidity.**

BELK
Issues, Observations & Conclusions

- **Competition.**
  - Current Department Store Sector is over-populated.
  - Result: Low/non-existent price inflation.
  - Each player's struggling with same issues and generally trying to attack them in same way.
    - Buildup online and omni-channel capabilities.
    - Improve merchandising.
  - Relief seems unlikely without industry consolidation.

BELK
Issues, Observations & Conclusions

- **Asset Protection.**

  - Currently strong, since Belk owns the majority of its stores.
  - But it will be diluted dramatically with the Sycamore buyout.
  - Unsecured trade creditors will be at particularly greater risk since new LBO lenders will be secured.
  - Based on book values at the end of 2Q16, Net PP&E and working capital would cover less than 75% of total pro forma debt.

- **Financial Disclosure May Cease or Be Limited.**

  - Even as a public company, Belk has always been rather quiet, not providing any more information than required by the SEC.
  - Situation likely to worsen when it goes private.
  - Voice your concern and let your feelings be known!

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Comparable Company Analysis

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COMPARABLE-COMPANY ANALYSIS									
Company	Stores	Revenue ($MM)	EBITDA ($MM)	EBITDA Margin	Cash ($MM)	Debt ($MM)	R/A Leverage	Inventory T.O.	GCS Rating
Belk	296	$ 4,150	$ 424	10.2%	$ 184	$ 322	1.9	2.7	C
Belk-Pro Forma*	296	$ 4,150	$ 424	10.2%	$ 184	$ 2,697	6.6	2.7	E
Bon-Ton Stores	270	$ 2,820	$ 141	5.0%	$ 21	$ 978	7.4	2.0	E-
Kohls	1,164	$ 19,101	$ 2,569	13.4%	$ 934	$ 5,071	2.6	2.6	C
J.C. Penney	1,023	$ 12,389	$ 521	4.2%	$ 973	$ 5,380	9.5	2.5	F+
Macy's	885	$ 28,058	$ 3,895	13.9%	$ 1,509	$ 7,336	2.3	2.6	C
Dillard's	297	$ 6,843	$ 801	11.7%	$ 175	$ 830	1.3	2.7	C+
Target	1,795	$ 73,550	$ 7,145	9.7%	$ 2,742	$ 12,724	1.9	5.8	C-
Sears Holdings	1,702	$ 27,399	$ (856)	n/m	$ 1,819	$ 4,106	n/m	1.6	F+
Wal-Mart	11,489	$ 485,621	$ 35,267	7.3%	$ 5,751	$ 49,055	1.9	7.8	B
Mean:	2,328	$ 81,973	$ 6,185	9.3%	$ 1,741	$ 10,685	3.8	3.5	--
Median:	1,094	$ 23,250	$ 1,685	9.7%	$ 1,241	$ 5,226	2.3	2.6	--

* Assumes Sycamore buyout closes with approximately $2.4 billion of incremental debt.

Questions
&
Answers

ADMINISTRATIVE ITEMS
Contact Information

- **Robert C. Pike – Senior Industry Analyst**
  - Phone: (917) 388-8835
  - Email: pike@globalcreditservices.com

ADMINISTRATIVE ITEMS
Upcoming Webinars

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- **Dollar Store Industry**
  - Thursday, November 19, 2015, @ 2PM Eastern
  - Iwan Juwana, CFA, Senior Industry Analyst

- **Unified Grocers**
  - Wednesday, December 9, 2015, @ 2PM Eastern
  - Jonathan Kanarek, CFA, Director of Analysis

GCS Analyst Rating Definitions

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Rating/Risk	Financial Structure	Liquidity	Cash Flow	Revenues	Operating Profitability
A MINIMAL Risk	**Strong financial structure** – low leverage, strong coverage, high quality capitalization.[1]	**Strong liquidity** – both cash & short-term investments, as well as proven access to unsecured credit	**Strong cash flow** – from profitable continuing business, adequate capital investment, strong management of working capital.[2]	**Dependable revenues** – organic growth; competitive dominance.	**High quality operating profitability** – margins better than industry norms.
B LOW Risk	**Solid financial structure** – modest leverage, strong coverage, tangible equity, longer debt capital.	**Solid liquidity** – both proven access to unsecured credit with committed lines backing any commercial paper; adequate cash, short-term investments.	**Solid cash flow** – from profitable continuing business, adequate capital investment, solid management of working capital.	**Dependable, growing organic revenues** – strong competitive position.	**Solid quality operating profitability** – solid margins vis-à-vis industry.
C MODERATE Risk	**Stable financial structure** – moderate leverage, acceptable coverage, moderate-quality capitalization; some elements of financial structure may pose risks.	**Dependable liquidity** – committed unsecured bank lines with moderate usage and availability, securitization programs, adequate cash holdings.	**Cash flow** – from profitable continuing business, capital investment, and adequate management of working capital; cash flow may be erratic some years.	**Dependable revenue base** – organic growth in line with economic environment.	**Operating profitability** – margins at or better than industry norms.
D ELEVATED Risk	**Risky financial structure** – heavier leverage, marginal coverage, lower quality capitalization.	**Defensive liquidity** – secured bank lines usually in use, availability still sufficient.	**Cash flow occasionally negative** – capital investment constrained, defensive management of working capital.	**Revenue base stagnant** – little organic growth, uncertain competitive standing.	**Weaker operating profitability** – margins at or below industry norms
E HIGH Risk	**Weak financial structure** – heavy leverage, weak coverage, short-to-medium-term debt capital, little if any tangible equity.	**Weaker liquidity** – secured bank lines mostly in use with little availability; defensive cash hoarding may be evident.	**Cash flow frequently negative** – capital investment limited, defensive management of working capital; asset sales material ongoing source of cash.	**Revenue base declining** – weak competitor that's losing market share.	**Weak operating profitability or losses** – margins below industry norms.
F DISTRESSED Risk	**Extremely weak financial structure** – overwhelming leverage, inadequate interest coverage, impending debt maturities, negative tangible equity.	**Little or no liquidity** – secured bank lines near limits with no effective availability; defensive cash hoarding.	**Negative cash flow** – inadequate capital investment, cash conversion cycle lengthening, working capital eroding; marketable assets mostly sold already.	**Declining revenues** – eroding competitive standing, losing market share.	**Operating losses** – on continuing business.

[1]Quality of capitalization includes tangible equity and maturity of debt capital. High quality capital includes tangible equity and long term unsecured and subordinated debt. Elements that weaken capitalization include goodwill and debt maturing within next couple of years.

[2]Management of working capital emphasizes the cash conversion cycle: turnover of receivables, inventory, payables and unearned income.

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Map of GCS Scores & Ratings To Agencies

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Score		Rating		
From	To		S&P / Fitch	Moodys
-	-	0	NR	NR
1.00	1.32	A+	AAA	Aaa
1.00	1.32	A+	AA+	Aa1
1.33	1.65	A	AA	Aa2
1.66	1.99	A-	AA-	Aa3
2.00	2.32	B+	A+	A1
2.33	2.65	B	A	A2
2.66	2.99	B-	A-	A3
3.00	3.32	C+	BBB+	Baa1
3.33	3.65	C	BBB	Baa2
3.66	3.99	C-	BBB-	Baa3
4.00	4.32	D+	BB+	Ba1
4.00	4.32	D+	BB	Ba2
4.33	4.65	D	BB-	Ba3
4.66	4.99	D-	B+	B1
5.00	5.32	E+	B	B2
5.00	5.32	E+	B-	B3
5.33	5.65	E	CCC+	Caa1
5.33	5.65	E	CCC	Caa2
5.66	5.99	E-	CCC-	Caa3
6.00	6.32	F+	CC+	Ca1
6.00	6.32	F+	CC	Ca2
6.33	6.65	F	CC-	Ca3
6.66	6.99	F-	C	C
6.66	6.99	F-	D	D