Baker Street Capital Management

The Case For Sears Holdings (SHLD)

With Our Proprietary Property-by-Property Real Estate Appraisal

September 2013

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Why is Sears Our Highest Conviction Idea?

Contrary to consensus, Baker Street believes Sears is an extremely asymmetric, timely, and high margin of safety investment

- **Baker Street's property-by-property real estate appraisal found that at least $7.3bn of value lies at the top 350 owned and 50 leased locations (*p. 4*)**
- **Real estate value is starting to be actively unlocked (*p. 9*)**
- **According to REITs and mall owners, demand and pricing for space in high quality malls where Sears owns space is at an all-time high (*p. 25*)**
- **At ~$44/share Sears sells for ~1/3rd of break-up value, offering substantial upside even in scenarios where retail operations are wound down (*p. 33*)**
  - Break-up value is relevant because Eddie Lampert, Chairman and CEO, has intimated that he will look to realize Sears' sum-of-the-parts value if profits and returns on capital don't improve
- **Lampert personally spent ~$250m to increase his ownership by 50% over the last 2 years and ~$100m in the last 12 months near current prices (*p. 39*)**
- **With an effective float of only 6.9 million shares and 15.7 million shares sold short, a short squeeze could occur from positive developments (*p. 41*)**
- **Actively exploring large potential deals & capital structure changes (*p. 45*)**

Baker Street Real Estate Appraisal

- Baker Street's property-by-property real estate appraisal found that at least $7.3bn of value lies at the top 350 owned and 50 leased locations
- See Baker Street's separate "The ~~Softer~~ Hard Asset Side of Sears" real estate valuation presentation for details

Baker Street Proprietary Real Estate Analysis

Baker Street commissioned a property-by-property real estate appraisal to understand the value and concentration of Sears and Kmart assets

- **Baker Street hired real estate professionals to perform a detailed appraisal of Sears and Kmart locations on a property-by-property basis**
  - Baker Street believes this is the first in-depth, post-recession independent appraisal of Sears Holdings' real estate value

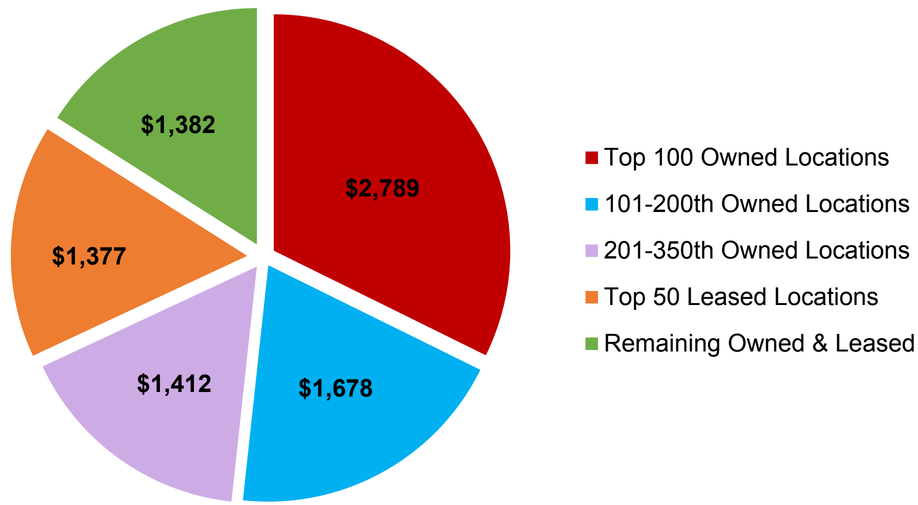
Key Takeaways

- **Total value of the top 350 owned and top 50 leased locations is at least $7.3bn, with the top 200 owned locations alone worth more than $4.4bn**
  - "80/20 phenomenon" – The vast majority (~84%) of real estate value lies in just ~20% of Sears and Kmart store locations
  - Major implication: Sears has ready access to real estate value in excess of the market cap without requiring a mass liquidation
- **To be conservative, <u>Baker Street did not ascribe value to redevelopment opportunities in the real estate portfolio</u>, which we believe to be significant**

Baker Street Proprietary Real Estate Analysis

Sears' real estate value is highly concentrated in its top locations, which is critically important when thinking about monetization options

Distribution of Sears RE Value ($ mil)



	Value ($mil)	# of Stores	% of Value	% of Stores	$/sq. ft.
Top 100 Owned Locations	$2,789	100	32%	4.9%	$133
101-200th Owned Locations	1,678	100	19%	4.9%	$96
201-350th Owned Locations	1,412	150	16%	7.4%	$65
Top 50 Leased Locations	1,377	50	16%	2.5%	$168
Remaining Owned & Leased	1,382	1,636	16%	80.4%	$8
Total	**$8,638** **$7.3**	**2,036**	**84%**	**20%**	**$34**

We believe that $7.3bn, or 84%, of the value of SHLD real estate lies in just 20% of the stores, at the top 350 owned and 50 leased locations

Baker Street Proprietary Real Estate Analysis

At least \$5.9bn of real estate value lies in the top 350 owned sites and outparcels, with additional value of \$1.4bn in the top 50 leased sites

- **Value of the best slice of the property portfolio is over \$68/share**
- **<u>The concentration of value is as important as total asset value</u>**
  - Monetizing a portfolio of 200 high quality properties is an order of magnitude easier than a portfolio of 2,000 properties
  - High quality mall assets are both scarce and experiencing all-time high demand and pricing, making them relatively liquid for Sears
- **<u>Importantly, Baker Street's valuation does not account for redevelopment potential at the top 350 owned sites, providing significant upside</u>**
  - Many of these locations have excellent redevelopment opportunities, with the potential for Sears and/or mall owners to increase their value through subdivision or re-leasing

Based on our analysis, we believe that Sears Holdings' entire real estate portfolio is conservatively worth over \$8.6bn

Baker Street Proprietary Real Estate Analysis

Baker Street believes that redevelopment potential could boost today's value of the top 350 Sears properties to ~$12bn

- **Baker Street's valuation assumes no redevelopment or repurposing of Sears real estate, a highly profitable opportunity which is already under way**
  - Many assets are primed for redevelopment, with recent property sales at prices far exceeding those used in our analysis confirming the conservatism of our assumptions
  - Size of Sears' land plots and outparcels is a significant hidden asset, adding tremendous optionality to the best sites
- **Sears' premium properties are effectively unencumbered, have solid redevelopment potential and can potentially be spun out to shareholders**
  - Sears' property portfolio is not part of the collateral bucket for either the ABL revolver or HoldCo Note borrowings
  - Both of these debt instruments are extremely covenant light, placing minimal restrictions on major assets (as seen in OSH, SHOS and SCC CN spin-offs)
    - See Appendix for additional information

Real Estate Monetization

- Real estate value is starting to be actively unlocked

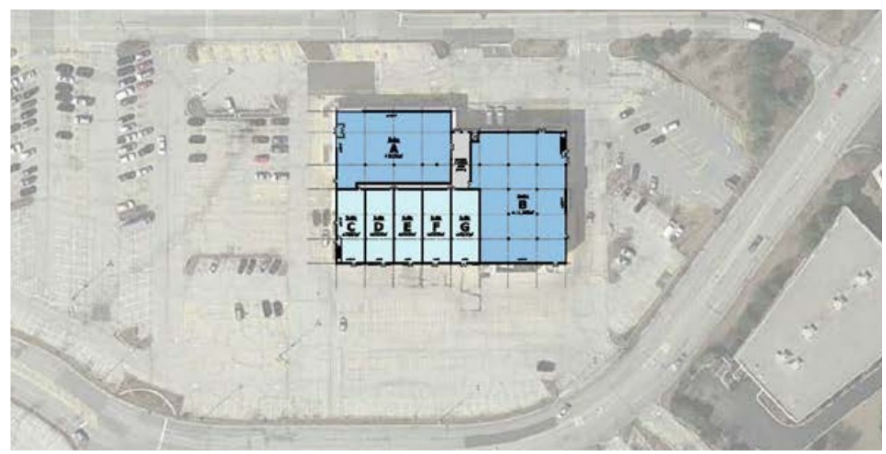
Real Estate Value Actively Being Unlocked

Baker Street found significant evidence of active efforts to enhance real estate value through anchor pad and outparcel redevelopment

- **Subdividing anchor pads**
  - Sears is transforming mall-based anchor pads into smaller leasable locations to take advantage of all-time high demand for A-mall space
- **Outparcel redevelopment**
  - Lowest hanging fruit for value creation and most active current strategy

Subdividing anchor pads

Outparcel Redevelopment



Source: http://www.atlanticretail.com/images/content/BurlingtonMA_BurlingtonMall.pdf
Source: http://www.seritage.com/Portals/0/pdf/multi-tenant-pads/IL-Schaumburg-1570-MTP-Leasing-Flyer-JUNE-2013.pdf

Real Estate Value Actively Being Unlocked

Real estate monetization efforts are not being "marketed" by Sears in investor or PR communications but they are very real

- **Redevelopment of premier locations into mixed use facilities, including residential, office and retail space**
- **Sales of anchor and free standing locations to retailers and REITs, who are once again interested in well-located, scarce real estate**

Mixed Use Redevelopment

Property Sales

Source: http://www.seritage.com/featuredproperty.aspx
Source: http://search.midamericagrp.com/property_files/flyer_52167.pdf

SERITAGE Redevelopment Mandate

SERITAGE REALTY TRUST

SERITAGE attracted top real estate talent to realize the value of some of Sears' best and most readily developable properties

- **SERITAGE Realty Trust LLC is a Sears subsidiary formed in 2012 to redevelop some of Sears' and Kmart's most "shovel-ready" properties**
  - Headed by David Lukes, ex-CEO of Mall Properties and COO at Kimco Realty
  - According to its website, *"SERITAGE Realty Trust, LLC is a nationwide developer of commercial real estate. Our portfolio contains over 200 properties, located in 33 states and totals over 18 Million SF"* (www.seritage.com)
  - These properties are today being actively monetized through sales, leasing and various types of redevelopment
- **Actively on a "National Road Show" to engage in "portfolio reviews with national retail chains"**
- **SERITAGE marketing materials don't mention any association with Sears**
  - Could become a separate, publicly traded REIT
- **In addition to SERITAGE, Sears has retained local real estate brokers throughout the U.S. to source transactions and accelerate deal activity**

SERITAGE Redevelopment Mandate

Fairfield UNIVERSITY

Jobs & Internships Page

A Service of the Career Planning Center for Students and Alumni

Back to List

Date Posted: November 30, 2012

Type: Part-Time Job

Seritage Realty Trust

Job Title: Marketing Associate

Description of Company/Organization:

Company Summary

SERITAGE Realty Trustis a wholly owned subsidiary of Sears Holdings Corporation (NASDAQ: SHLD) responsible for large scale redevelopment and asset management initiatives.

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Location: Greenwich, CT

Job Description:

Position Summary

The Marketing Associate is responsible for preparing marketing mat
execute property-specific and portfolio-level real estate strategies.
with leasing professionals and senior management in evaluating mar
creating a timeline and strategy for achieving desired leasing results on a na
superb shopping center and regional mall assets.

Position Duties and Responsibilities

- Create, develop and maintain marketing materials for a portfolio of over 100 shopping center and regional mall locations
- Act as the primary interface between leasing staff and outside marketing vendors
- Effectively market a diverse collection of redevelopment properties while also growing the SERITAGE brand name and reputation

Position Duties and Responsibilities

- Create, develop and maintain marketing materials for a portfolio of over 100 shopping center and regional mall locations
- Act as the primary interface between leasing staff and outside marketing vendors
- Effectively market a diverse collection of redevelopment properties while also growing the SERITAGE brand name and reputation
- Develop and maintain company website and e-blast marketing tools promoting SERITAGE and its real estate portfolio
- Provide administrative support to leasing professionals and senior management (approximately 10-15% of work scope)
- Accountable to Real Estate Analyst for production schedule and priorities

Source: Fairfield University - http://eidos.fairfield.edu/Jobs/Display_Job.cfm?Jobs_ID=17025&Type=13&key=&Ord=1

Transformation of Sears

Drawings have surfaced both from SERITAGE and in leasing materials which demonstrate an active anchor subdivisions strategy

Source: http://www.seritage.com/portfolios/boxsplits.aspx
Source: http://www.seritage.com/

Case Study: Burlington Sears Subdivision

In the Burlington Mall project a Sears anchor pad is being subdivided into a smaller Sears with the remaining space leased out to new tenants

ATLANTIC Retail Properties.

BURLINGTON, MA
Burlington Mall

SEARS REDEVELOPMENT

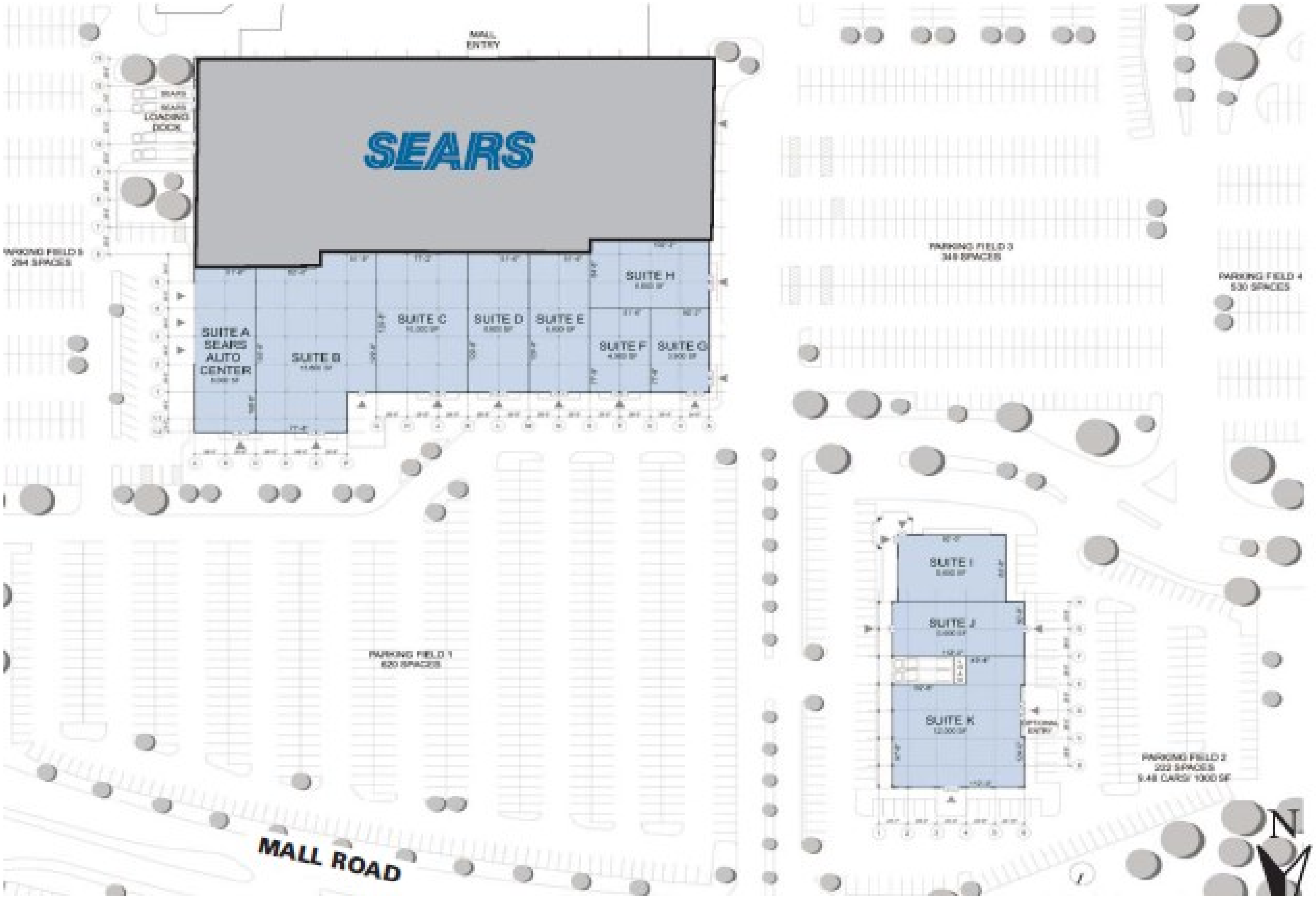
PROJECT INFORMATION

- Available Space:
  - 4,000 - 20,000 SF
- 85,000 SF of new space
- Anchors: Macy's, Sears, Nordstrom, and Lord & Taylor
- Mall Co-tenants: Apple, Anthropologie, Pottery Barn, Urban Outfitters, J.Crew and Lulu Lemon

Source: http://www.atlanticretail.com/images/content/BurlingtonMA_BurlingtonMall.pdf

Case Study: Burlington Sears Subdivision

Sears is rationalizing its enormous retail footprint, focusing on shrinking store size to generate rental income and on retailing in its core categories



Source: http://www.atlanticretail.com/images/content/BurlingtonMA_BurlingtonMall.pdf

Why Does Subdividing Anchor Pads Make Sense?

Subdivision allows Sears to keep most core square footage (appliances, tools, etc.) while monetizing its valuable real estate through lease income

- **<u>Lease rates and occupancies in top malls are at all-time highs and Sears is a top anchor in these malls, usually owning its space</u>**
- **Sears benefits tremendously from subdividing its stores**
  - Generates highly valuable, recurring rental income in top-tier malls
  - Shrinks store footprint, exiting least profitable categories such as consumer electronics and focusing the store on Sears' most productive segments (appliances, tools, lawn & garden, etc.)
  - Evidence that least productive inventory is removed when Sears subleases space and that the Sears is renovated with higher resulting productivity
  - Generates cash and releases capital by monetizing inventory
- **The subdivision strategy is a logical solution to many of Sears' current issues while providing radical improvement to the economics of the business**

Case Study: Woodfield Sears Auto Redevelopment

SCHAUMBURG, IL
WOODFIELD MALL

SEARS AUTO CENTER REDEVELOPMENT

PROJECT INFORMATION

- **Available Space** 2,000 - 47,500SF
- **New Space** 47,500SF
- Woodfield Mall is home to Nordstom, Macy's, Sears, Lord & Taylor, JCPenney, Apple, and nearly 300 stores and restaurants.
- At nearly 2.7 million square feet it is the largest mall in Illinois.
- The site is also located opposite The Streets of Woodfield, home to Dick's Sporting Goods, Carson Pirie Scott, AMC 20 Plex Theater, GameWorks, and a high volume Maggiano's Little Italy.
- Whole Foods & Crate & Barrel have successful locations within one block of the site.

DEMOGRAPHICS

Population

3 Miles	81,322
5 Miles	270,254
7 Miles	515,281

Daytime Population

3 Miles	109,257
5 Miles	283,955
7 Miles	488,777

Average Income

3 Miles	$86,600
5 Miles	$92,029
7 Miles	$90,392

The information contained herein has either been given to us by the owner of the property or obtained from sources that we deem reliable. We have no reason to doubt its accuracy but we do not guarantee it.

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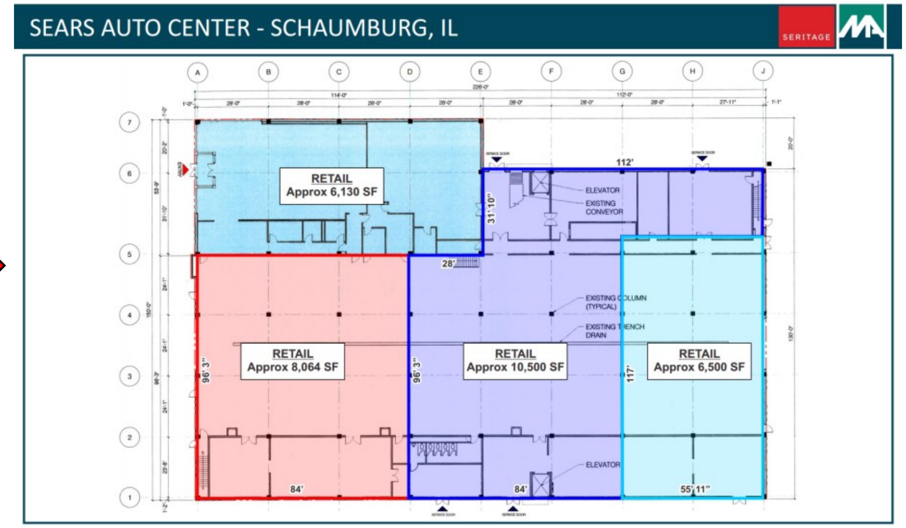
ON BEHALF OF SERITAGE



Source: Microsoft Bing Maps, http://search.midamericagrp.com/property_files/flyer_52246.pdf

Case Study: Woodfield Sears Auto Redevelopment

CalPERS to pay more than $500 million for other half of Woodfield

By: Ryan Ori **October 10, 2012**

Crain's illustration by Stephen J. Serio

(Crain's) — A California pension fund is set to take full ownership of Woodfield Mall in a deal that values the Schaumburg shopping center, the largest in the Chicago area, at more than $1 billion.

Sacramento, Calif.-based California Public Employees' Retirement System has agreed to pay more than $500 million for a 50 percent stake in the mall owned by the pension fund of Detroit-based General Motors Co., sources said. CalPERS already owns the other 50 percent.

The exact price could not be determined, but a $1 billion-plus valuation of the trophy property puts it well over $900 per square foot, rarified territory that could be seen as a promising sign for retail real estate owners that were hit hard by the recession as consumers cut back on spending.

The sprawling northwest suburban structure is the nation's ninth-largest shopping mall, with nearly 2.2 million square feet. Almost 1.1 million square feet of that, occupied by four of the mall's five anchor stores, is owned separately and is not included in the sale.

Woodfield was the largest mall in the U.S. when it opened in 1971 and is classified as a "fortress mall" — a top-quality property where customers' dollars are captured, surrounded by a "moat" of 10,300 parking spaces. The mall is anchored by Nordstrom, Macy's, Lord & Taylor, JCPenney and Sears.

Non-anchor tenants, specialty stores including Apple, Victoria's Secret and H&M, generate more than $630 million in sales per year, with more than 30 stores eclipsing $1,000 per square foot in sales annually.

The capitalization rate, or first-year return, in the Woodfield deal is below 5 percent, a low rate that demonstrates the demand for top regional malls, sources said.

The mall is more than 97 percent leased and attracts more than 27 million visitors each year.

Source: Crain's Chicago Business / ChicagoRealEstateDaily.com

Subdivision Economics: Woodfield Mall

CalPERS bought 50% of the Woodfield Mall for ~$900/sq. ft. at a ~5-cap, where Sears owns its ~283k sq. ft. box and its 47.5k sq. ft. outparcel

- **As a sanity check, the "mid-point" value for the Sears anchor space at Woodfield in Baker Street's proprietary analysis was ~$52m, or $185/sq. ft.**
- **Sears is currently subdividing and leasing its Auto center at Woodfield and Baker Street believes it will ultimately do the same with its anchor space**
- **If Sears is able to lease 250k of its ~314k sq. ft. in the Woodfield Mall (leaving a more focused ~60k sq. ft. Sears store) and rent the subdivided space at $40/sq. ft. NNN, the NOI would be worth ~$166 million (at a 6-cap, totaling $667/sq. ft.) and Sears would be left with a profitable, smaller store**
  - Alternatively, CalPERS/Simon Property Group can buy Sears out of the space to capture the redevelopment IRR themselves (as happened with the sale of the Ala Moana Sears to General Growth Properties in 2012)

Subdivision of anchor and outparcel space is highly accretive, helping to enhance and realize the value of the Sears real estate portfolio

Source: Crain's Chicago Business / ChicagoRealEstateDaily.com, Baker Street Real Estate Analysis

Case Study: Cupertino Vallco Sears Subdivision

Sears took advantage of its prime real estate location in Cupertino, CA to subdivide its store and lease 70k square feet to an upscale gym

Cupertino: Bay Club Silicon Valley settles in at Vallco Shopping Mall

Western Athletic Clubs spent more than two years working on logistics and research into converting a portion of the Sears building into a three-story, 70,000- square-foot upscale fitness center.

The facility has seen "north of $16 million" invested into its creation, according to Lisa Graf, senior vice president of Western Athletic Clubs.

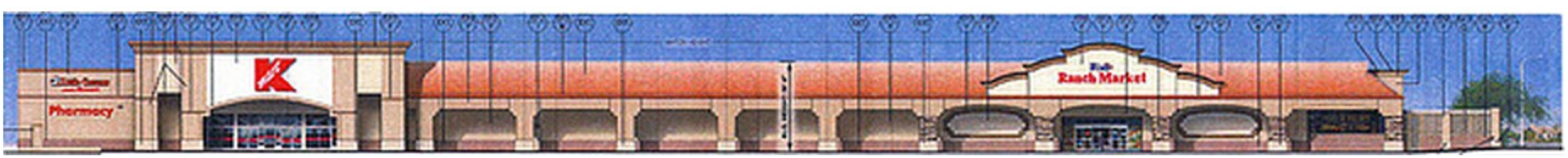
Source: Microsoft Bing Maps, Baker Street photo, San Jose Mercury News

Case Study: Kmart Desert Hot Springs Subdivision

Consistent with the subdivision strategy, Kmart has been looking to downsize stores by subleasing space to complementary subtenants

The KMart building currently is 95,075 square feet. The plans are to reduce that to 67,783 s.f., leasing 29,328 s.f. to Rio Ranch Market (on a 35-year lease). Rio Ranch will get the north end of the building, turning the outdoor garden area into an outdoor dining area. The representative from KMart said there really is no market for garden supplies here. Well, I thought to myself, certainly not the way KMart marketed them. Rio Ranch will also build a 2,000 s.f. building at the back of the *indoor* garden department.

KMart acknowledges that it does not have the distribution network to support a full service supermarket inside its stores, the way Target and WalMart do. This, then, is their way to stay competitive. Downsize, turning the extra floor space over to successful supermarketers. They've done the same thing at one store in San Diego already. Besides eliminating the garden department, KMart will reduce hardware and revise their grocery inventory. Mostly they will focus on apparel.



Source: http://ronslog.typepad.com/ronslog/2013/05/dhs-planning-commission-approves-kmartrio-ranch-plans.html

Transformation of Sears

The redevelopment and monetization of real estate is consistent with Sears' stated goal of becoming less reliant on stores and inventory

Business Model Evolution

An integrated retailer that leverages information and technology to ***anticipate*** and provide our ***individual*** members with the products/services they want in the most convenient manner for them.

Attributes and Characteristics of:

Traditional Model	*Transforms to* Future State Model
Format centric	Member centric
Customers and Transactions	Members and relationships
Store focus	Integrated retail alternatives, reliance on 3rd-parties
Mass marketing	Personalization
Uniform pricing	Dynamic pricing
High fixed cost infrastructure	Greater proportion of cost variable
Asset intensive	Less reliant on traditional inventory and store assets, driven by data and technology platforms
Brands	Brands

This is a member-centric model where we seek on-going relationships with members, using personalized marketing and pricing.

SEARS HOLDINGS
May 2013

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Source: Sears Holdings Q1 2013 Earnings Presentation - http://www.searsholdings.com/invest/docs/2013_Q1_Webcast.pdf

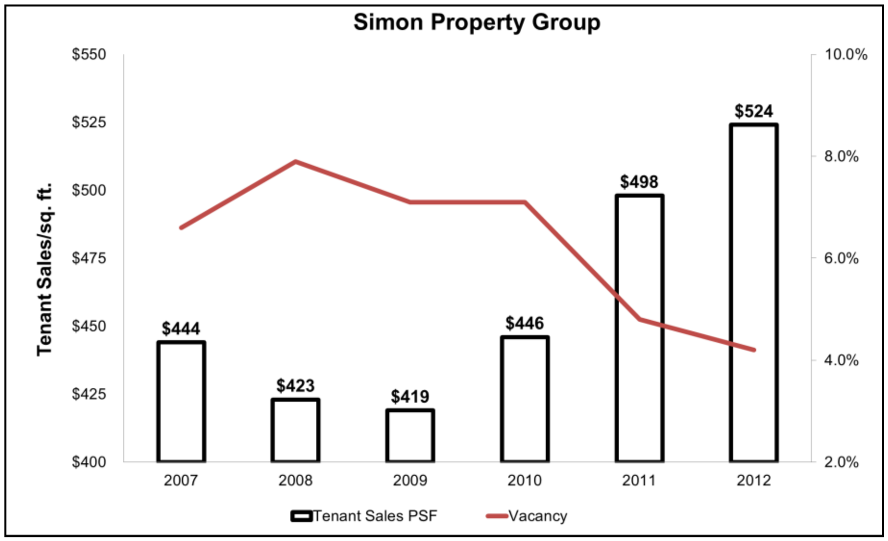
See Appendices For Additional Real Estate Monetization Information

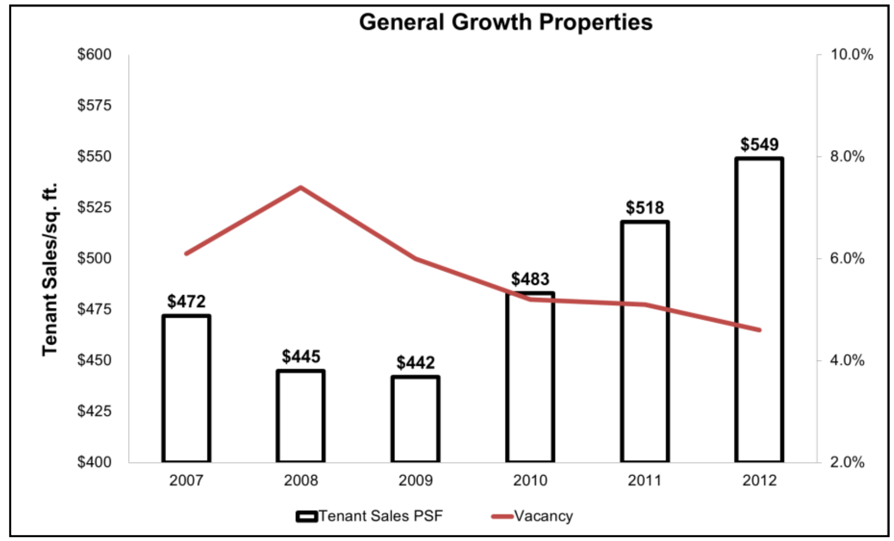
Demand for Mall Real Estate

- **According to REITs and mall owners, demand and pricing for space in high quality malls where Sears owns space is at an all-time high**

Record High Tenant Sales and Low Occupancies

Occupancies, tenant psf sales and rents are hitting all-time highs, demonstrating that significant demand exists for good mall space today



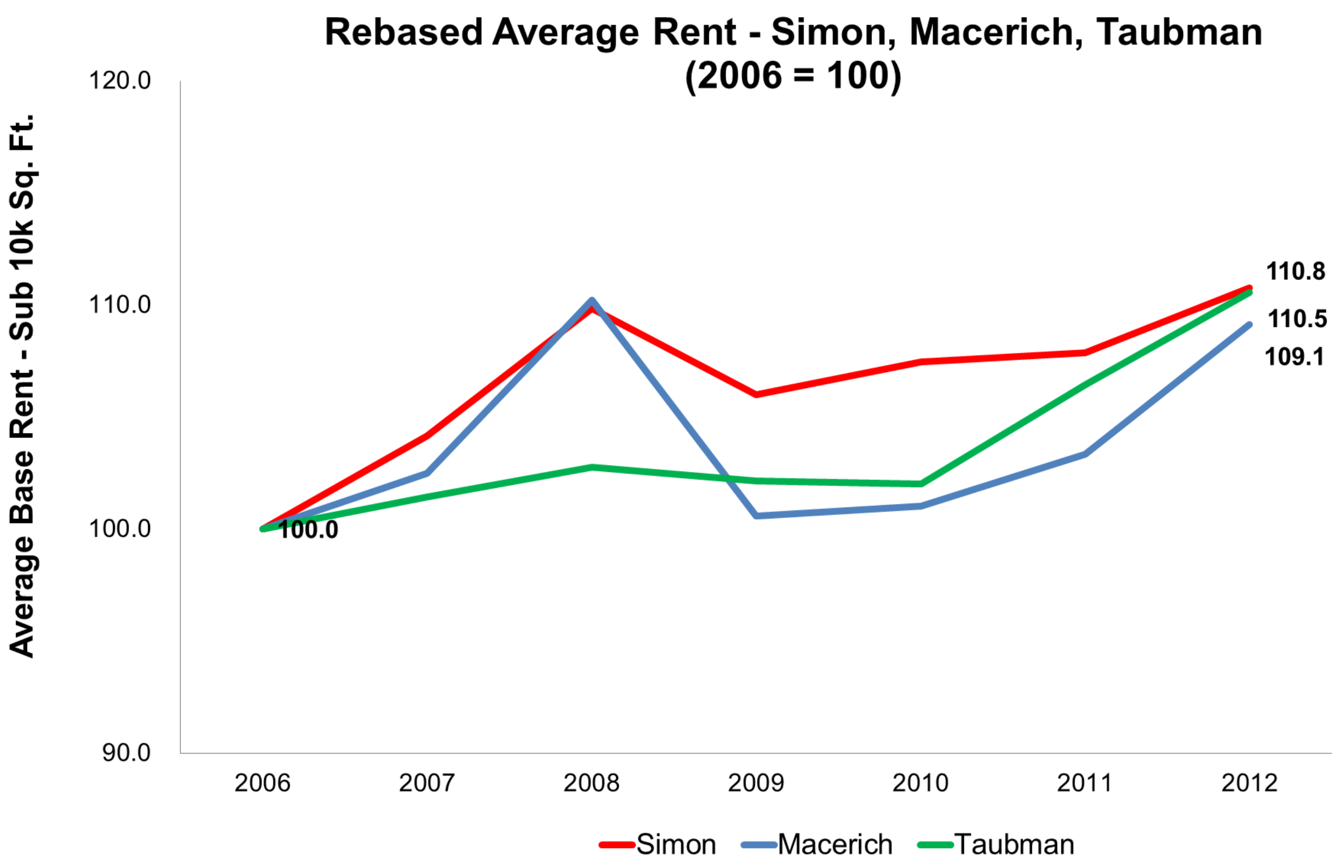


Actual data rejects the "doom and gloom" thesis that malls are becoming irrelevant to consumers

Source: SPG & GGP public filings

Record Rents for Mall REITs

Mall REITs are signing leases at record rents to take advantage of very low vacancies, with 2012 average rents significantly above 2006 levels



Source: SPG, MAC, TCO public filings

Industry Viewpoints – General Growth Properties

Sandeep Mathrani, GGP CEO

NAREIT Investor Forum, June 6, 2013

*"**I shall venture to say I think the demand exceeds supply today because there is no new mall construction of high quality today virtually to speak of**. We have domestic tenants looking to expand both their footprint as well as incubate new concepts within their store and as they become successful, they actually take them out of their store into free-standing stores, such as Victoria's Secret's PINK, Black Heart which is by Hot Topic, House of Hoops is by Foot Locker, the Running concept by The Finish Line, so it's both high end, low end, it's across the board.*

International retailers continue to look to America, which is still the haven for consumer spending. H&M, which today has 250 locations, has publicly said they're going to have 500 locations. So that by itself is about 5 million square feet of additional retail space that they're looking for. *If we get our fair share, which should be about 20%, which would be 1 million square feet,* ***it will be 2 points of occupancy I don't have to give****, but if I did get my fair share because of the quality of real estate.* ***The point I'm making is that demand is tremendous. UNIQLO from Japan is looking to expand here dramatically, have 100 stores by 2015-2016. So we see this to be tremendous demand coming from around the globe and domestically. Sales today are above peak, peak being 2007 and our portfolio today, sales at 20% above peak. So I'm going to stop saying we're above peak, we'll just say we're at a new high. Actually in the better malls, it's slightly higher than that.***

When we started off two years ago, there were 70 or so vacant department stores, we have six left. So the malls, one, can be re-leased; there is demand and the Sears locations in our portfolio are quite special."

Industry Viewpoints – General Growth Properties

Sandeep Mathrani, GGP CEO

NAREIT Investor Forum, June 6, 2013

*"The big-box leasing is also going very well. **There's department store demand**, from the department stores of all types, whether they be Macy's, Bloomingdale's, Nordstrom's, Belk, Bon-Ton, Dillard's, **every department store is looking to find, selectively expand. Big boxes**, which comprises of people like sporting good category, Dick's Sporting Goods, **are also looking to expand**. Ironically, a lot of them are looking to come into the mall sector, which actually benefits more the B malls than the A malls because there is more availability of space, but it is healthy. **We've got virtually no new supply left in that business. We started off with almost 70 department store boxes. I think we have six left. And similarly on the big box side. So that has been going quite well as well**."*

Q2 2013 Earnings Call, July 30, 2013

*"**Across our portfolio, over the past several years, we have completed an extraordinary amount of big-box in department store leasing, a testament to the resurgence of this retailer class and the efforts of our team. We currently have just 3 vacant department stores, and 10 vacant big-box stores remaining in the entire portfolio**."*

Q1 2013 Earnings Call, April 30, 2013

*"**We've been, since day 1, a buyer of our anchors as when they become available, whether they are leased or not. We bought 2 Neiman Marcuses that were leased to Neiman Marcus early in the game. We bought the boxes from Eastridge. We bought the Sears boxes. We bought some Bloomingdale boxes from Bloomingdale's, also Macy's. And so as and when they become available and we are proactive in some cases, it's going to be part of our business**."*

Industry Viewpoints – Simon Property Group

Richard Sokolov, SPG President and COO

Q1 2013 Earnings Call, April 26, 2013

*"The **demand is as good as it has ever been**. And I think that that can be referenced by the number of spaces we have available in our mall portfolio. **We literally have 635 department stores and 1% of them, six or seven are vacant and that's the lowest it has been in as long as I can remember**. **We actively deal with every one of our malls to keep a running list of people that have demand to get in there. And we are in a constant dialogue with our anchors that we've identified that we have the potential of getting back to try and make them better**. And if you look over the years, I think we've added almost 175 boxes and anchors over the last four years in the portfolio, so we've been very active and it's making them a lot better. I do not believe we would really be interested in entertaining sale leasebacks.*

***There is a great deal of demand for the space** and if you look at the kinds of tenants that we're adding to the properties, we're adding Wegmans, Fresh Market, Dick's, theaters, health clubs. There is a substantially broader number of categories of retailers that want to take advantage of all the traffic they may have that we are creating at these properties. So **we have again more demand today than we have had historically from a broader collection and variety of retailers than we've had in the past and all of that is helping drive I think the growth of our property and the lack of vacancy among our anchor boxes**."*

Q2 2013 Earnings Call, July 29, 2013

*"**And I will tell you that a lot of the calls that David and I receive are tenants worried about whether they're going to be renewed in their spaces as opposed to having to solicit interest in the spaces.** So we're in a pretty dynamic market. All of the improvements we're making to this portfolio, in the renovations, the redevelopment, I think, over the last 4 years, we've probably added 200 different anchors to these portfolios."*

Industry Viewpoints – Kimco Realty

David B. Henry – Kimco CEO

Q2 2013 Earnings Call, July 31, 2013

"Overall, our industry maintains its quarter-by-quarter recovery. ***Retailers continue to grow their expansion plans and, coupled with a 35-year low in new supply, effective rents are moving up materially. Consumer spending and retail sales are also doing well despite the sequester and the beginning of rising interest rates.***

Planned new store openings continue at a 5-year high, and most retailers remain optimistic about 2013.

And I would also add, ***there remains fierce competition for the A -- the prime-quality assets out there.*** *So the East Hills of the world have seen no real slowdown in the competitive bidding for the very high-quality assets in primary markets, and* ***those cap rates have definitely continued to be less than 6 for many of those high-quality assets.*** *Also, the general trend towards favorable pricing for even the B assets continues. There's just* ***more money chasing these B assets because there's been frustration out there that people can't acquire the A assets****.*

I personally continue to be fascinated by this lack of new supply. *Historically, on average, roughly 100,000 shopping centers out there in the U.S., there's been a new supply of about 2%.* ***Today, we're at a run rate of 0.1%, and it is not expected to increase substantially above that level for several years. The old days of buying 50 to 100 acres and going through years of entitlements and environmental fights and then pre-leasing and then getting construction financing, I -- we just don't see that coming back anytime soon.*** *So although we're all looking at second phases and some redevelopment, it's still* ***not material in terms of substantially increasing the supply of space.*** *So at -- couple that* ***with a 5-year high of retailers opening up stores. 80,000 new stores are going to open up over the next 2 years, so that's really quite amazing demand that we can work with.*** *So we're optimistic that the industry is healthy. We're definitely on the recovery track."*

Industry Viewpoints – CBL & Associates Properties

Stephen Lebovitz – CBL CEO

Q2 2013 Earnings Call, August 1, 2013

*"**With continued constrains on new supply**, **we are taking new advantage of this window to aggressively pursue redevelopment and expansion opportunities within our existing portfolio.** Consistent with this strategy, we announced the number of new projects at our properties this quarter **including the redevelopment of the Sears Locations at two of our most productive properties**. We have acquired the Sears stores at Fayette Mall in Lexington, Kentucky and Cool Springs galleria in Nashville, Tennessee. **We are working on plans to redevelop both of these locations targeting higher-end small shops, restaurants and junior anchor retailers that are not currently in the respective markets.***

***We're going to be taking those buildings and splitting them up into shops and restaurants and small boxes**. **So it's not like we're going to replace them with any big box or any other anchor**, so that will involve more capital than we've typically spent on redevelopment because it's just more significant redevelopment and **we're looking at these as a way to really upgrade the quality of the retailers, the malls, there's significant opportunities in both Fayette and CoolSpring are close to 100% lease, so we don't have any capacity and it's really a game changer opportunity for us in both of these situations to upgrade these properties and create value**.*

*I'd say that **we talk to Sears all the time** and we really focused in on those two because of the redevelopment opportunity that we saw and we felt like two of top five malls that we were getting significant demand from quality retailers that we wanted to be able to accommodate but **we have had conversations with Sears about other situations and we are doing other things with them that will facilitate redevelopment, we've talked to them about a whole range of possibilities, subleasing part of their space, taking one floor to a two level store and then buying the stores and Sears has moved slow and they want to try to do the right thing over time for their company and in these situations the timing works for them and it works for us**."*

Valuation

- **At ~$44/share Sears sells for 1/3rd of break-up value, offering substantial upside even in scenarios where physical retail operations are wound down**

Why a "Sum of the Parts" Valuation is Relevant

Lampert has actually been clear in communicating his plan: to either succeed in generating more profit or to unlock value from Sears' assets

Eddie Lampert, Sears Holdings Chairman and CEO

Sears Annual Meeting, May 1, 2013

*"We haven't figured out how to get a decent return on our assets, and that's something that...**we just can't keep going on without generating sufficient profit.**"*

*"We know that the level of profitability in the business is still well below, **WELL BELOW** where it needs to be to **justify the assets we've dedicated to this business.**"*

*"The way I think about it, and the way I've always thought about it, is if we can put these assets together and derive a sufficient level of profit, then having these assets together is going to be a much better answer than just selling the real estate, and if we can't…**if we can't dramatically improve our profitability**—and I don't mean like this month or next month—**what we showed last year** in doing the rights issue for our Hometown & Outlet business…in terms of selling some stores, **we demonstrated that there is very significant real estate value and significant asset value…**"*

While Sears is not pursuing a break-up today, the sum of the parts is particularly relevant when assessing the margin of safety in SHLD

Principal Sears Holdings Components of Value

Sears Holdings is comprised of separate valuable assets, primarily its owned and leased real estate, brands and operating businesses

SEARS HOLDINGS

Real Estate

- Sears Real Estate
- Kmart Real Estate
- Below Market Leases
- Headquarters
- Distribution Centers

Businesses

- Home Services
  - Warranty
- Lands' End
- Online Retail
- Sears Canada
- Auto Centers
- Sears Retail
- Kmart Retail

Brands

- Craftsman
- Kenmore
- Diehard

Deeply Misunderstood and Undervalued

The value of Sears Holdings assets makes it very difficult to suffer permanent capital loss at the current market price

- **Lampert is currently attempting a transformation of the business to an asset-light model that is less reliant on traditional stores and inventory assets**
  - If this transformation succeeds, the upside is extraordinary and is much higher than our downside break-up analysis
- **<u>To be conservative and assess the margin of safety, Baker Street has assumed that the transformation does not succeed and Lampert decides to monetize assets</u>**
  - With an excellent track record as a very successful and risk-averse investor, Baker Street thinks it is very unlikely that Lampert will "throw good money after bad" if retail operations threaten to impair his margin of safety
- **Scenarios in which Sears' retail performance remains extremely challenged and Lampert opts for a break-up of the business suggest upside of 2x to 4x relative to today's price**
  - Baker Street's valuation ascribes significant negative value to Sears and Kmart retail operations in a break-up and ignores the possibility of operating improvements

Sum of the Parts / Break-Up Valuation

Sum of the parts implies a mid-range equity estimate of $131/share, providing both safety and upside potential ranging from 108% to 282%

($ in billions)	Low	Mid	High	Comments
Real Estate	$7.1	$8.6	$10.1	Low, mid and high real estate valuation per Baker Street analysis
Kenmore, Craftsman & Diehard	2.2	2.5	3.0	See brands and operating businesses section
Home Services & Protection Agreement	1.3	1.9	2.4	See brands and operating businesses section
Lands' End	1.2	1.4	1.6	See brands and operating businesses section
Sears Online	0.5	1.0	1.5	See brands and operating businesses section
Sears Canada	0.7	0.9	1.0	See brands and operating businesses section
Sears Auto	0.3	0.5	0.7	See brands and operating businesses section
Prescription Files & Best Stores	0.5	0.7	0.9	Kmart prescription files estimated value of $500m
Total	**$13.8**	**$17.5**	**$21.2**	
Current Tangible Assets	$8.8	$8.8	$8.8	Inventory, receivables and other current assets
Less: Adjusted Current & Other Liabilities	(7.5)	(7.5)	(7.5)	Adjustment to reflect economic liabilities of protection agreements
Adjusted Working Capital	$1.4	$1.4	$1.4	
Less: Debt & Pension Liabilities	(4.9)	(4.9)	(4.9)	Based on $3,338 of debt and $1,605 pension obligation at Q2 2013
Cost to Wind Down Unfeasible Stores	(0.9)	(0.7)	(0.5)	Based on historical store closure cost & Baker Street assumptions
Sears Roebuck & Kmart Retail	**($4.0)**	**($3.6)**	**($3.2)**	
Total	**$9.8**	**$13.9**	**$18.0**	
Total/Share	**$92**	**$131**	**$169**	
Upside	***108%***	***195%***	***282%***	

Total Book Value of All Liabilities	**$16.5**	Total liabilities at Q2 2013
Less: Tax Related Liabilities	(1.8)	Primarily deferred tax related liabilities - Sears also has tax assets
Less: Pension Accounting Delta	(0.9)	Based on Sears "Estimated Pension Obligation at Q2"
Less: Unearned Revenue Margin & Capital Leases	(1.3)	Adj. per economic liabilities of protection agreements & capital leases
Adjusted Current & Other Liabilities	$7.5	
Debt & Pension Liabilities	4.9	
Economic Liabilities	**$12.4**	

Notes:
- Valuation based on Baker Street assumptions
- Assumes downside scenario where Sears and Kmart operations fail to improve and are wound down
- Upside relative to 8/30/2013 closing price of $44.24

Paying Just Above Immediately Distributable Value

At the current price of $44/share, we believe that Sears could today distribute assets worth almost its market cap directly to shareholders

- **As downside protection, Baker Street believes it is possible for Sears Holdings to <u>directly distribute Lands' End, Sears Canada and/or Sears Home Services to shareholders</u>**
  - These businesses have little to do with the retail operations of Sears/Kmart
  - At the mid-range of our SOTP valuation, this would represent $39/share of value, creating a very low cost basis at the current share price
- **Sears could also sell or borrow against profitable subsidiaries, brands or real estate assets and return capital to shareholders**
  - Lampert has recently stated that recapitalizations of subsidiaries are being considered, so this option is real and consistent with recent SHLD actions

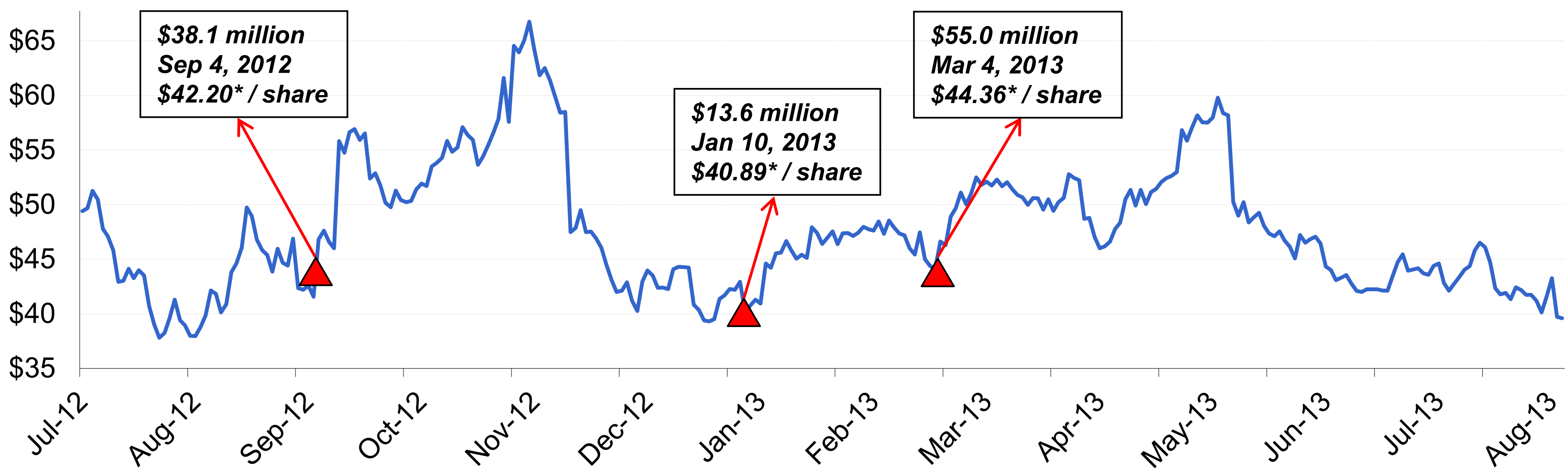
Insider Buying

- **Lampert personally spent ~$250m to increase his ownership by 50% over the last 2 years, including ~$100m in the last 12 months at current prices**
- **This is the first time Lampert has personally bought SHLD shares**

Eddie Lampert Aggressively Buying Stock

For the first time, Eddie Lampert has aggressively acquired Sears Holdings shares with personal capital at prices near current levels

Lampert SHLD Purchases (last 12 months)



We believe that Lampert's exceptional track record as a securities investor makes his personal purchases of SHLD shares meaningful

- Share price adjusted to reflect current value of Sears Canada and SHOS rights spinoff
- Based on public filings with the SEC

Effective Float & Short Interest

- With an effective float of only 6.9 million shares and 15.7 million shares sold short, a short squeeze could occur from positive developments

Shares are Tightly Held by Committed Shareholders

Believe that 93.5% of outstanding SHLD shares are held by indexers and long-term value investors who are not betting on a turnaround

SHLD Effective Float

Long Term Value Holders And Indexers	% of Shares Outstanding	Shares (000s)
ESL Investments, Inc.	31.8%	33,856
Eddie Lampert	23.6%	25,084
Fairholme Capital Management	19.2%	20,393
Index Funds	7.5%	7,943
Thomas Tisch	3.6%	3,820
Horizon Kinetics	3.0%	3,242
Fine Capital Partners	1.6%	1,693
Baker Street Capital	1.4%	1,500
Old West Investment	0.6%	688
Chou Associates	0.6%	684
Force Capital	0.6%	639
Total	**93.5%**	**99,543**
Effective Float	**6.5%**	**6,927**
Diluted Shares Outstanding	100.0%	106,470

- **Long-term shareholders, including Fairholme Capital, Fine Capital and others have recently added to their positions at higher than current prices**

The effective float of Sears has shrunk and is extraordinarily low – approximately 6.9 million out of 106.5 million outstanding shares

Source: SEC 13F-HR, 13D/G filings

Extraordinary Short Interest with De Minimis Float

With a float of 6.9 million shares and 15.7 million shares short, the potential for a major shortage of available shares is significant

- **Short-sellers make up over 200% of the effective float of Sears stock and we believe they fail to understand the structure or optionality of Sears Holdings**
- **May cause any reevaluation of Sears prospects to be dramatic, with low volumes capable of causing substantial moves in the stock price**
- **<u>The cost to borrow SHLD shares has reached ~20%, meaning shareholders get paid to wait while short sellers pay to bet against massive optionality</u>**

SHLD Effective Float

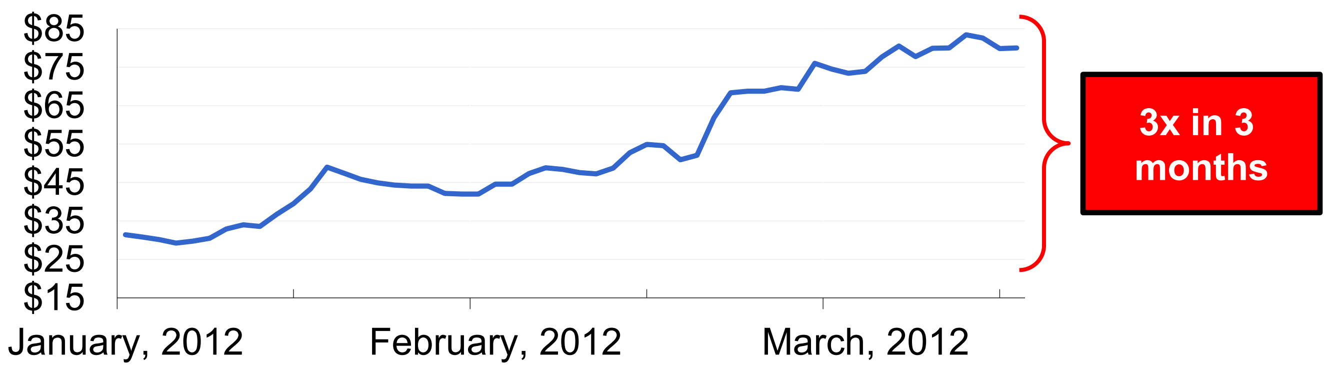
Holder Type	% of Shares Outstanding	Shares
Insiders	58.9%	62,760
Long Term Holders	86.0%	28,840
Index & ETF	93.5%	7,943
Effective Free Float	6.5%	6,927
Shares Sold Short	**14.8%**	**15,739**
Shares Short as % of Free Float	**227.2%**	

Source: SEC 13F-HR, 13D/G filings, Bloomberg

Short Sellers Have Previously Been Overzealous

Short sellers focus on the well understood, secular decline of the retailer but ignore the value and optionality embedded within Sears Holdings

- **Considering the very thin float, short sellers of SHLD appear to be either dangerously overzealous, ignorant or both**
  - Short argument ignores the corporate structure of Sears Holdings, the margin of safety at the current stock price, the value of the assets and the optionality of deal activity
- **There is historical precedent for positive news at Sears causing dramatic imbalances in the supply/demand for SHLD shares, forcing short sellers to cover quickly**



Strategic Alternatives

- **Sears is currently exploring deals and capital structure changes to unlock asset value**

Spinoffs, Deals and Monetization

Lampert has been actively unlocking the value of various subsidiaries and releasing the value of Sears' independent business units

- **In one year, Sears completed three separate spinoff transactions, one of the most rapidly paced corporate separation programs in recent history**
  - Spinoff of Orchard Supply Hardware, de-levering Sears (January 2012)
  - Spinoff of Sears Hometown and Outlet Stores, providing a growth path for a high return on capital business unit and creating a permanent captive buyer of Kenmore and Craftsman products (September 2012)
  - Spinoff of ~44% of Sears Canada shares, unlocking additional value for Sears shareholders (November 2012)
- **Baker Street believes that Eddie Lampert has the ability to continue to separate independent business units from Sears where it makes sense, unlocking substantial value**

Eddie Lampert, Sears Holdings Chairman and CEO

2013 Chairman's Letter

> ***"Separating the management of these businesses from Sears Holdings allows them to pursue their own strategic opportunities in a more focused manner and brings our Business Unit structure to life outside of the Sears Holdings portfolio."***

Strategic Alternatives

Recent commentary from Sears management makes it clear that the company is actively exploring a wide range of strategic alternatives

Lou D'Ambrosio, Sears Holdings ex-CEO

Q3 2012 Earnings Call, November 15, 2012

*"We have significant assets: **some of the best brands in retail, over 200 million square feet of real estate, more than $5 billion of inventory already paid for, and the largest Home Services business, to name a few. We're here to translate those assets into value. Our preference, our focus is to accomplish this operationally. Likewise, where it makes sense, we will optimize our assets in other ways.** We will do this thoughtfully and deliberately, where it creates long-term value."*

Eddie Lampert, Sears Holdings Chairman and CEO

Q1 2013 Earnings Call, May 23, 2013

*"As Rob indicated, **we are currently evaluating a range of actions, one of which revolves around our Protection Agreement business, which, if successful, could generate in excess of $500 million of targeted additional liquidity.** Actions such as these are among the alternatives we have to create liquidity and drive long-term shareholder value. **There are other possibilities that we are considering, and depending on valuation and alternative investment opportunities, we may choose to execute on one or more of these in the near future.**"*

*"I think we have one of the larger Protection Agreement businesses in the country, and **we're looking very, very hard at our entire corporate structure to figure out what the right capital structure is against each business**, what the right level of investment is in each business."*

Extended Protection Agreement Business

Sears announced it is exploring strategic alternatives for its Protection Agreement unit, one of the largest warranty businesses in the U.S.

- **Baker Street believes that the Sears Protection Agreement business earns hundreds of millions in profit**
  - Resulting transaction could be much larger than most analysts expect and well in excess of the $500 million stated monetization goal

Value of Protection Agreement Business

($ in millions)		**2012**
Total "Protectable" Sales		9,500
Attachment Rate (TraQline)		32.2%
Average Cost/Year (as % of Sales Price)		17.0%
Assumed Revenue for Warranty Business		$520
Lowes' Approx Profit Margin on Warranty Sales		60%
Assumed Profit for Sears' Warranty Business		**$312**
Profit Retained as Incentive Compensation	**20.0%**	**20.0%**
Pre-tax Earnings Power	**$250**	**$250**
Multiple	**5.0x**	**7.0x**
Value of Ongoing Warranty Business	**$1,248**	**$1,747**

Source: Lowe's SEC filings, TraQline, Baker Street assumptions

Optionality of Further Corporate Deal Activity

In addition to the Protection Agreement business, Lampert has the ability to release substantial value from Sears' other assets and business units

- **Baker Street believes that opportunities exist to unlock value from units including Sears Auto, Sears Home Services, Lands' End and Sears Canada, among others**
- **Combination of events over the next 12 to 24 months could dramatically change the perceptions of Sears (again)**
  - Sales, spinoffs or recapitalizations of business units
  - Store closures monetize real estate, release inventory and increase earnings
  - Sales or significant redevelopment of mall anchor locations and outparcels
  - Public listing of a real estate subsidiary such as SERITAGE Realty Trust

Lampert has a history of intelligent and highly profitable deal making, creating the potential for significant catalysts in the near future

Opportunity

- **Why does this opportunity exist?**

Sears Consensus on Wall Street

As Sears management has failed to deliver a retail turnaround and profits have evaporated, Wall Street has unanimously given up on SHLD

Eddie Lampert Will Be An Unmitigated Disaster As Sears CEO

Business Insider, January 11, 2013

"Up until this point, Lampert's essential strategy, post-AutoZone's success of reallocating capital assets…has been to drastically cut back on capex for Sears, reducing it to less than 1% of sales (compared with 2-5% in the traditional department store space). ***In turn, the Sears shopping experience – once a hallmark and characteristic of the retailer's legacy – has devolved from bad to worse during the very years when department stores with limited web exposure were being left in the retail dust by retailers dominating the online shopping revolution. In short, short Sears. Nothing good will come from this."***

Should Eddie Lampert Fire the CEO of Sears?

Forbes, June 20, 2013

"During his tenure, Mr. Lampert cannot claim to have achieved growth, nor has he avoided sacrificing quality. Perhaps it's time he looks in the mirror and tells the CEO of Sears Holdings that he's fired."

Most analysts and investors have a very negative visceral reaction to Sears and ignore the fact that the negatives are priced into the stock

Market Consensus vs. Reality

	Consensus	Reality
No Catalysts	❑ Nothing is happening inside Sears to realize the value of its separate pieces ❑ Even if SHLD is worth more, why do I have to own it now?	▶ Real Estate value is being actively monetized through sales and in-house redevelopment ▶ Sears has spun off two large assets in the past 12 months and is evaluating business unit recapitalizations and strategic alternatives
Sum of the Parts is Irrelevant	❑ Sears is not liquidating and therefore the sum of the parts value is irrelevant ❑ Sears should be valued based on today's consolidated financials	▶ The sum of the parts value is ~2-4x higher than stock price and provides an enormous margin of safety at current prices ▶ Business units can be spun out directly to shareholders ▶ Lampert would likely realize the value of the assets if they don't generate a sufficient return and/or are worth more outside of SHLD
Eddie Lampert's Timeframe	❑ Eddie Lampert has an infinite timeframe and will "wait out" minority shareholders for decades	▶ Significant activity already under way to unlock value ▶ Lampert is IRR-sensitive and his personal buying of SHLD indicates he thinks the time to buy is now

Market Consensus vs. Reality

	Consensus	Reality
Real Estate Can't Be Monetized	❑ The real estate value is largely academic since monetization requires a full scale retail liquidation and the unpalatable loss of ~250k jobs	▶ 84% of the real estate value lies in 20% of locations and requires no wholesale liquidation ▶ Redevelopment of the best properties can shrink retail operations to a more profitable "core" while monetizing high quality real estate
No Demand for Big Boxes	❑ Big boxes are secularly challenged, so no one would want to buy anchor sites ❑ Portfolio should be valued based on a low average $/sq. ft. to reflect diminished value across a portfolio of challenged boxes	▶ Sears owns and leases prominent anchor positions in many of America's best malls, which are currently experiencing record high rents and occupancies ▶ Distribution of value makes an average $/sq. ft. analysis useless, as the majority of value is concentrated in a core subset of valuable owned and leased sites at A-quality malls
Can't Separate Business Units	❑ All business value is interdependent and the retail operations heavily rely on services, real estate and brands	▶ Many business units are already independent and some have little to do with Sears/Kmart retail operations ▶ Several of the more independent components of value could be spun out to shareholders and would amount to the current market cap

- Appendix – Valuation

Second Largest U.S. Retail Real Estate Portfolio

Sears controls an enormous amount of space in America's best malls, where both rents and occupancies are experiencing all-time highs

Steven Roth, Vornado Realty Trust Chairman and CEO

Chairman's Letter, 2004

> *"Sears was generally perceived as a slowly but surely declining retailer à la Two Guys and Alexander's, but we saw a collection of truly great (many irreplaceable) assets:* ***<u>128 million square feet in 873 stores, of which over two-thirds are owned or ground leased in (I'm guessing) 70% of the best malls in America</u>****"*

Baker Street Proprietary Real Estate Analysis

Baker Street commissioned a property-by-property real estate analysis to understand the value and concentration of Sears and Kmart assets

Metro	Address	City	State	Sears/Kmart	Bldg Size/ SF	Land Size	Cap Rate Low	Cap Rate High	Market Rent Low	Market Rent High	Comp 1	Comp 2	Comp 3	Comp 4
Cleveland-Elyria-Mentor OH	6950 W 130Th St	Middlebrg Hts	OH	**Sears**	307,545	14 Ac	7.0	8.0	$5	$6	$145	$58	$128	$89
Boston-Cambridge-Quincy MA-NH	77 Rockingham Park Blvd	Salem	NH	**Sears**	189,931	12 Ac	6.0	7.0	$5	$7	$166	$210	$49	$83
Guayama PR	Pr Hwy. 3	Guayama	PR	Kmart	103985	6.38 Ac	7.0	8.0	$10	$15	$200	$300	NA	NA
Detroit-Warren-Livonia MI	435 N Telegraph Rd	Waterford	MI	**Sears**	337,744	13.5 Ac	9.0	10.0	$5	$8	$44	$37	$69	$43
Bridgeport-Stamford-Norwalk CT	7 Backus Ave (Ex 3 Rt 84)	Danbury	CT	**Sears**	160,933	10 Ac	6.0	7.0	$8	$10	$161	$114	$114	$135
New York-Northern New Jersey-Long Island	S Orange Ave & Walnut St	Livingston	NJ	**Sears**	178347	13 Ac	6.0	7.0	$4	$5	$169	$269	$198	$212
Los Angeles-Long Beach-Santa Ana CA	20700 S Avalon Blvd Ste 100	Carson	CA	**Sears**	175454	11Ac	5.0	6.0	$5	$6	$234	$145	$236	$116
Chicago-Naperville-Joliet IL-IN-WI	6501 95Th St	Chicago Ridge	IL	**Sears**	181,221	6 Ac	7.0	8.0	$7	$9	$172	$112	$161	$106
Los Angeles-Long Beach-Santa Ana CA	3755 Santa Rosalia Dr	Los Angeles	CA	**Sears**	140134	9 Ac	5.0	6.0	$5	$6	$305	$253	$205	$236
Los Angeles-Long Beach-Santa Ana CA	100 Westminster Mall	Westminster	CA	**Sears**	180231	11 Ac	5.0	6.0	$4	$5	$190	$240	$168	$138
Denver-Aurora CO	1400 E. 104Th Ave.	Thornton	CO	Kmart	195,536	23 ac	7.0	8.0	$5	$7	$65	$166	$82	NA
Fajardo PR	Pr Hwy. 3	Fajardo	PR	Kmart	94241	6 Ac	6.0	7.0	$10	$15	$200	$300	NA	NA
Santa Rosa-Petaluma CA	100 Santa Rosa Plz	Santa Rosa	CA	**Sears**	143315	4 Ac	5.0	6.0	$7	$10	$160	$88	NA	NA
Miami-Fort Lauderdale-Miami Beach FL	8000 W Broward Blvd Ste 100	Plantation	FL	**Sears**	185546	16 Ac	5.0	6.0	$5	$7	$71	$110	$132	$129
Seattle-Tacoma-Bellevue WA	2200-148Th Ave Ne	Redmond	WA	**Sears**	230,394	15 Ac	7.0	8.0	$5	$7	$48	$103	$119	NA
Miami-Fort Lauderdale-Miami Beach FL	19505 Biscayne Blvd	Miami - Aventura	FL	**Sears**	171411	11 Ac	6.0	8.0	$6	$8	$98	$93	$265	$125
San Francisco-Oakland-Fremont CA	6000 Mowry Ave	Newark	CA	**Sears**	134076	10 Ac	5.0	6.0	$6	$9	$195	$142	$190	$198
Columbus OH	2765 Eastland Mall	Columb-Eastlnd	OH	**Sears**	296,038	18 Ac	8.0	9.0	$5	$6	$83	$69	$43	$93
Houston-Baytown-Sugar Land TX	400 Memorial City Way	Houston-Memorial	TX	**Sears**	198,173	20 Ac	6.0	7.0	$6	$8	$117	$27	$51	$93
Miami-Fort Lauderdale-Miami Beach FL	1625 Nw 107Th Ave	Miami - Intnl	FL	**Sears**	188891	12 Ac	6.0	8.0	$6	$8	$98	$35	$93	$125
Detroit-Warren-Livonia MI	27600 Novi Rd	Novi	MI	**Sears**	212,219	7.5 Ac	7.0	8.0	$6	$8	$144	$94	$95	$112
Chicago-Naperville-Joliet IL-IN-WI	17550 Halstead St.	Homewood	IL	Kmart	195,646	14.5 Ac	7.0	8.0	$7	$8	113	128	185	220
Manchester-Nashua NH	310 Daniel Webster Hwy Ste 102	Nashua - Phsnt Ln	NH	**Sears**	154832	11 Ac	7.0	8.0	$5	$6	$162	$308	$115	$222
Boston-Cambridge-Quincy MA-NH	1325 Broadway	Saugus	MA	**Sears**	182935	12 Ac	6.5	8.0	$6	$8	$79	$137	$91	$56
New York-Northern New Jersey-Long Island	Rt 80 & Mt Hope Ave	Rockaway	NJ	**Sears**	173649	13 Ac	6.5	7.5	$3	$4	$169	$269	$211	$120
Reno-Sparks NV	5400 Meadowood Mall Cir	Reno	NV	**Sears**	180768	2 Ac	7.0	9.0	$7	$9	$119	$52	$134	NA
Dallas-Fort Worth-Arlington TX	1800 Green Oaks Rd	Ft Worth - Rdgmar	TX	**Sears**	155,133	12 Ac	5.0	6.0	$7	$8	$99	$135	$145	$144
Washington-Arlington-Alexandria DC-VA-MD	12000 Fair Oaks Mall	Fairfax	VA	**Sears**	200689	15 Ac	6.0	7.0	$5	$7	$55	$97	$112	NA
Los Angeles-Long Beach-Santa Ana CA	100 Brea Mall	Brea	CA	**Sears**	152330	9.5 Ac	5.0	6.0	$6	$7	$160	$89	NA	NA
St. Louis MO-IL	#1 Chesterfield Mall	Chesterfield	MO	**Sears**	156,137	13 Ac	6.0	7.0	$7	$8	$159	$32	$46	NA
Trenton-Ewing NJ	300 Quaker Bridge Mall	Lawrenceville	NJ	**Sears**	185,400	14 Ac	7.5	8.0	$6	$7	$206	$73	$114	$186
Los Angeles-Long Beach-Santa Ana CA	2100 N Bellflower Blvd	Long Beach	CA	**Sears**	140896	10 Ac	5.0	6.0	$5	$6	$240	$145	$125	$213
Washington-Arlington-Alexandria DC-VA-MD	7103 Democracy Blvd	Bethesda	MD	**Sears**	167111	15 Ac	6.0	7.0	$5	$8	$81	$80	$136	NA
Boston-Cambridge-Quincy MA-NH	521 Lynch Blvd	Marlborough	MA	**Sears**	149,337	10 Ac	6.0	7.0	$6	$8	$125	$120	$76	$168
Atlanta-Sandy Springs-Marietta GA	1500 Cumberland Mall Se	Atlanta-Cmbrlnd	GA	**Sears**	182,670	15 Ac	6.0	7.0	$6	$8	$67	$103	$51	$113
Minneapolis-St. Paul-Bloomington MN-WI	12431 Wayzata Blvd	Minnetonka	MN	**Sears**	175189	13 Ac	6.0	8.0	$6	$8	$123	$72	$96	NA
Phoenix-Mesa-Scottsdale AZ	10001 N Metro Pkwy W	Phoenix - Metrocntr	AZ	**Sears**	212,787	7 Ac	9.0	10.0	$5	$7	$126	$133	NA	NA
Chicago-Naperville-Joliet IL-IN-WI	3340 Mall Loop Dr	Joliet	IL	**Sears**	188,671	6.2 Ac	7.0	8.0	$4	$6	$184	$233	$152	$133
Denver-Aurora CO	16395 Washington St	Thornton	CO	**Sears**	177,998	23 ac	7.0	8.0	$5	$6	$65	$166	$82	102
Washington-Arlington-Alexandria DC-VA-MD	701 Russell Ave	Gaithersburg	MD	**Sears**	173709	14 Ac	7.0	8.0	$6	$8	$108	$143	$114	NA
Salt Lake City UT	7453 S Plaza Center Dr	West Jordan	UT	**Sears**	199038	12 Ac	6.0	8.0	$6	$7	$95	$45	$106	$75
Portland-Vancouver-Beaverton OR-WA	11800 Se 82Nd Ave	Portlnd-Clackms	OR	**Sears**	143693	11 Ac	6.5	7.5	$7	$9	$189	$168	$158	$111
Chicago-Naperville-Joliet IL-IN-WI	16300 Harlem Ave.	Tinley Park	IL	Kmart	171,961	50 Ac	6.0	7.0	$6	$9	$95	$106	$50	$82
Denver-Aurora CO	231 E Flatiron Cr	Broomfield	CO	**Sears**	165,471	4.8 ac	7.0	8.0	$6	$7	$65	$166	$82	$199
Richmond VA	1400 N Parham Rd	Richmond-Regency	VA	**Sears**	227,869	12 Ac	7.0	8.0	$5	$7	$58	$15	$93	$49
Detroit-Warren-Livonia MI	300 W 14 Mile Rd	Troy	MI	**Sears**	307,158	13.6 Ac	9.0	10.0	$5	$7	$65	$48	$53	$23
Amarillo TX	7701 1-40 W	Amarillo	TX	**Sears**	147,[illegible]	9 Ac	6.0	7.0	$7	$9	$115	$138	$145	$68

Source: Baker Street Analysis

Baker Street Proprietary Real Estate Analysis

Sample data sheet for a Sears owned property

Mall or Center Name: Cupertino Square			
SITE INFORMATION			
Date of Report			
Property Address	10101 N Wolfe Rd	**Market Rent (Per Sqft)**	$8-$11
City	Cupertino		
State/Zip	CA		
Format:Sears/Kmart	Sears		
Land Size	257,548 SF / 21 AC		
PROPERTY IMAGE			

LOCATION CHARACTERISTICS	
Description	Sears attached to mall with Auto Center
Accessibility/Visibility	Visible from Wolfe and Stevens Creek
Market Conditions & Trends (major tenants in the area, demand shifting towards or away, overall state of market, additional comments)	JC Penney, Macy's, AMC, Target Dense retail area and strong health care area as well
PROPERTY DETAILS	
Land Description (available pads?)	Auto center and parking lot
Cap Rate for properties	5-6

SALE COMPARABLE TRANSACTIONS	COMPARABLE #1	COMPARABLE #2
Street Address – City, State Zip	4070 Stevens Creek Blvd San Jose CA	1221 Story Rd San Jose CA
Completed/Current Listing	Completed	Completed
Land Size (Square Feet)	69,780	38,000
Sale Price	$11,150,000	$5,000,000
Price per SqFt	$149	$120
Sale Date	2011	2009
Location as Compared to Subject	Comparable	
Notes and Commentary on Comparables	Center sale	

	COMPARABLE #3	COMPARABLE #4
Street Address – City, State Zip	2310 Homestead Rd Los Altos CA	1600 Saratoga Ave San Jose CA
Completed/Current Listing	Completed	Completed
Land Size (Square Feet)	52,315 sf	500,000 sf
Sale Price	$8,900,000	$97,000,000
Price per SqFt	$169	$195
Sale Date	2001	2004
Notes and Commentary on Comparables	Center sale	Mall Sale

See our separate "The ~~Softer~~ Hard Asset Side of Sears" presentation for data sheets on the top 100 Sears Holdings properties

Morgan Stanley Sears and Kmart RE Valuation

Morgan Stanley's bottom-up analysis for <u>just the Sears real estate</u> resulted in a valuation of $7.6bn to $10.8bn in 2004 ($71-$100/share)

- **Morgan Stanley performed a full valuation of <u>both the Sears and Kmart property portfolios</u> in connection with advising the Sears board on its merger with Kmart**
- **<u>Morgan Stanley's report was obtained by hand from a New York court; Baker Street has never seen it discussed or cited in any other analysis</u>**
- **The high quality Sears locations are worth <u>even more</u> today than in 2004, as mall rents are much higher and cap rates much lower than they were in 2004**

Morgan Stanley separately valued <u>just the Kmart real estate</u> portfolio at ~$3bn, or an additional $28/share, in 2004

Morgan Stanley Sears and Kmart RE Valuation

Valuation: Harbor

Potentially substantial value underlying real estate; however, more analysis required

- **Preliminary analysis conducted of Harbor FLS real estate value**
  - Utilized both bottom-up (extrapolated from recent appraisals) and top-down analysis (utilizing comparable transactions)
- **Theoretical analysis resulted in significant, although a wide ranging, valuation**
  - Bottom-up: $7.6 - $10.8bn
  - Top-down: $6.3 - $9.2bn
- **However, ability to realize portfolio value will be highly dependent on business strategy**
- **Additional work underway to more fully assess value / options**

Project Brook

Sears, Roebuck and Co.

November 8, 2004

Sears

Board of Directors

Slide 26

Source: Obtained from public court documents filed in New York Supreme Court in connection with Krantman v Adams Sears shareholder litigation

Fairholme Capital Sears and Kmart RE Valuation

A summer 2008 survey commissioned by Bruce Berkowitz estimated the tax assessed value of owned real estate at ~$10.4bn ($97/share)

OUTSTANDING INVESTOR DIGEST March 17, 2009

Asset values *have* declined, but not by that much....

Berkowitz: Last summer, we spent a tremendous amount of time going to all the tax collectors' offices around the U.S. trying to get the tax value of Sears and Kmart properties — and we came up with numbers that ranged between $80 and $90 per share.

So, how much has it changed from last summer? And where is the stock today? And how much is the largest appliance servicer worth, or a large automotive center worth, or three or four brands, or Sears Canada and over $11 billion of inventories? It just doesn't take a lot these days to get to the current market price....

So there are many ways to get to heaven. I think there are many ways that we will make money in Sears. Has our estimate of liquidation value declined in this environment? Yes, it has. But it's still dramatically above where Sears is trading today.

Berkowitz: Sears' debt is low relative to its assets.

Then with the huge inventories that turn... I've got to tell you, I don't care what the Kmart looks like in Bridgehampton, New York — even though it's a great store. It's a nice piece of property in Bridgehampton — and it's the only game in town. And there are others like it. So as we hire more and more people to give us their views of Sears' real estate... I mean, we tried to go to tax assessors' offices around the country. And so much of that is on electronic files. For example, you can search online and find most of the Sears and Kmart stores in Florida and then go in and see what they pay in taxes. And that can provide you with a pretty conservative estimate of their value. But of course, we've cut the values more over the last eight months given what's been going on.

At the time of this interview there were ~122 million shares outstanding, implying a $9.8-$11.0bn property valuation ($91-$102/current share)

Berkowitz: Plus, we also spent a lot of time trying to understand Sears' real estate. And Sears has 120 million or so square feet of real estate of which probably 20% is worth 80% of the value — whether it's near the beach in California or in city centers like Pasadena or Coral Gables. Some of Sears' real estate is located in prime locations. And it's tough because some of it's owned, whereas there are also a lot of leases at Kmart. But Kmart went through bankruptcy. So you would think that they'd have tossed all of the bad leases in bankruptcy and kept all the good stuff. But the value of their real estate alone is much more than Sears' market value — even in today's depressed real estate environment.

OID: *Wow.*

Berkowitz: So for every share, you're getting a square foot of real estate plus other goodies.

Fernandez: And that square foot of real estate — depending, of course, on the location — could be valued at anywhere from $10 to $1,000. And that's on a $40 stock.

Source: Outstanding Investors Digest, March 17, 2009

- Appendix – Subdivision

Sears' Published Development Concepts

SERITAGE has hired architects and contractors for the planned subdivisions of big boxes and is showing plans to national retailers

PORTFOLIOS

BOX SPLITS

For more information on box split locations, please contact our corporate office by phone **(203) 861-4685** or **Send Email**.

The Mall at Sears | Anchorage, AK
700 E Northern Lights Blvd | Anchorage, AK | Google Map »

Metrocenter | Phoenix, AZ
10001 N Metro Pkwy W | Phoenix, AZ | Google Map »

Puente Hills Mall | City of Industry, CA
100 S Puente Hills Mall | City of Industry, CA | Google Map »

Janss Marketplace | Thousand Oaks, CA
145 W Hillcrest Dr | Thousand Oaks, CA | Google Map »

Gwinnett Place Mall | Duluth, GA
2100 Pleasant Hill Rd | Duluth, GA | Google Map »

Golf Mill Center | Niles, IL
400 Golf Mill Ctr | Niles, IL | Google Map »

Burlington Mall | Burlington, MA
1100 Middlesex Tpke | Burlington, MA | Google Map »

Livingston Mall | Livingston, NJ
112 Eisenhower Pkwy | Livingston, NJ | Google Map »

Smith Haven Mall | Lake Grove, NY
4 Smith Haven Mall | Lake Grove, NY | Google Map »

Woodland Hills Mall | Tulsa, OK
6929 S Memorial Dr | Tulsa, OK | Google Map »

Freestanding | Memphis, TN
4570 Poplar Ave | Memphis, TN | Google Map »

Ridgmar Mall | Ft. Worth, TX
1800 Green Oaks Rd | Ft. Worth, TX | Google Map »

Alderwood Mall | Lynnwood, WA
18600 Alderwood Mall Pkwy | Lynnwood, WA | Google Map »

NEWS:

Seritage ramps-up National Road Show with Angie Comstock leading portfolio reviews with national retail chains.

Source: http://www.seritage.com/portfolios/boxsplits.aspx

Sears' Published Development Concepts

Source: http://www.seritage.com

Sears' Published Development Concepts

Source: http://www.seritage.com/portfolios/multitenantpads.aspx

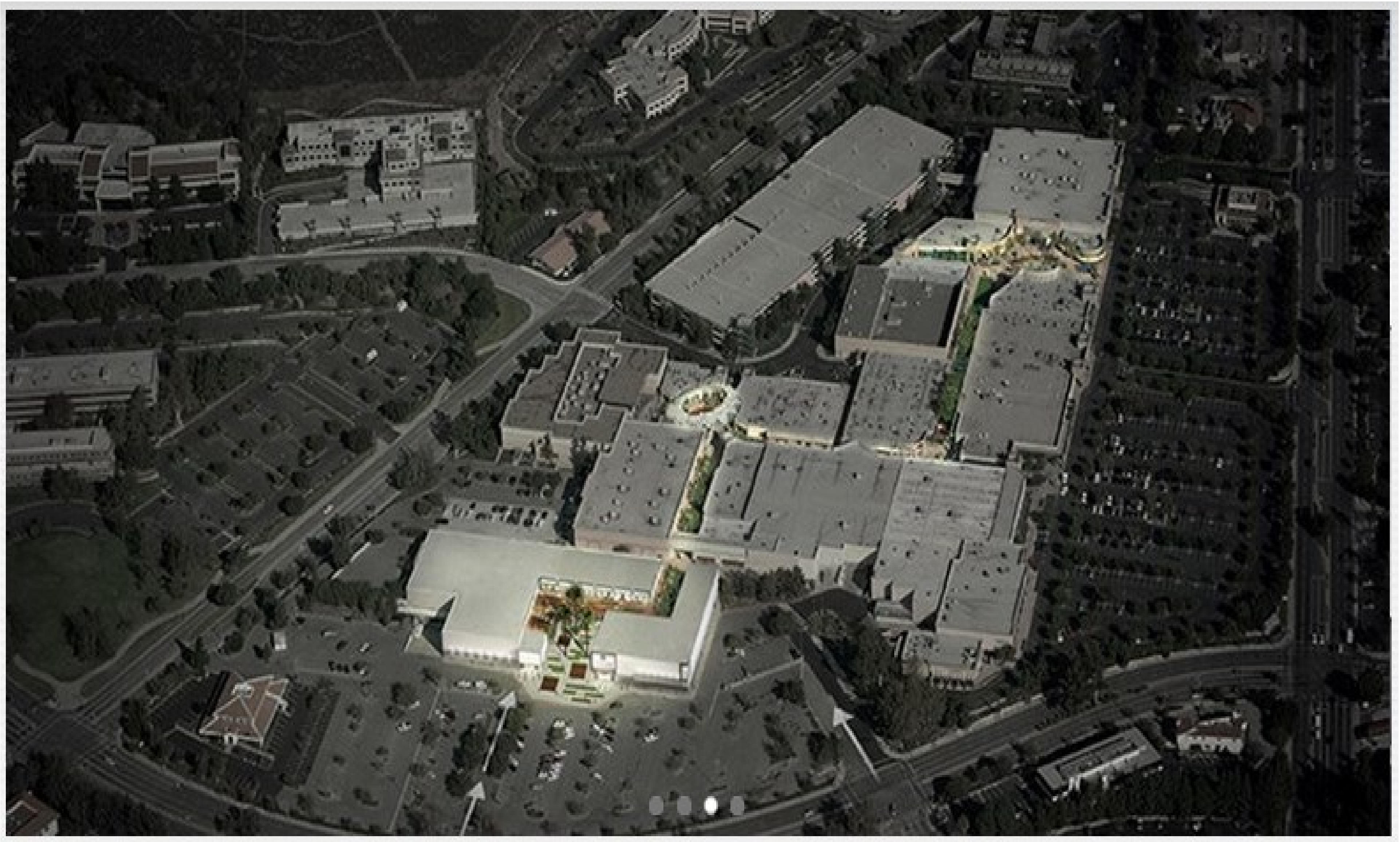
Sears' Published Development Concepts

Source: http://www.seritage.com/portfolios/multitenantpads.aspx

Sears' Published Development Concepts

Source: http://www.seritage.com/portfolios/stripcenters.aspx

Sears' Published Development Concepts



Source: http://www.seritage.com/portfolios/boxsplits.aspx

Sears' Published Development Concepts

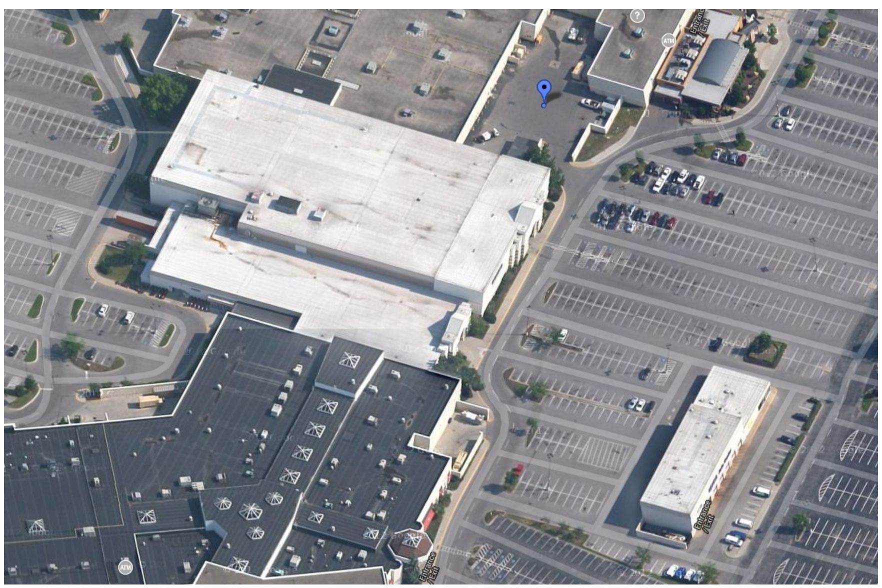
Source: http://www.seritage.com/portfolios/boxsplits.aspx

Case Study: Subdivision of Sears' CBL Anchor Pads

As an alternative to subdividing anchor pads themselves, Sears has also sold stores to mall owners who redevelop these boxes as a way to grow

CBL Announces Acquisition and Planned Redevelopment of Two Sears Anchor Locations at Top CBL Malls

BusinessWire **Press Release:** CBL & Associates Properties, Inc. – Tue, Jul 2, 2013 9:15 AM EDT



Katie A. Reinsmidt, CBL Senior VP of Corporate Investments

Q2 2013 Earnings Call, August 1, 2013

*"With continued constrains on new supply, **we are taking new advantage of this window to aggressively pursue redevelopment and expansion opportunities within our existing portfolio.** Consistent with this strategy, we announced the number of new projects at our properties this quarter **including the redevelopment of the Sears Locations at two of our most productive properties**. We have acquired the Sears stores at Fayette Mall in Lexington, Kentucky and Cool Springs galleria in Nashville, Tennessee. **We are working on plans to redevelop both of these locations targeting higher-end small shops, restaurants and junior anchor retailers that are not currently in the respective markets.***

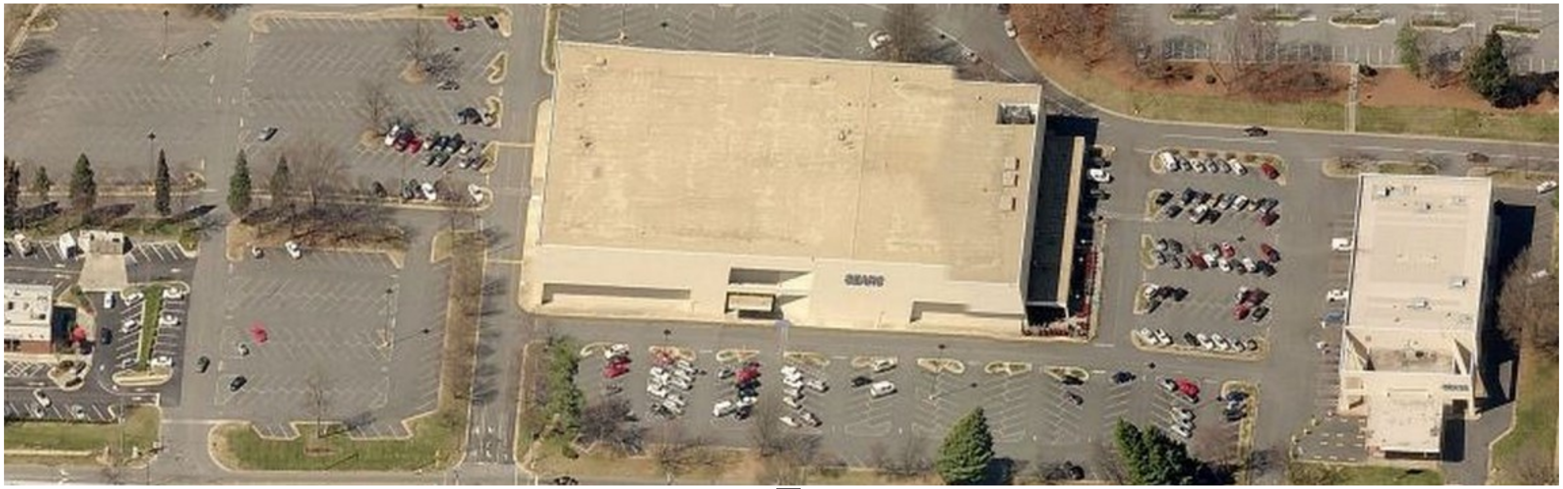
*We marketed the space at Recon in Las Vegas to a very positive reception, **we anticipate Sears will continue to operate both stores at least through the end of the year and we will gain control of the space in the first half of 2014 with construction beginning soon after. These will be significant projects for both of the centers creating value to standalone projects in addition to enhancing the value of the overall center."***

"The acquisition of these Sears stores will allow us to create substantial value at two of our most productive malls," said Stephen Lebovitz, president and chief executive officer. "We have plans to redevelop and expand both buildings to create space for new high-end specialty stores and restaurants designed to augment each properties' market-dominant position and enhance their strong growth rates. Additional details on these exciting projects will be announced in the near future."

Source: CBL & Associates Press Release

Case Study: Subdivision of Sears in Greensboro

Sears subdivided its store in Greensboro to accommodate Whole Foods, leasing 34k sq. ft. to the grocer while renovating the Sears itself



Source: Microsoft Bing Maps, Google Maps

- Appendix – Redevelopment

Active Redevelopment Currently In Progress

In many cases, retail square footage is not the relevant metric and land acreage (vs. the footprint of the "box") is significantly more valuable

Multiple projects are under way where Sears is undertaking ambitious mixed-use developments with ultimate value in the billions of dollars

Source: http://www.ark-itecture.com/ark-itecture-projects-r-st-paul_2.html

Case Study: Development of Burnaby Metrotown

A single redevelopment of the Metrotown Sears Canada site in suburban Vancouver is expected to have an end value of ~$1bn

Sears aims to build seven towers at Metrotown

By Wanda Chow - Burnaby NewsLeader
Published: May 30, 2013 1:00 PM
Updated: May 31, 2013 4:29 PM

If anyone's ever wondered why it seemed Sears hardly changed a bit when Metropolis at Metrotown mall was developed, here's the answer: the department store owns its own parcel at the site.

An 8.9-acre parcel, in fact.

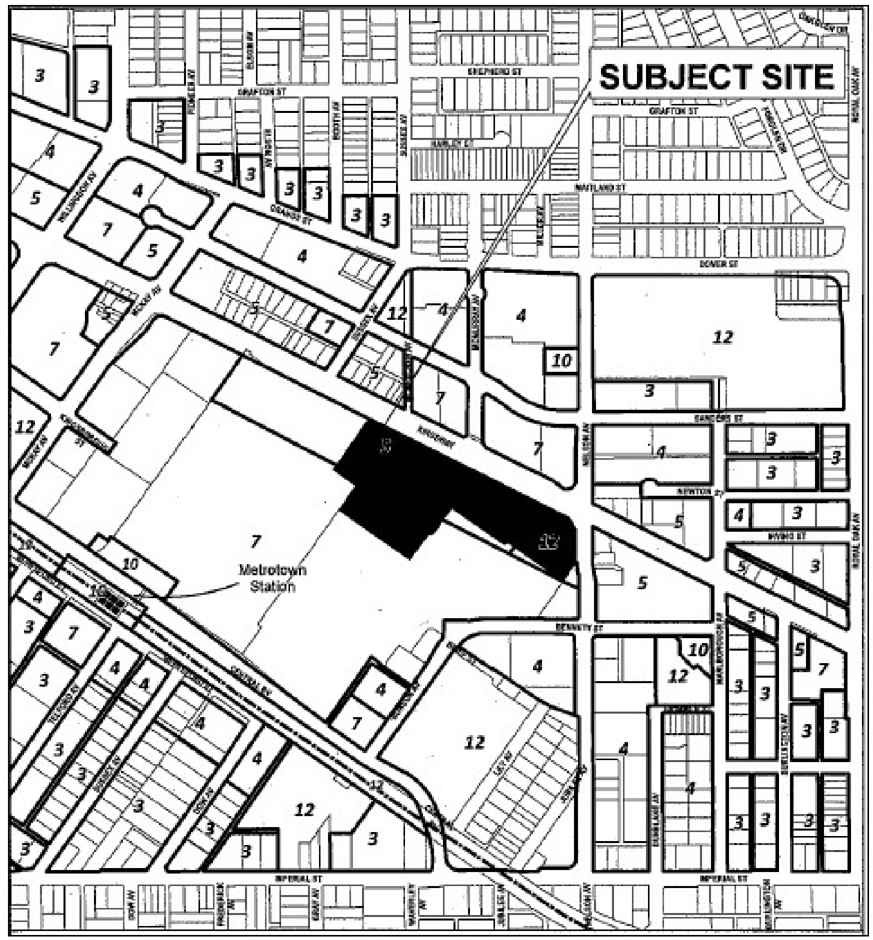
And now it plans to redevelop. In a big way.

Sears Canada Inc. has applied to Burnaby city hall to establish a conceptual master plan for the site that would guide later rezoning applications for individual phases of the project, according to a city staff report.

The company's vision for its site includes a new flagship Sears store, and five mixed-use, high-density residential towers and two office towers on top of podiums containing retail and commercial space.

Despite its store being highly integrated into Metropolis, Sears owns its own store, the space where Toys R Us is located underneath in the basement, surface and underground parking, loading facilities and the public plaza at the corner of Kingsway and Nelson Avenue, the report said.

In 1985, Burnaby council adopted a rezoning of the Sears site which allowed for development of a major shopping mall, including a refurbished Sears store and Sears Auto Centre, and offices.



Source: Burnaby Newsleader

Case Study: Development of Burnaby Metrotown

Sears eyes $1-billion mixed-use development Burnaby's Metrotown

BY FRANK LUBA, THE PROVINCE JUNE 7, 2013

Recommend 0 Tweet 2 +1 0 Pin it

A massive new development proposed for Metrotown in Burnaby is going to test Lower Mainland demand for office and residential space.

Sears Canada has a large store on 3.6 hectares of land it owns adjacent to the separately owned Metropolis at Metrotown development. The company has taken the first steps toward rezoning of the property for five mixed-used residential towers and two office towers, along with a flagship department store.

Burnaby councillor Pietro Calendino agrees with estimates that put the value of the Sears redevelopment at around $1 billion, particularly with towers he guesses will likely be at least 30 storeys.

Calendino is keeping an open mind about the big new project because Sears Canada hasn't come forward with a detailed conceptual plan. But he doesn't think Metrotown is too crowded.

"Isn't downtown (Vancouver) pretty crowded? This is a town centre," Calendino said. "That's where we want the concentration so we can conserve the single-family neighbourhoods. We have to put the density somewhere."

Density has been targeted for Metro-town because it is on busy artery Kingsway and has transit connectivity with its SkyTrain station and bus loop,

THE VANCOUVER SUN

Sears applies to build seven towers at its Metrotown site

Plans call for ground-floor retail space and a new public plaza

BY TRACY SHERLOCK, VANCOUVER SUN AUGUST 23, 2013

The company is going through a transformation and one of its strategies is to look at ways to create value through the assets it owns, said Sears president and chief executive officer Calvin McDonald.

The new development would include two office towers and five residential towers of undetermined height, all of which would be above commercial retail space on the ground floor, the documents show. A new public plaza is also part of the plans.

Burnaby has agreed to work with Sears in creating a plan to develop the property and Sears is close to choosing a developer to work with, McDonald said.

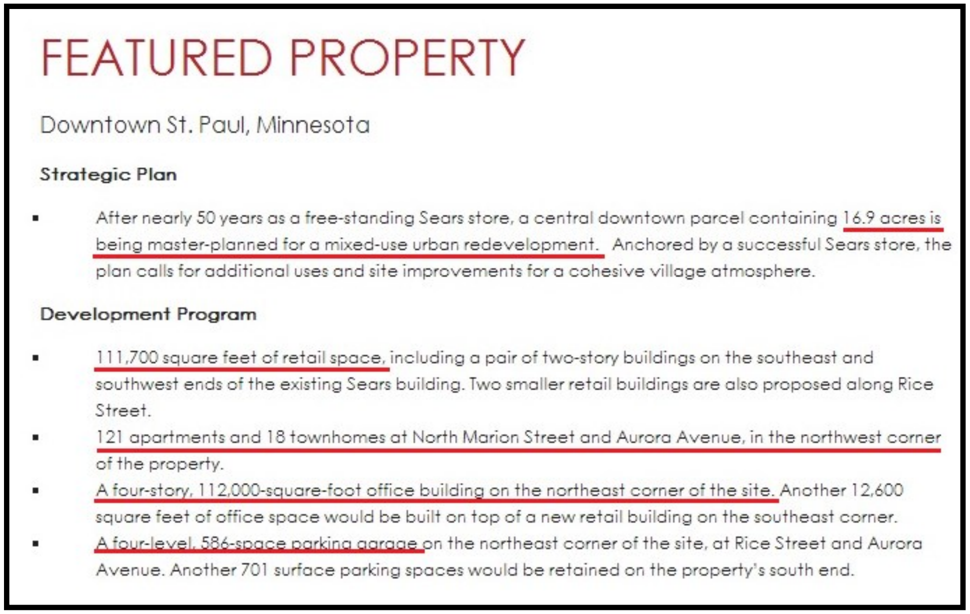
The project could be worth $1 billion or more, given today's real estate prices and the potential density of the site, Stephen Champion, vice-president, real estate at Sears Canada, said in an email.

This is the first project of this type that Sears has considered, but the company is exploring the possibility of similar deals elsewhere, said Sears spokesman Vincent Power. The so-called "transformation" program is also looking at improving the core retail operations and finding efficiencies in operations, Power said.

Source: The Province / canada.com, The Vancouver Sun

Case Study: Redevelopment of 17 Acre St. Paul Sears

Highly attractive mixed-use redevelopment of a 17 acre Sears site near the Minnesota State Capitol mainly comprised of parking lot space today



FEATURED PROPERTY

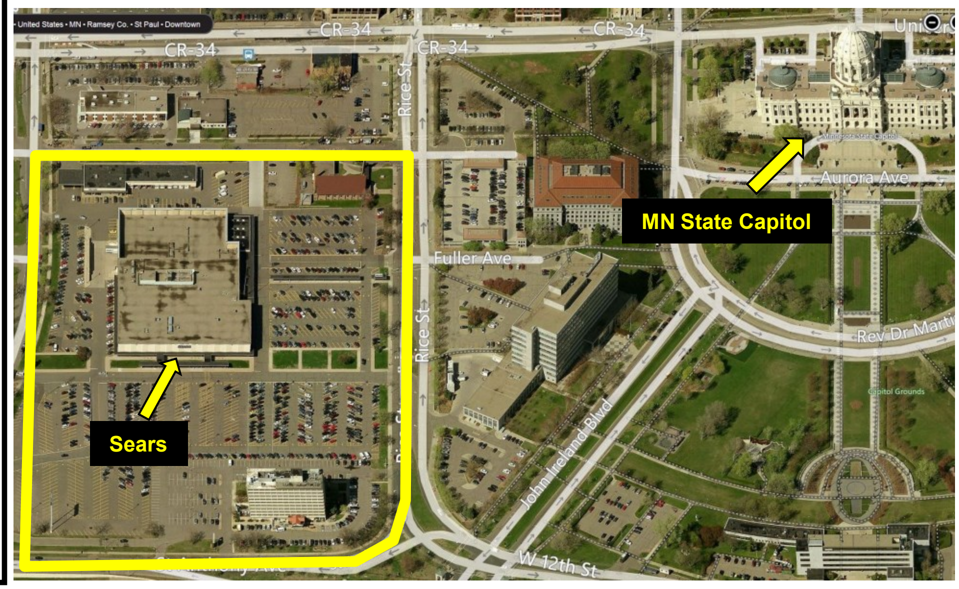
Downtown St. Paul, Minnesota

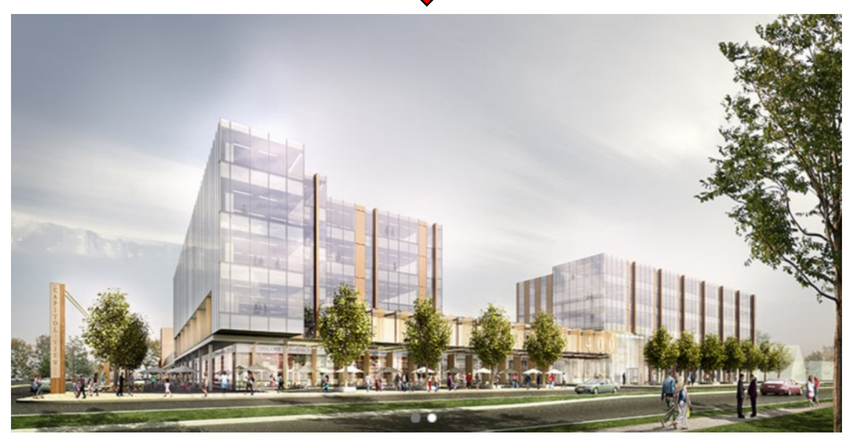
Strategic Plan

- After nearly 50 years as a free-standing Sears store, a central downtown parcel containing 16.9 acres is being master-planned for a mixed-use urban redevelopment. Anchored by a successful Sears store, the plan calls for additional uses and site improvements for a cohesive village atmosphere.

Development Program

- 111,700 square feet of retail space, including a pair of two-story buildings on the southeast and southwest ends of the existing Sears building. Two smaller retail buildings are also proposed along Rice Street.
- 121 apartments and 18 townhomes at North Marion Street and Aurora Avenue, in the northwest corner of the property.
- A four-story, 112,000-square-foot office building on the northeast corner of the site. Another 12,600 square feet of office space would be built on top of a new retail building on the southeast corner.
- A four-level, 586-space parking garage on the northeast corner of the site, at Rice Street and Aurora Avenue. Another 701 surface parking spaces would be retained on the property's south end.





Source: Microsoft Bing Maps, http://www.ark-itecture.com/ark-itecture-projects-r-st-paul_2.html, http://www.seritage.com/featuredproperty.aspx

Case Study: Redevelopment of Mariano's in Chicago

Property which was previously a standalone Sears Auto center is being redeveloped into a retail center anchored by a high-end supermarket

Source: Google Maps, http://www.sierraus.com/commercial/retail-property-ravenswood-station/#.Uieg2htJPfc
Source: http://www.sierraus.com/wp-content/uploads/2013/05/Lawrence-Ravenswood_Pkg-s.pdf

Case Study: Sale to CarMax for Redevelopment

CarMax recently purchased a vacant 210k sq. ft. Great Indoors store from Sears for $31m, or $148 / sq. ft., to redevelop the land

July 15, 2013

Sears Holds a Sale

Great Indoors Property Traded to Carmax

Having bought it twice, Sears has now passed on to Carmax a property on Shady Grove Road in Gaithersburg.

Sears collected $31 million from the used car dealer, which will convert the site last used for a Great Indoors to its own brand of car sales. Carmax won approval this spring of a development plan that shows a dealership building in the near term, and in the unspecified future, a much larger building.

Sears leaves the property, located at 16401 Shady Grove Road after making a go of first a regular Sears and then the specialty Indoors store. In an acquisition story that belongs in a book, Sears sold the property after its first go-round for $10.4 million in 2002, then bought it back two years later for $21 million.

Carmax, meanwhile, will effectively leapfrog the county refuse center, in moving from its current Rockville Pike location to Shady Grove Road.

STAFF COMMENTS FOR PLANNING COMMISSION

MEETING DATE: March 20, 2013

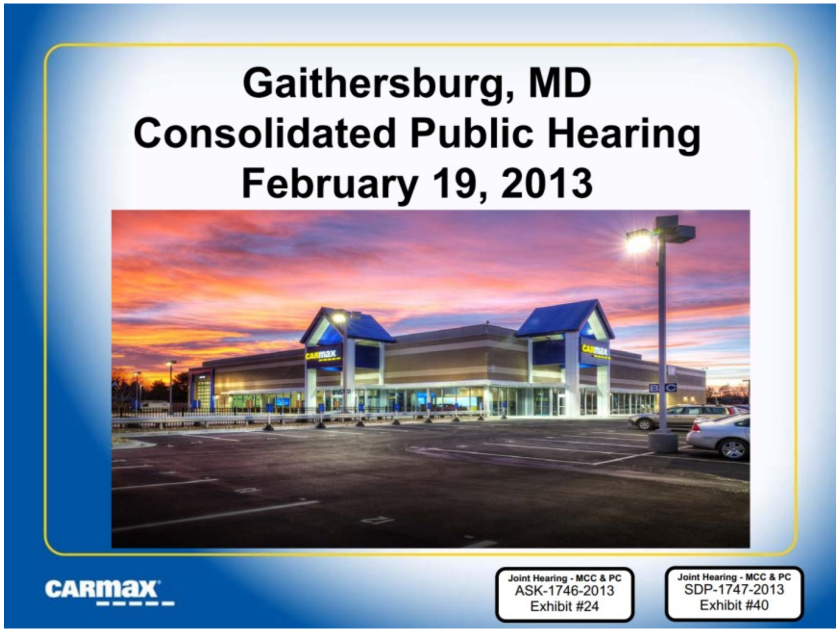
AMENDMENT TO SKETCH PLAN: **ASK-1746-2013**

SCHEMATIC DEVELOPMENT PLAN: **SDP-1747-2013**

TITLE:	**CarMax (former Sears/Great Indoors)**
REQUEST:	**RECOMMENDATION TO M&C**
ADDRESS:	16331 Shady Grove Road
ZONE:	MXD (Mixed Use Development)
Applicant:	CarMax Auto Superstores, Inc., JM Dixon
Owner:	Sears, Roebuck & Company

Source: Montgomery Newsletter, http://www.gaithersburgmd.gov/Documents/pc_13/032013/ASK_1746_2013_SDP_1747_2013.pdf

Case Study: Sale to CarMax for Redevelopment



Source: http://www.gaithersburgmd.gov/Documents/pc_13/032013/ASK_1746_2013_SDP_1747_2013.pdf

Redevelopment into Alternative Real Estate Uses

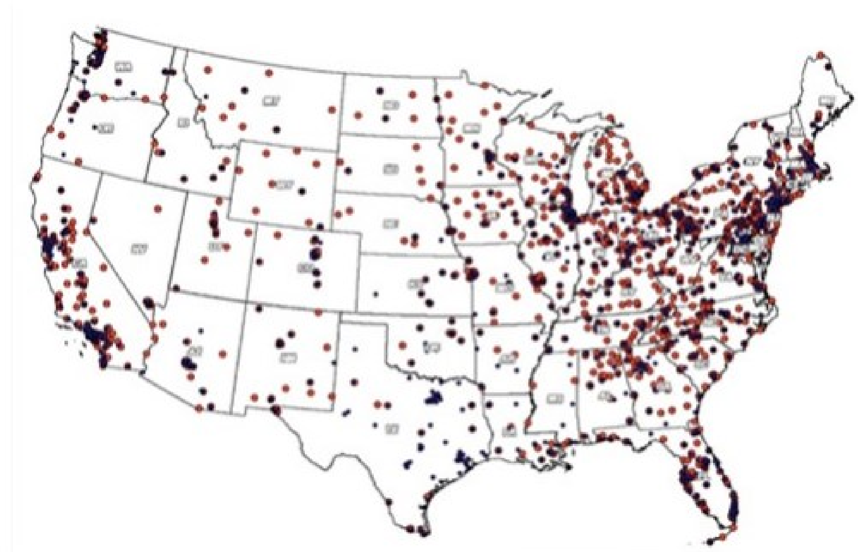
Ubiquity CE, a newly formed subsidiary of Sears Holdings, is redeveloping a subset of suitable Sears locations into data centers or colocation sites

UBIQUITY

CRITICAL ENVIRONMENTS

Ubiquity Critical Environments is a growing developer of datacenter, business continuity, and communication colocation properties. Led by seasoned technology executives, and utilizing a massive real estate portfolio, Ubiquity is intent on becoming the trusted provider of critical facilities in the United States.

Our transactional agility is unrivaled because, unlike a traditional developer, Ubiquity relies on current real estate assets in mature markets with existing property improvements. Our inventory of hundreds of locations gives our customers and partners the ultimate flexibility in site selection. Paired with long-term relationships with landowners and ease of entitlements, we promise a time-to-market superior to other in-house and Greenfield development projects.



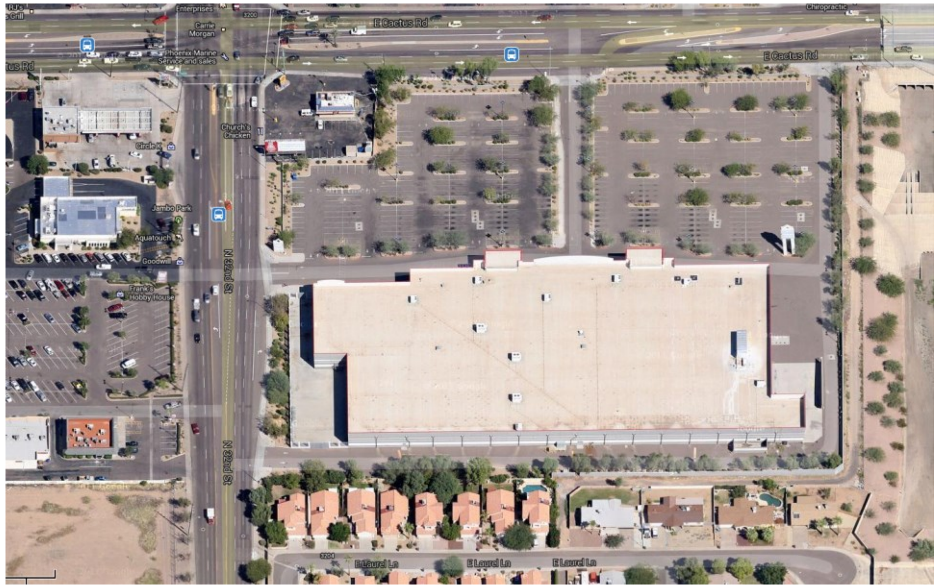
Company

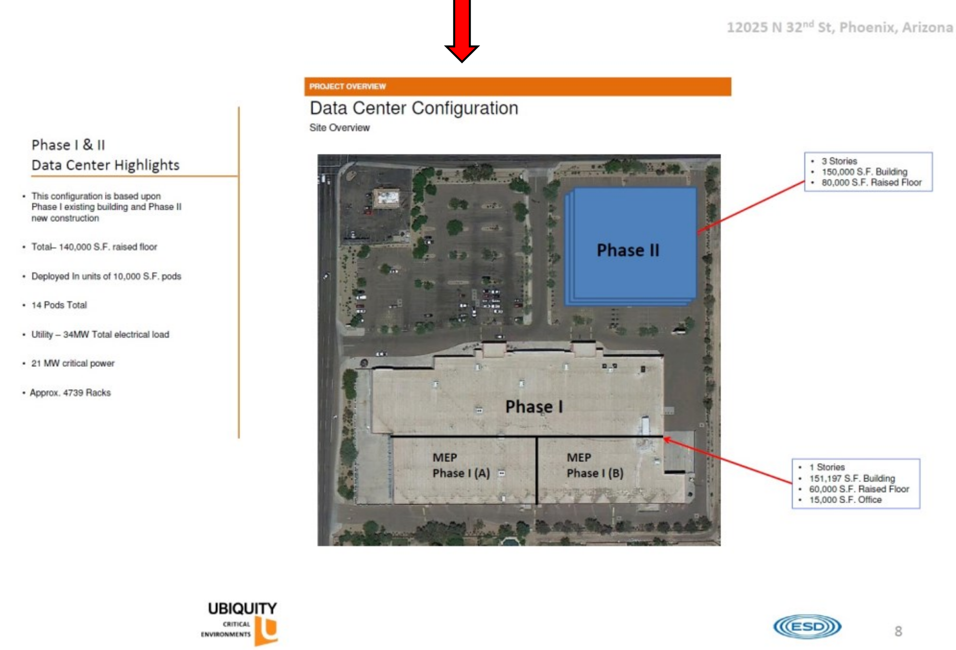
Ubiquity Critical Environments is a growing developer of datacenter, business continuity, and communication colocation properties. Led by seasoned technology executives, and utilizing a massive real estate portfolio, Ubiquity is intent on becoming the trusted provider of critical facilities in the United States.

Our transactional agility is unrivaled because, unlike a traditional developer, Ubiquity relies on current real estate assets in mature markets with existing property improvements. Since 71% of the US population lives within 10 miles of one our locations, we give our customers and partners unrivaled flexibility in site selection. Paired with long-term relationships with landowners and ease of entitlements, we promise a time-to-market superior to other in-house and Greenfield development projects.

Source: http://www.ubiquityce.com/

Case Study: Ubiquity CE Redevelopment in Phoenix





Source: http://www.esdglobal.com/MissionCriticalNews/Ubiquity.pdf

- Appendix – Leasing

Leasing Space

Based on conversations with brokers around the country, we believe that Sears is pursuing leasing more aggressively than it has in the past

Leasing Associate job in HOFFMAN ESTATES

Requisition ID:	178178BR
Job Function:	Real Estate
Employment Category:	Regular, Full-time
State:	Illinois (IL)
State or Province/City:	HOFFMAN ESTATES
Location:	
Post Code:	60179
Post Date:	07/21/2013
Brand:	Sears
Business Unit:	Corporate
Store:	58491: Sears Holdings Management Corp

As the Leasing associate, you are aggressively prospecting potential business clients and presenting them with opportunities to lease space from Sears Holdings Corporation. Your strong sales experience and outgoing personality will allow you to source deals that directly impact the bottom line and grow our portfolio, which is the second largest retail real estate portfolio in the country.

- Identify the plausibility of the transaction
- Identify the potential highest and best square footage to utilize
- Identify with the In-Store Leasing (ISL) team, the necessary elements of costs and other considerations to be included in a financial assessment
- Prepare and present to senior level executives on transaction merits, risks and financial returns.

Background

Summary

Senior Leasing Professional with 21 years of leasing and management experience with major open-air and enclosed mall real estate developers/owners, with a proven record for building strong retailer and institutional client relationships, managing and motivating a highly productive leasing team, successfully negotiating and closing transactions, and maintaining a proactive approach to leasing challenging properties.

Experience

Director - Leasing
Seritage Realty Trust
August 2013 – Present (2 months) | Greenwich, CT

The enhancement and repositioning of selected parts of the Sears Holdings real estate portfolio in the Northeast region from DC to Boston.

Leasing Consultant
Urban Retail Properties
May 2013 – July 2013 (3 months)

Regional Vice President, Leasing
Brixmor
July 2007 – December 2012 (5 years 6 months) | Boston, MA

Directed leasing team's new deal and renewal production for northeast region's 91 shopping centers encompassing 13 million sf
Maintained #1 ranking among eight (8) regions for highest occupancy, highest Average Minimum Rent and lowest default ratio across Brixmor's 630-property national portfolio during entire tenure

Source: Sears Holdings Job Post, LinkedIn

Case Study: Zion Market Sublease in San Diego

Zion Market entered into a 10 year sublease for a leased Sears store, adding to Sears Holdings' growing portfolio of rent-producing properties

Zion Market Relocates to Former Sears Building in Kearny Mesa

SAN DIEGO – December 4, 2012 – CBRE announced that Zion Market leased the 94,500-square-foot retail building at 7655 Clairemont Mesa Blvd. in Kearny Mesa. Zion Market will relocate from its current location at 4611 Mercury Street and is tentatively scheduled to open in first quarter 2013.

Mike Moser of CBRE represented the sublessor, Sears Roebuck and Company. Green Light Realty represented Zion Market in the 10-year lease. According to Moser, the building's accessibility and visibility are superior to Zion Market's former location.

Source: Google Maps, Google Images, http://www.cbre.us/o/sandiego/properties/press-releases/Pages/zion-market-relocates-to-former-sears-building-in.aspx

- Appendix – Sears Holdings Brands and Operating Businesses

Sears Holdings Brands

CRAFTSMAN

- Iconic American brand <u>rated as the top consumer tool label</u>
- Already possesses a large degree of revenue independence from Sears retail
- Estimated wholesale revenue of $2.2bn[1]

Kenmore®

- A <u>top brand in U.S. appliances</u>
- Mainly sold through Sears locations, but opportunities exist to expand distribution
- Estimated wholesale revenue of $4bn[1]

DieHard®

- Most recognized brand in automotive batteries
- Estimated sales of $300m[2]

Dominant consumer brands with work actively underway to ensure that their substantial value exists independently from Sears

(1) LinkedIn

(2) Deutsche Bank 4/23/10 Research Report

Sears Holdings Operating Businesses

- **Sears Home Services**
  - Largest appliance service provider in North America, sending technicians on over 14 million service and installation calls per year
  - One of the largest extended warranty businesses in the U.S. with 24m protection agreements in force, currently exploring strategic alternatives
- **Lands' End**
  - Internet and catalog clothing retailer specializing in casual clothing with 70-80% of business conducted through the Internet
- **Automotive Centers**
  - ~750 Automotive Center locations offering repair & maintenance with a significant and ongoing franchising opportunity
- **Sears Online**
  - One of the largest online mass merchant retailers in North America with substantial and growing sales of third party merchandise
- **Sears Canada**
  - Sears owns ~51% of Sears Canada, which owns and controls significant Canadian real estate interests in the process of development and monetization

Source: SHLD public filings, http://theservicecouncil.com/downloads/2012-symposium-pdfs/sears.pdf, Baraboo News Republic

Craftsman

Craftsman Tools

The Craftsman brand is extremely well positioned with tool buyers, ranking among the top consumer brands across all product categories

Buzz ranking for Dads (May 9 to June 9 2013)

Rank	Brand Name	Score
1	Craftsman	56.8
2	History Channel	52.6
3	Amazon.com	51.3
4	Lowe's	49.7
5	Cheerios	48.7
6	Sony	48.5
7	Discovery Channel	48.2
8	Johnson & Johnson	47.8
9	M&M's	46.6
10	YouTube	46.4
11	Samsung	45.7
12	Home Depot	44.7
13	Dawn	44.6
14	Google	44.3
15	Welch's	43.6
16	Quaker	42.5
17	Whirlpool	42.0
18	Doritos	42.0
19	Tide	41.9
20	Crest	41.7

The DIY-enthusiast dad is more than an American cliché – anyone stuck for a gift on Father's Day would do well with a toolkit or some power tools. That's because US fathers rate home improvement stores Craftsman (#1), Lowe's (#4) and Home Depot (#12) among their top twenty best-rated brands.

YouGov BrandIndex measured more than a thousand US brands using its Buzz score, which asked fathers with children under the age of 18: "If you've heard anything about the brand in the last two weeks, through advertising, news or word of mouth, was it positive or negative?" Buzz scores range from 100 to -100 and are compiled by subtracting negative feedback from positive. A zero score means equal positive and negative feedback.

Brand Considered Mfr Website Total OPE

Source: http://today.yougov.com/news/2013/06/12/do-it-yourself-brands-popular-among-dads/, http://stevensoncompany.com/wp/wp-content/uploads/2012/10/OPEI-TraQline-9-24-12_ALM.pdf

Craftsman Tools

Chief of Staff, Kenmore Craftsman & DieHard

Sears Holdings Corporation

February 2011 – June 2012 (1 year 5 months)

Created a 5 year strategic plan to lead transformation of business from a support unit into a global brands company

"global brands company"

Managed all board of directors communications and acted as corporate liaison to the board

Identified and prioritized areas for business growth across KCD brands, developed thoughtful robust business plans, recommendations and financial business cases to increase brands' profitability, e.g. licensing, new domestic and international distribution channels, product line extensions, etc.

Vice President/General Manager Craftsman

SEARS HOLDINGS

Sears Holdings Corporation

August 2009 – July 2012 (3 years) | Hoffman Estates, Illinois

Lead strategy, product development, marketing, sales, supply, cost management and globalization for Craftsman, a $2.2 billion brand. Oversee team of 53 employees, 376 vendor/manufacturing partners and 4 agencies. Member of KCD Brands executive leadership team.

$2.2bn

Revitalized product development process leading to the launch of 150+ new products in past 2 years, driving Craftsman to record high share levels in Portable Power Tools, Hand Tools, Mowers, Tractors, and Snow Throwers. Received multiple industry awards including 3 Cannes Advertising awards, SXSW business award, 2 Edison awards and over 25 industry awards and recognitions (e.g. Consumer Reports best buy).

Source: LinkedIn

Craftsman Independence from Sears

Craftsman is rapidly shifting from a Sears private label with complete dependence on Sears to a highly profitable, standalone brand company

- **Craftsman already derives substantial and growing cash flows from royalty fees on sales to parties outside of Sears Holdings**
  - Craftsman is one of the largest sellers of product to Sears Hometown and Outlet Stores ("SHOS"), a fully independent company with ~$2.4bn in sales
    - SHOS is a growth business with a stated goal to more than double the number of stores in its system
  - <u>New and rapidly growing partnership with Ace Hardware</u>, a cooperative of over 4,600 hardware store locations, commanding an increasing percentage of shelf space and a full assortment of Craftsman SKUs
- **As a growing licensing company, Baker Street believes that Craftsman is worth a high multiple of its earnings**
- **Craftsman should have strategic value to Stanley Black & Decker or a manufacturer trying to expand into branded tools**

Believe that a ~$1.7bn valuation at ~0.75x sales is conservative given Craftsman's growing independence and market share opportunities

Kenmore

Kenmore Appliances

Kenmore remains an important brand in U.S. appliances, found in the homes of over 100 million Americans

- **Ranked #1 or #2 in every major appliance category**
  - Estimated to have ~$4 billion in wholesale appliance category sales
  - Entirely brand based company with outsourced manufacturing
- **Effectively offered only through Sears and Kmart, but this is likely to change**
  - With the spinoff of SHOS, Sears has created a large captive buyer of Kenmore products and additional opportunities exist to gain shelf space on other retail floors
  - LinkedIn position descriptions indicate a strategic initiative to externalize KCD brands (Kenmore Craftsman Diehard) and turn KCD into a "global brands company"

Source: LinkedIn, http://www.searsmedia.com/sears/brands/kenmore.htm

http://www.prnewswire.com/news-releases/inaugural-kenmore-happenings-at-home-survey-reveals-seasonal-flurries-amid-family-festivities-135568693.html

Kenmore Appliances

$4bn

Brand Manager, Kenmore Brand
Sears Holdings Corporation
October 2012 – Present (9 months) | Hoffman Estates, IL

SEARS HOLDINGS

Description: Manage sales and brand equity driving marketing programs, vendor and channel partner relationships. Ensure customer insights and brand standards are seamlessly incorporated across all consumer-facing communications. Manage budgets for the cooking, dish, floor care, grill and small kitchen appliances categories. Kenmore brand generates $4 billion in annual revenue.

Achievements:
- Creating an alternative direct marketing platform customized for Kenmore's best customers
- Delivered flawless execution on 9 regional Kenmore cooking events
- Driving engagement on Kenmore brand's social platform (Cookmore.com) via digital and print media

Director, Strategy & Business Development
Sears Holdings Corporation
2011 – Present (2 years) | Hoffman Estates, IL

SEARS HOLDINGS

Focused on brand extension and international expansion of three iconic American brands: Kenmore, Craftsman, and DieHard.

is Director of Strategy and Business Development for the Kenmore, Craftsman, and DieHard business unit (KCD) of Sears Holdings. KCD is a consumer product company with $6B in sales and #1 share in the U.S. markets for appliances, tools, and lawn & garden equipment. is responsible for licensing with a focus on brand extension and international expansion. Prior to KCD, led business process development as a member of the leadership team for Sears Commercial, a

Source: LinkedIn

Value of Kenmore

Kenmore is underpenetrated in terms of category floor space and has the potential to be repositioned as a brand independent of Sears

- **Baker Street believes that Kenmore would have a high quality strategic fit for one of the major appliance manufacturer**
  - High quality brand and accretive manufacturing margins (from displacing Samsung, Whirlpool, etc.) on appliance volume for any buyer
  - Additionally, lesser known emerging market manufacturers like Haier could see a strategic fit with the Kenmore brand and volume as part of a U.S. appliance market strategy

We believe that an $800m valuation is conservative given existing captive buyers, brand recognition and strategic value to other appliance players

Lands' End

LANDS' END

Lands' End

Lands' End is a catalog clothing retailer with a strong brand, great service reputation and 70-80% of sales conducted through the Internet [(1)]

- **Lands' End was purchased in 2002 for $1.9bn, and according to Sears "is the nation's largest specialty clothing catalog company"[(2)]**
- **Truly international business, maintaining a meaningful presence and brand in the United Kingdom, Germany and Japan**
  - Began mailing catalogs in the United Kingdom in 1991, Japan in 1994 and Germany in 1996[(3)]
- **Sales mainly conducted through Landsend.com and print catalogs, remaining largely independent from the Sears brand and physical footprint**
  - Estimated sales of $1.5bn[(4)]
  - Landsend.com was launched in 1995, becoming one of the first U.S. companies to branch into e-commerce[(3)]
  - Facebook page has 1+ million fans, more than J. Crew, Zappos, or Bonobos[(3)]

(1) Baraboo News Republic

(2) http://www.searsmedia.com/sears/brands/landsend.htm

(3) http://www.landsend.com/aboutus/heritage/timeline/

(4) LinkedIn

Lands' End Strategic Direction

Director International Merchandising Manager
Lands' End
June 2010 – Present (3 years 1 month)

•Drive merchandising and product strategies for catalog, on-line and retail business across European and Japanese markets
•US based leader representing international point of view across all functional areas
•Achieved $275MM in sales and $45MM ebitda
•Strengthened the financial performance by leading a restructuring and reorganization of the in-country merchandising and inventory teams
• Increased brand reach and sales by launching four new countries and three new channels in existing countries
•Negotiated and integrated global thinking and processes across the product development calendar and functional areas
•Revamped and significantly improved multiple business processes using best practices including merchandise planning, competitive analysis and financial measures
•Report directly to Senior VP International

Director of International Strategy & Business Development
Lands' End
May 2009 – October 2012 (3 years 6 months) | Madison, Wisconsin Area

• Developed the three year strategic road map for international expansion of Lands' End as an Omni-channel retailer. Evaluated 20 prospective markets outside of US on business and macroeconomic variables. The recommendation included a comprehensive competitive analysis of all the markets.

• Led the effort of launching Lands' End into Europe, Russia, Latin America, Australia, China & India via strategic partnerships.

$1.5bn

GMM of International
Lands' End
June 2013 – Present (4 months) | Dodgeville Wisconsin/Oakham England/Japan

20 years experience with Lands' End, a leading Internet/catalogue/store retailer with over $1.5 billion in sales. Consistently turned around under-performing business units and built new businesses increasing both revenue and profits. Member of the leadership team which grew the business from $300M to $1.5B.

Source: LinkedIn

Lands' End Today

LANDS' END

LANDS' END
Careers

with global sales of £1 billion

Lands' End is a global multi-channel retailer designing and selling American classically styled clothes with a great story to tell. Since 1963, Lands'End have earned a reputation for quality clothing, being a great place to work and providing the best customer service in the industry.

The company is headquartered in Wisconsin with global sales of £1 billion and is led by Edgar Huber who was named CEO & President in August 2011. In 2002, Lands' End was acquired by Sears Holding Corporation and we form part of the Sears group. Outside of America the company has 3 landed locations; UK, Germany & Japan.

The current product range includes Women's, Men's, Kids, Footwear, Outerwear, Cold Weather Accessories, Sleepwear, and Swimwear. A new, more fashion sensitive, range sub-branded as 'Canvas' will be available to the international markets. As part of Lands'End strategy to develop retail partnerships Lands' End also appears on Debenhams & House of Fraser websites.

Following an exciting development Lands'End have decided to centralise its European business to the UK which will create a new extended European Merchandise and Planning team. Lands' End Europe is a £225m business operating primarily through direct channels - monthly catalogues and country specific websites.

This team will be headed by the European Product Director:

European Product Director

Head of Planning

Merchandise Team
X 22

- Merchandisers
- Junior Merchandiser
- Assistant Merchandisers
- Merchandiser assistants
- Merchandise Administrators

Planning Team
X 9

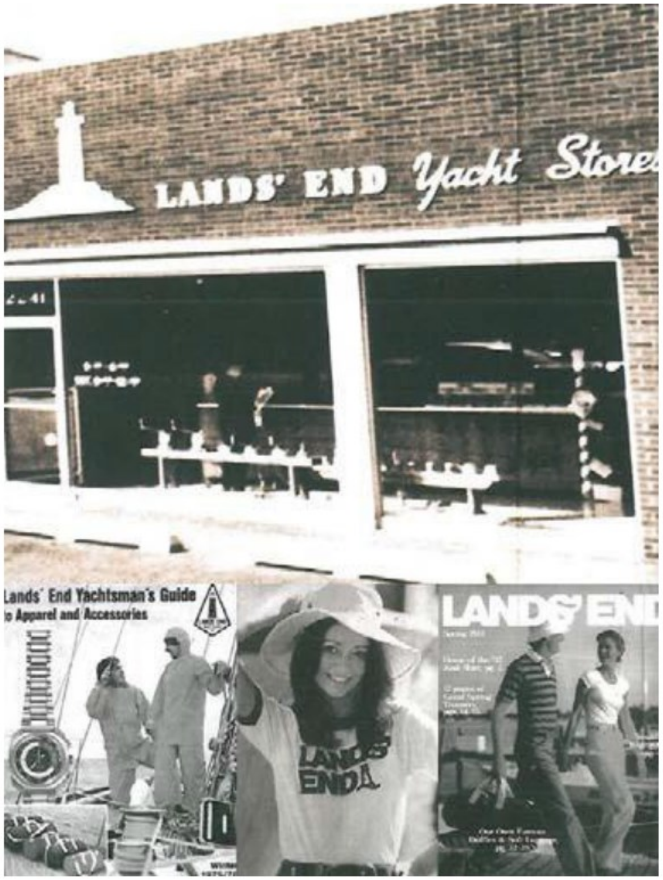
- Planners
- Junior Planners
- Planning Assistants
- Planning Administrators

Michael Page
Buying &
Merchandising

Specialists in buying & merchandising recruitment
www.michaelpage.co.uk/bandm

Source: http://www.michaelpage.co.uk/mediabank/v2.pdf

Lands’ End Today



OUR HISTORY

In 1963, Gary Comer started Lands' End as a supplier of sailboat equipment for racing sailors. Located in Chicago's tannery district, the storefront shop also featured a mail-order operation in the basement. It was during this era that the unique spelling of Lands' End came to be, courtesy of a typo in the very first catalogue. The company began to grow, thanks to the 32-page quarterly catalogues, and soon moved to a larger location on Chicago's Elston Avenue.

In 1977, the merchandise focus began moving away from sailing supplies to clothing, and in the next year the company began a migration to Dodgeville. By the late 1980's the entire operation had moved to Wisconsin.

At the time, Comer wrote:
"Our basic premise for winning customers is little different today than when we started. Sell only things we believe in, ship every order the day it arrives, unconditionally guarantee everything. That was and still is, the platform."

The 1990's saw Lands' End expand internationally, first to the United Kingdom, then to Japan and Germany. During the same period we started our Business Outfitters division. In 1995, another example of the company's innovative spirit was demonstrated as landsend.com was launched, and we became one of the first companies in the US with an e-commerce site.

Growth continued as we entered the new millennium and in 2002 we were able to significantly expand our retail channel potential when we joined the Sears family. With the opening of the Lands' End Shop at Sears, our customers now have the ability to see, touch and try on our products near their homes. We further expanded internationally in 2009, with our move into France and Austria.

Looking ahead, the growth potential for the brand is almost unlimited. By staying true to our heritage and maintaining our focus on the customer, we firmly believe that we can achieve our goal of becoming a $5billion global lifestyle brand in the very near future.

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Source: http://www.michaelpage.co.uk/mediabank/v2.pdf

Lands' End International Presence

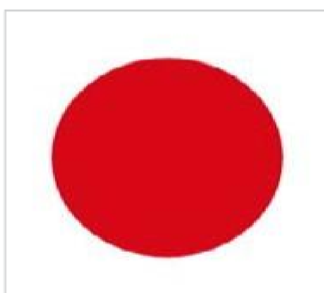
LANDS' END

INTERNATIONAL

Lands' End has a strong history of international growth:

- **1991** UK
- **1994** Japan
- **1996** Germany
- **2009** France
- **2009** Austria


UK


Japan


Germany


France


Austria

MichaelPage
Buying & Merchandising

Specialists in buying & merchandising recruitment
www.michaelpage.co.uk/bandm

Source: http://www.michaelpage.co.uk/mediabank/v2.pdf

Value of Lands' End

- **Baker Street believes Lands' End could be an attractive acquisition for both financial and strategic buyers**
  - Recently reported that the business was marketed for sale to private equity [1]
- **Alternatively, Lands' End could operate as a standalone company and Baker Street believes that it could be spun off directly to shareholders (much like SHOS, Sears Canada and Orchard Supply) or taken public through an IPO**
  - Lands' End has growth intentions and could have the opportunity to thrive outside of the Sears ecosystem
- **Reported ~$1.5bn in largely online sales and an EBITDA estimate of ~$175m[2] reflect a well positioned branded retailer**
  - Baker Street believes that opportunities for international growth, strong cash margins and a structurally high ROIC model make Lands' End a valuable standalone operating business

Value estimate of $1.4bn appears conservative given Lands' End opportunity for future growth and strong earnings

(1) http://online.wsj.com/article/SB10001424052702303404704577311931262356596.html

(2) http://www.michaelpage.co.uk/mediabank/v2.pdf and Baker Street assumptions

Sears Home Services

Sears Home Services

Sears Home Services is a market leader in a highly attractive, service-based business with low capital requirements

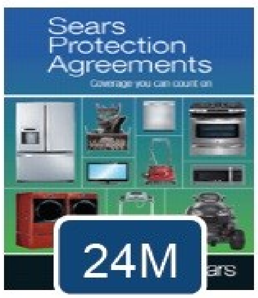
- **Sears has long held the dominant market position in U.S. appliance sales**
  - As recently as the mid 1990's, 60% of all U.S. households had a Kenmore appliance (sold exclusively at Sears)[(1)]
- **Sears was able to leverage its past and current category leadership <u>to build and maintain the largest home appliance installation, services and repair business in the U.S.</u>**
  - In addition to Sears, Home Services handles the installation and servicing of appliances sold by other category retailers through it's A&E brand
- **"Touch point" of services for installed appliance stock and extended warranty products**
  - Active relationship with more than 40 million households, with ~8,000 service technicians making over 14 million service and installation calls annually

Source: http://www.searsmedia.com/sears/brands/kenmore_history.htm, http://www.searsholdings.com/pubrel/pressOne.jsp?id=s16310_item44220, Sears SEC Filings

Sears Home Services

Our Sears Home Services Businesses
$3B+ Revenue

Protection Agreements



24M

In-Home Repair

12M

In-Home Delivery

4M

Installation

0.8M

Carry-In Repair

1.7M

Home Improvement

70K

Parts Direct

27M

Call Center Operations

85M

Source: “Our Integrated Approach to Delivering on the Customer Promise” - May 1, 2012, http://theservicecouncil.com/downloads/2012-symposium-pdfs/sears.pdf

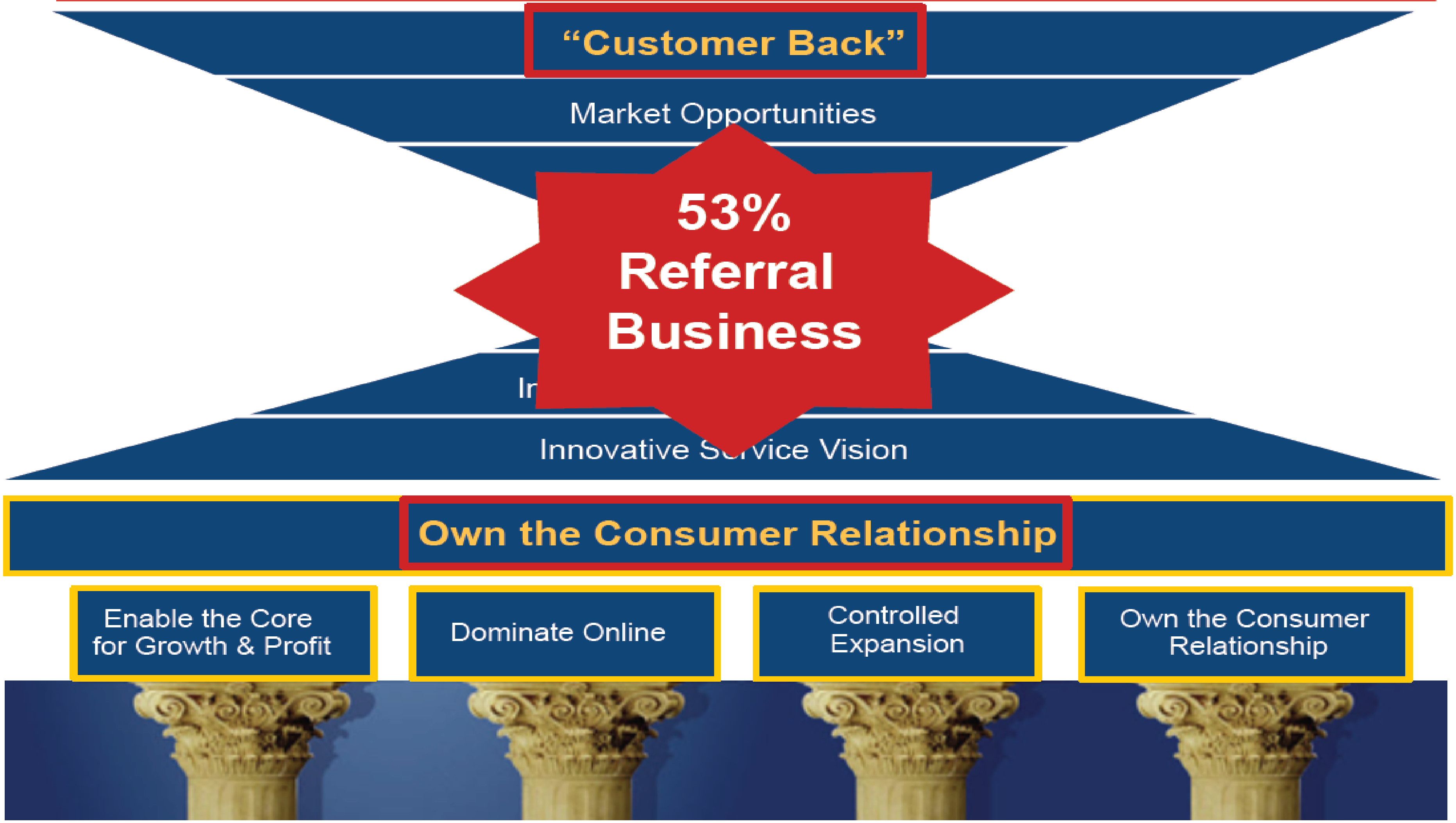
Sears Home Services

Our Vision & Strategic Pillars

Source: "Our Integrated Approach to Delivering on the Customer Promise" - May 1, 2012, http://theservicecouncil.com/downloads/2012-symposium-pdfs/sears.pdf

Sears Home Services

We Had to Re-Imagine our Customer Experience With a "Customer Back" Approach



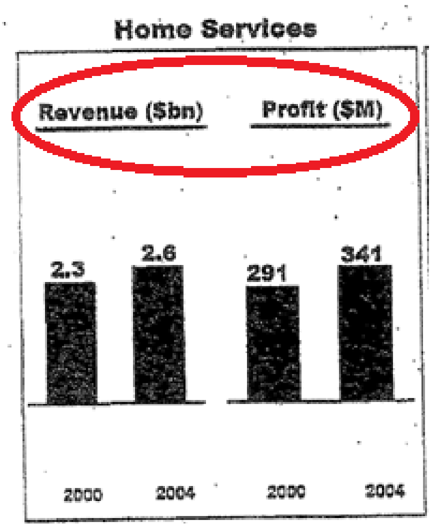
Source: "Our Integrated Approach to Delivering on the Customer Promise" - May 1, 2012, http://theservicecouncil.com/downloads/2012-symposium-pdfs/sears.pdf

Morgan Stanley Valuation: Sears Home Services

Illustrative Sum-of-Parts Analysis

($MM, except EPS)

Segment	2004 Statistic	Multiple Range			Implied Aggregate Value Low		Implied Aggregate Value High	Midpoint	Attributed Liabs / (Assets)	Implied Equity Value	Per Share	Per Share After Tax [1]
Harbor Domestic[5]	$815 EBITDA	4.0x	–	6.0x	$3,259	–	$4,888	$4,073	($131)	$4,204	$19.71	$19.71
SAC	$143 EBITDA	5.5x	–	7.5x	$787	–	$1,073	$930	$50	$880	$4.13	$3.36
OSH	$56 EBITDA	7.0x	–	9.0x	$394	–	$507	$450	$100	$350	$1.64	$1.62
TGI	Assumed Shutdown									$122	$0.57	$0.57
Services	$352 EBITDA	9.0x	–	11.0x	$3,168	–	$3,872	$3,520	$1,700 [2]	$1,820	$8.53	$6.51



Project Brook

Sears, Roebuck and Co.

November 8, 2004

Source: Public court documents filed in New York Supreme Court in connection with Krantman v Adams Sears shareholder lawsuit

Sears Home Services

$3.0bn

Executive Vice President; President and GM Home Services

Sears Holdings Corporation

January 2000 – August 2008 (8 years 8 months) | Greater Chicago Area

P&L responsibility for all service assets including 30,000 associates supporting 20 million appliance, electronics and home improvement service calls annually, a warranty portfolio of 22 million customers and a supply chain with over 8 million unique parts.

Responsible for 18 enterprise call centers handling 130 million calls and a home delivery network making 6 million deliveries annually.

Sears Home Services is a $3.0B business unit of $44B Sears Holdings Corporation and is the nation's largest product and home improvement services company.

* Improved EBITDA 5X on increased market share, productivity and service revenues
* Led the consolidation and integration of 10 independent service organizations into one integrated business unit focused on profitable growth and customer service.
* Led the acquistion and integration of the three largest competitors and formed the nation's second largest appliance service business, A&E Factory Service.
* Managed the organization to operational excellence, continuous improvement and accountability through six sigma, change managment and a focus on the customer.

Source: LinkedIn

Sears Home Services

Director of Finance

Sears Holdings Corporation

August 2012 – May 2013 (10 months) | Hoffman Estates, IL

Direct financial ownership of three Sears Home Services business including:

- In Home Repair Business - key Home Services business with annual revenue over $1.2 billion, 9 million repair service calls completed annually, and over 8,000 repair technicians nationwide including Hawaii and Puerto Rico.
- Carry-in Repair Centers (25 repair centers) businesses.
- Sears Home Services Over the Counter stores (170 facilities)

Director - Finance

Sears Holdings Corporation

March 2010 – August 2012 (2 years 6 months)

Direct financial ownership of three distinct businesses generating over $1.3B in annual revenue within the Sears Home Services business unit

- Protection Agreements - extended warranty portfolio
- Parts Direct - replacement part business
- Customer Care Network – call center network

Source: LinkedIn

Value of Sears Home Services

- **Dominant services business and highly profitable warranty division possess substantial value which is unappreciated by the market**
  - Baker Street believes that revenue and profits for the home services segment could be ~$2.5bn and over $300m respectively, representing a significantly profitable standalone operation
  - Valued by Morgan Stanley in 2004 to be worth between $3.2 and $3.9bn
- **Believe Home Services possesses attractive cash margins, minimal capital expenditures and negative working capital through warranty "float"**
  - Would be desirable to a financial buyer or as a standalone entity (IPO or spin-off)
- **Protection Agreement business is currently exploring strategic alternatives and Baker Street believes it could potentially generate over $1 billion in immediate value**

Value of $1.9bn appears appropriate given Services' market leading position while taking into account some retail interdependency with Sears

Sears Auto Centers

Source: http://www.maxwellbuilders.com/wp-content/gallery/sears-auto-center/sears1000px.jpg

Sears Auto Centers

Sears Auto Centers has the potential to move towards a franchise model, releasing capital and generating higher earnings and ROIC

- **Significant automotive repair brand with substantial market share**
  - ~750 locations and an estimated ~$2bn of sales[(1)]
- **Maintains scale and <u>shares little interdependency with Sears' physical stores</u>**
  - If refranchised, stores could provide both royalty streams on sales and rental income from owned real estate locations

Robert A. Schriesheim, CFO and EVP

Q3 Conference Call, Nov 15, 2012

"One of the ancillary benefits of this model is de-risking, a recurring theme which you'll hear from me today. ***<u>By transforming our company into a more nimble, less asset-intensive business model, we can reduce the level of risk in our operational structure and balance sheet, while concurrently improving the returns on our invested capital</u>***"

(1) LinkedIn

Strategic Direction for Sears Auto Centers

"franchise business plan"

Director, New Business Development

Sears Holdings Corporation

2010 – Present (3 years) | Hoffman Estates, Illinois

SEARS HOLDINGS

Developed and implemented 5 year franchise business strategy plan to open 500 Sears Auto Centers nationally.

- Signed and opened the initial 12 franchised Sears Auto Centers in the US.
- Prepared and managed $1M franchise budget with plan to include marketing, lead generation, market analysis, growth opportunity, sales and operations and NADA/NIADA event launches.
- Developed and implemented franchise sales process utilizing the tools: Sales Force, Webinars and Powerpoint presentations.
- Led and managed internal franchisee sales staff to achieve the 12 franchise opening objective. Identified and built strategic alliances with both internal HQ staff and external sales field force.

Manager, Business Strategy, Automotive Franchise

Sears Holdings Corporation

March 2010 – March 2012 (2 years 1 month) | Greater Chicago Area

SEARS HOLDINGS

Original member of Sears Auto Franchise team. Researched, developed business model and coordinated execution of launch of new franchise enterprise within Sears Holdings. Closed initial nine sales. Built and launched Sears limited warranty and extended service contract program to compliment used car sales at franchise locations. Developed financial structure of business and worked with accounting team to fulfill with internal and external reporting needs.

$2bn

Senior Leadership Program Associate (Chief of Staff)

Sears Holdings Corporation

July 2009 – May 2010 (11 months) | Hoffman Estates, IL

SEARS HOLDINGS

- Serve as chief of staff for Sears Automotive, a $2-billion automotive aftermarket merchandise and services provider with 850 corporate stores and a separate franchise network.
- Direct strategy for network growth and new business development.
- Research, design business model and launch Sears Auto Center Franchise program (Sears Authorized Independent Auto Centers, LLC).
- Research, design and manage implementation of Performance Planning to overhaul planning processes.
- Research, build business case, select provider and oversee design and implementation of new in-store experience (signage, layout, fixturing, etc.) for Sears Auto Center network.

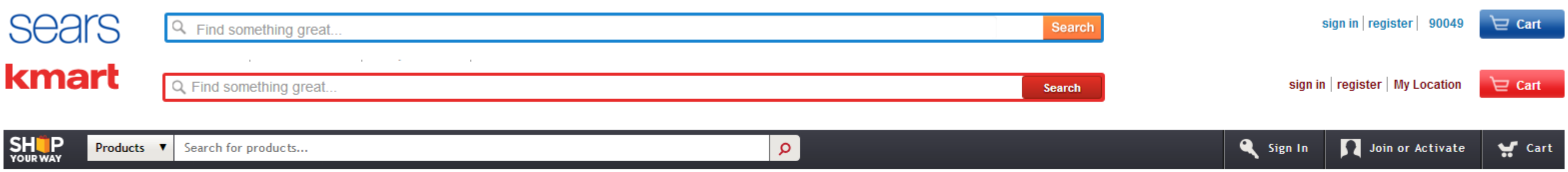
Source: LinkedIn

Value of Sears Auto Centers

- Sears Auto possesses the scale and infrastructure to operate as a standalone entity
- Baker Street believes that a spin-off of Sears Automotive Centers could be an attractive strategic decision, with similarities to the SHOS spin-off
  - Would allow Sears Auto Centers to aggressively focus on refranchising efforts while providing value to Sears Holdings shareholders
- Could also be sold to a financial operator focused on driving operating performance while providing Sears with attractive rental income
- In addition to Sears outparcel locations, Sears Auto has standalone owned real estate not included in Baker Street's real estate appraisal
  - Some of these locations have already been slated for full scale redevelopment opportunities (such as Mariano's in Chicago – page 76)

Baker Street believes that Sears Automotive Centers as a standalone business could be worth over $500 million

Sears Online



Sears Online

Believe that on a no-growth / maintenance basis, Sears Online would be meaningfully profitable to the tune of hundreds of millions of dollars

- **#3 online mass-merchant retailer behind Amazon and Wal-Mart[(1)]**
  - A top online retailer with an estimated $3.1bn[(2)] in sales and ~15 million unique visitors per month[(1)]
- **Growing ~20% per year with almost 20% of total sales coming from third party merchants on a commission model and no Sears inventory at risk[(1)]**
  - Enables Sears Online to run an asset-light business model generating commissions and membership fees from participating merchants

(1) Selling on Sears.com Webinar, February 26, 2013, http://www.mercent.com/webinars/sell-on-sears-access-millions-of-loyal-online-shoppers

(2) Based on Internet Retailer estimate $4.2bn for Sears total online 2012 sales minus Baker Street estimate of $1.1bn in Lands' End online sales

Sears Online

Big and getting bigger

The Top 10 merchants accounted for 52% of all 2012 Top 500 sales.

May 24, 2013, 11:50 AM

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Web-only retailers use tried and true tactics

Amazon's above-market growth is a major reason the biggest online retailers account for such a large share of all Top 500 sales. The combined 2012 web sales of the top 10 retailers—Amazon.com, Staples Inc. ($10.30 billion), Apple ($8.83 billion), Walmart.com ($7.70 billion), Liberty Interactive Corp. ($4.30 billion), Sears Holdings Corp. ($4.20 billion), Office Depot Inc. ($4.06 billion), Dell Inc. ($3.90 billion), Netflix Inc. ($3.61 billion) and Best Buy Co. ($3.35 billion) amounted to $111.34 billion and accounted for about 51.5% of all Top 500 sales and 59.5% of Top 100 sales. In comparison, the combined 2011 web sales of the 10 biggest retailers ranked in the Top 500 amounted to $93.9 billion and accounted for 51.1% and 58.9%, respectively of all Top 500 and Top 100 web sales.

$4.2bn

Sears sparks web sales growth with personalization

New ways of getting personal with customers helped boost Q4 web sales 25%.

March 21, 2013, 1:52 PM

Although Sears doesn't break out its web sales, its personalization efforts contributed heavily to a 25% boost in web sales for the fourth quarter ended Dec. 31 and a 17% increase for all of 2012, Jooma says.

Source: http://www.internetretailer.com/2013/05/24/big-and-getting-bigger, http://www.internetretailer.com/2013/03/21/sears-sparks-web-sales-growth-personalization

Sears Online

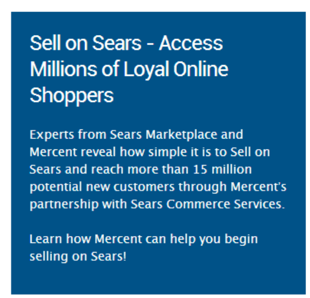
Lauren Marchese, Enterprise Sales Executive

Selling on Sears.com Webinar, February 26, 2013

"To begin I want to make sure you better understand Sears.com and our customer. Now I love to start with this fact because this is something I wasn't aware of when I began at Sears. Did you know that ***Sears is the third largest online mass-merchant retailer? That's behind Amazon and Wal-Mart. According to the Internet Retailer 500 list, Sears is actually #8 overall and we see 15 million unique visits a month on Sears.com.***

Since we have started we have now over 6,000 active sellers and growing rapidly. We have 60 million items listed on Sears.com from marketplace sellers only. ***And marketplace items are accounting for 19% of site orders and 15% of all units sold. We are steadily increasing each year and our results just came in, we were up 25% YOY.***

Now there is two fees associated with this model. First there is a ***commission fee on all goods sold.*** *Commission ranges depending on the category you're selling in. Commission on the low end is 7% for electronics, on the high end at 20% for jewelry.* ***On average*** *you're going to notice that* ***commission is about 15%. Additionally, there is a $39.99 monthly fee*** *to have an account with us. This is regardless if you have one item or two million items. The rate is the same for everybody. There are no additional fees, no listing fees, nothing to get started and as the seller you're in full control of your order assortment."*



Source: Selling on Sears.com Webinar, February 26, 2013, http://www.mercent.com/webinars/sell-on-sears-access-millions-of-loyal-online-shoppers

Sears Online

Director, Digital Media Sales - Sears.com and Kmart.com

Sears Holdings Corporation

June 2011 – Present (2 years 1 month) | Greater Chicago Area

SEARS HOLDINGS

Sears Holdings Corporation (NASDAQ: SHLD) is Sears, Kmart, Mygofer and The Great Indoors. Sears.com is the nation's third largest online retailer with over 4,000 full-line and specialty retail stores in the United States and Canada. Sears Holdings is the leading home appliance retailer as well as a leader in tools, lawn and garden, consumer electronics and automotive repair and maintenance. Sears Holdings is the 2011 ENERGY STAR® Retail Partner of the Year. Key proprietary brands include Kenmore, Craftsman and DieHard, and a broad apparel offering, including such well-known labels as Lands' End, Jaclyn Smith, Kardashian Kollection, Joe Boxer, as well as the Apostrophe and Covington brands. Sears.com and Kmart.com has recently launched digital advertisement placements on its home, vertical and category pages for brands to share relevant content to their target consumers while they are in the shopping mindset. I manage digital media sales for Sears.com and Kmart.com. I work hand in glove with the largest brands and media agencies in NYC, Chicago, Los Angeles and San Francisco.

Sears.com and Kmart.com collectively have over 1.4MM homepage views per day and each over 15MM Unique Visitors per day. Current digital product offerings include: IAB Display Ad, 12MM Email Database, Custom Brand Showcase/Micosites, Electronic/Downloadable Coupons, Shop Your Way Customer Loyalty Program and retargeting ads.

Divisional Vice President - Strategy, Pricing, and Online for Appliances

Sears Holdings Corporation

April 2013 – Present (3 months)

SEARS HOLDINGS

Responsible for sales/profitability of $500 million appliance e-commerce businesses for Sears and Kmart. Profitability up over 30% in 2012, with market share up as well.

Accountable for pricing strategy and execution for stores and online, utilizing dynamic models to drive maximum price realization across all channels.

Defining overall appliance business go to market strategy, including plans for expanding on industry leading volume and profit rates through additional channels, partnerships, and service offerings.

Source: LinkedIn

Value of Sears Online

- **Sears Online is currently consuming substantial growth investment dollars, obscuring the profitability of its attractive business model**
  - While these costs should be thought of as “growth CapEx,” they are expensed through the Sears Holdings income statement and negatively affect consolidated financials
- **Online businesses have received significant management attention and corporate resources**
  - Sears appears capable of earning substantial profits if it was to curtail growth-related expenses

Baker Street believes that the Sears Online business is conservatively worth $1bn considering its rapid growth and business model

Sears Canada

Sears Canada

Sears owns ~51% of Sears Canada, which has substantial Canadian real estate interests and its own diverse pool of assets

- **Substantial Operating Asset Diversity**
  - 118 department stores, possessing valuable freehold and lease assets along with 48 free-standing Sears Home stores
  - 11 Outlet stores and 269 franchise type Hometown Stores in small communities (similar assets to the recent SHOS spinoff from Sears Holdings)
  - Sears catalogue issued to more than 3 million households and supported by ~1,800 pick-up locations operated primarily by independent owners
  - National repair service and parts provider with a network of 22 branches
  - Additionally, offers travel offices, hair care centers, optical services, health food shops, income tax services and more

Sears Canada's Substantial Real Estate Assets

Mall anchor real estate is scarce and extremely valuable in Canada, where Sears Canada appears ideally positioned to benefit

- **Sears Canada owns and leases some of the most unique, irreplaceable real estate locations in Canada's best malls**
- **Example: Sears Canada store at Eaton Center (mall sales/sq.ft. of ~$1,300)[1]**
  - Ala Moana, one of the best U.S. malls, has sales/sq.ft. of over $1,400[2]
  - Sears sold its Ala Moana 340k square feet lease back to GGP in 2012 for $250 million ($735/sqft)
- **Sears is the only anchor at the Eaton Center and has a lease on ~800k sq.ft.[3]**
  - Illustratively using Ala Moana as a comp (value/sqft), this lease alone would be worth ~$590m

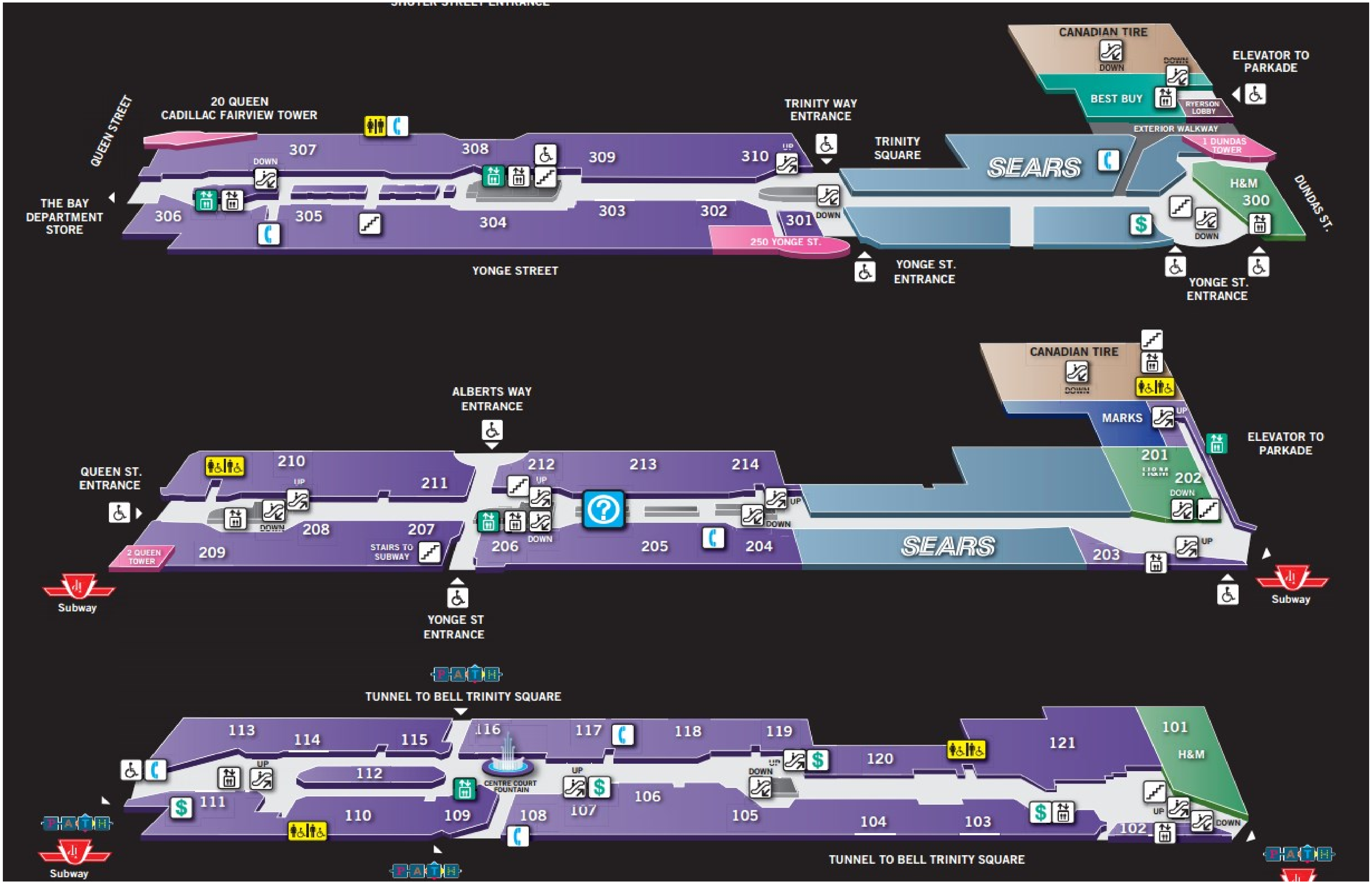
Additionally, Sears has started planning mixed-use developments such as its seven tower project in Burnaby (page 73)

(1) http://www.torontoeatoncentre.com/en/centreinfo/Pages/FactsaboutTorontoEatonCentre.aspx

(2) General Growth Properties

(3) http://www.retail-insider.com/2012/10/nordstrom-continues-canadian-location.html

Eaton Center – One of N. America's Best Malls



Source: http://www.torontoeatoncentre.com/EN/directory/Pages/ListStoresA-Z.aspx

Value of Sears Canada

- Substantial value from real estate, franchise operations and independent operating businesses
- Clear path to monetize real estate assets through the sale of anchor pads, leases and the redevelopment of owned land parcels
  - Actively undertaking asset monetization, spurred by a bull market in Canadian real estate
- Believe that the market is substantially undervaluing Sears Canada, with a severe lack of float and analyst coverage exacerbating the situation
- Sears Canada is repurchasing shares to take advantage of an undervalued share price

Baker Street believes that Sears' controlling ~51% stake in Sears Canada is worth ~$900m

- Appendix – Structural Considerations

Sears Holdings Structure

Sears equity can currently access the value of Sears' owned brands, Lands' End, Sears Canada and real estate

"Sears Holdings Corporation is a holding company with no material assets other than the equity interests of its subsidiaries. Our subsidiaries conduct substantially all of our operations and own substantially all of our assets."

- SHLD Form S-3ASR, April 12, 2011

"We have recently undertaken a reorganization of the internal workings of Sears Holdings. The idea behind the reorganization is to drive decision-making down into the organization and to harness free-market forces to convert a centrally planned company into a more decentralized company. In effect, Sears Holdings will operate as a holding company that owns five types of businesses: operating businesses; support businesses (e.g., finance, marketing); online businesses; real estate businesses; and brand businesses."

- Eddie Lampert, SHLD Press Release, February 28, 2008

SEARS HOLDINGS ≠ Sears

Possible Strategic Options for Sears Equity

Baker Street, with the help of its restructuring legal counsel, has analyzed the feasibility of strategic options to unlock value for Sears shareholders

- **Spin-offs of Subsidiaries**
- **Asset Sales/Dividends**
- **Leveraged Recapitalizations**

Spin-offs of Subsidiaries

Sears is likely to be capable of spinning off a number of its subsidiaries, potentially including:

Brands

- **Kenmore**
- **Craftsman**
- **Diehard**
- **Sears Canada**
- **Sears Automotive**
- **Large amounts of real estate**
- **Lands' End**
- **Sears Home Services**

- **Baker Street believes that there are carve-outs in the 2016 Bank Debt and 2018 Note indentures to allow for the spin-offs of the above entities**
- **Notes do not appear to restrict the spin-offs of these subsidiaries**
  - Lands' End is a guarantor of the 2018 Notes but can possibly be released without the consent of noteholders
- **The 2016 Bank Debt allows for the spin-off of certain subsidiaries, although the specific list is filed confidentially with the SEC, leading Baker Street to believe that this scenario has been explicitly contemplated**

Asset Sales/Dividends

- **<u>Many</u> of the assets in the Sears' organizational structure are unencumbered**
  - Provisions allowing Sears to sell almost all of these assets exist in the 2016 Bank Debt and 2018 Note indentures; in most cases the proceeds are available to be distributed to equity
  - Baker Street does not believe that this would create fraudulent conveyance issues if done correctly
    - Based on precedent legal cases, finite look back periods, potential intercompany claim consideration, and other factors
- **Indentures appear to provide for the sale of the below assets, with the proceeds potentially available to shareholders (rather than creditors, who have retail working capital as collateral):**
  - Real estate assets
  - Lands' End
  - Brands
  - Sears Canada

Leveraged Recapitalization

- **The 2016 Bank Debt and 2018 Note indentures allow for SHLD to perform a leveraged recapitalization of most of its assets (with proceeds potentially available to shareholders)**
  - Nearly all of the real estate is unencumbered and available to borrow against
  - Can incur borrowing against Lands' End, Sears Canada stock, brands, IP/licensing fees, etc.
- **Proceeds from this debt could be up-streamed to the holding company and in most cases used to repurchase shares or be dividended to shareholders**

Spin-off Ability Support

2018 Notes

- **Baker Street believes that there is generally broad authorization in what are generally very covenant light notes to spin-off the non-guarantor subsidiaries (Brands, Canada, some Real Estate, Insurance)**
- **It appears that Sears may also be able to spin-off Lands' End as well as other guarantor subsidiaries (significant value) subject to section 8.01(7) and 10.04(i) in the indenture**
  - SECTION 8.01. Without Consent of Holders.
    - The Issuer, the Guarantors and the Trustee (or the Collateral Agent, if a party thereto) may amend, waive or supplement this Indenture, the Notes and the Security Documents, without prior notice to or consent of any Holder:
      - (7) to **release a Guarantor as provided in section 10.04**;
  - SECTION 10.04. Release of Guarantor.
    - A **Guarantor shall be automatically and unconditionally released from all of its obligations under its Guarantee**:
      - (i) in the **event of a sale or other transfer of Equity Interests** in such Guarantor or dissolution of such Guarantor **in compliance with the terms of this Indenture** following which such Guarantor ceases to be a Subsidiary;

Spin-off Ability Support

2016 ABL

- **It appears that there are a number of subsidiaries which may be spun off to shareholders pursuant to 6.02(d)(ii)(C)(4)**
  - SECTION 6.02. Negative Covenants.
  - So long as any Advance or other Obligation (other than contingent indemnification obligations for which no claim shall have then been asserted) shall remain unpaid, any Letter of Credit shall remain outstanding (unless the same has been cash collateralized in an amount equal to 105% of the aggregate then undrawn and unexpired amount of such Letters of Credit and all other Reimbursement Obligations or back- to- back letters of credit from an issuer and on terms acceptable to the Issuing Lender have been provided in respect of such Letters of Credit) or any Lender shall have any Commitment hereunder, **each of Holdings and the Borrowers will not**, and will not permit any of their Subsidiaries (which for all purposes of this Section 6.02 shall be deemed to exclude Sears Canada) to:
    - (d) **Restricted Payments**.
      - » (ii) **Declare or make**, or agree to pay or make, directly or indirectly, any other **Restricted Payment** (other than a Restricted Payment to a Loan Party), **except** that **if no Default or Event of Default** shall have **occurred** and be continuing (either before or immediately after giving effect thereto and the payment thereof):
      - » (C) **Holdings and its Subsidiaries may make other Restricted Payments**
      - » (4) **to the stockholders of Holdings** in the **form of the equity interests of the subsidiaries set forth on Schedule 6.02(d)**, **provided**, that in each case, immediately after giving effect thereto, the sum of (i) the **Pro Forma and Projected Capped Excess Availability** plus (ii) **Pro Forma and Projected Suppressed Availability** (not to exceed an amount equal to 5% of the Line Cap) **is at least 15% of the Line Cap**

- **However, the list of specific subsidiaries is not included (filed confidentially with the SEC)**
  - But the ABL should not rely on most subs besides SRAC for its security, so there may be reason to believe that the list is quite extensive (or that it could be amended since the ABL would still likely be over collateralized)

Credit Agreement Schedules

SCHEDULE 6.02(d)
Restricted Payments

[*****]
[*****] Confidential material redacted and filed separately with the Securities and Exchange Commission.

Asset Sales and Dividends

2018 Notes

- **Believe there is broad authorization to sell non-collateral assets (collateral primarily 2nd Lien on working capital)**

2016 ABL

- **"Permitted Dispositions" (f) & (g)**
  - "**Permitted Dispositions**" means any of the following:
    - (f) the **sale of surplus**, obsolete or worn out equipment or **other property** in the ordinary course of business by the Borrowers or any Subsidiary;
    - (g) **transfers and Dispositions of all or any portion of any Loan Party's assets, including any equity interests of its Subsidiaries** (other than the equity interests or substantially all of the assets of either Borrower), **provided**, that immediately after giving effect to any such disposition, (i) **no Default or Event of Default then exists**, and (ii) **either** (A) the **Pro Forma and Projected Capped Excess Availability is at least 15% of the Line Cap**, or (B) such Loan Party uses the Net Proceeds of such Disposition to repay Advances in an amount equal to the lesser of (x) 100% of such Net Proceeds and (y) an amount sufficient to cause Pro Forma and Projected Capped Excess Availability to be 15% or more of the Line Cap, and (iii) if the Disposition is to a Subsidiary or Affiliate of a Loan Party which is not a Loan Party, such Disposition shall be on terms that are fair and reasonable and no less favorable to the Loan Party than it would obtain in a comparable arm's length transaction with a Person that is not a Subsidiary or Affiliate of a Loan Party;

- **6.02(b)(iv)**
  - SECTION 6.02. Negative Covenants. (SEE PREVIOUS PAGE FOR PREAMBLE)
    - (b) Fundamental Changes. Merge into or consolidate with any other Person, or permit any other Person to merge into or consolidate with it, or **sell, transfer, lease or otherwise dispose of** (in one transaction or in a series of transactions) **all or substantially all of its assets** (in each case, whether now owned or hereafter acquired), or liquidate or dissolve, **except that**, if at the time thereof and immediately after giving **effect thereto no Default or Event of Default shall have occurred** and be continuing
      - » (iv) **any Subsidiary of Holdings other than the Borrowers may sell, transfer, lease or otherwise dispose of its assets to a Person that is not a Subsidiary through transactions which are undertaken in the ordinary course of its business** or determined by Holdings or the Borrowers in good faith to be in the best interests of Holdings, the Borrowers and their Subsidiaries

Asset Sales and Dividends

2016 ABL (Cont.)

- **6.02(d)(ii)(A), (B), and most importantly (C)**
  - SECTION 6.02(d)(ii). (SEE PREVIOUS PAGE)
    - (A) Holdings and its Subsidiaries **may make Restricted Payments** in an **aggregate amount** **not to exceed $1,500,000,000** from and after the **Effective Date through the Termination Date**, provided, that, (i) immediately after giving effect to any such Restricted Payment, Pro Forma and Projected Capped Excess Availability is greater than 50% of the Line Cap and (ii) Restricted Payments pursuant to this subsection (A) **shall not exceed $1,000,000,000 in any rolling twelve month period**;
    - (B) Holdings and its Subsidiaries **may make other Restricted Payments**, provided, that, **immediately after giving effect thereto** (i) the sum of (1) **Pro Forma and Projected Capped Excess Availability** plus (2) **Pro Forma and Projected Suppressed Availability** (not to exceed an amount equal to 5% of the Line Cap) **is at least 15% of the Line Cap**, **and** (ii) **the Pro Forma Fixed Charge Ratio shall be at least 1.05 to 1.0**; provided, that, for purposes of the calculation of Pro Forma Fixed Charge Ratio (x) Adjusted Consolidated EBITDA and Consolidated Interest Expense shall be computed on a trailing four quarter basis, and scheduled principal payments shall be computed on a four quarter forward basis, and (y) the amount of the Restricted Payment paid in cash being made in connection with the calculation shall be added to Fixed Charges;
    - (C) **Holdings and its Subsidiaries may make other Restricted Payments** (1) from the Net Proceeds of any common stock issuances by Holdings after the Effective Date, (2) **from the Net Proceeds of any Permitted Dispositions** of the **type set forth in clauses (f) and (g)** of the definition thereof, and (3) **from any dividends and distributions** received (directly or indirectly) **on account of equity interests in any Subsidiary of Holdings which is not a Loan Party** or on account of equity interests in OSH, **and** (4) **to the stockholders of Holdings in the form of the equity interests of the subsidiaries set forth on Schedule 6.02(d)**, provided, that in each case, immediately after giving effect thereto, the sum of (i) the Pro Forma and Projected Capped Excess Availability plus (ii) Pro Forma and Projected Suppressed Availability (not to exceed an amount equal to 5% of the Line Cap) **is at least 15% of the Line Cap**
- **Permitted disposition (g) above (as referenced on prior page) refers to sales of subsidiaries**

Leveraged Recapitalization

2018 Notes

❑ 4.04 Intro

- SECTION 4.04. **Limitations on Liens**. The Issuer **shall not**, and shall not cause or **permit any Restricted Subsidiary to**, directly or indirectly, create, **incur**, assume or permit or suffer to exist **any Liens (other than Permitted Liens)** of any kind against or upon (i) prior to the occurrence of a Fall- Away Event, the Collateral or any proceeds thereof and (ii) from and after the occurrence of a Fall- Away Event, any property or assets of the Issuer or any of its Restricted Subsidiaries or any proceeds thereof, in each case, to secure indebtedness for borrowed money and whether such assets are owned on the Issue Date or acquired after the Issue Date.

❑ "Permitted Liens" (4)

- "**Permitted Liens**" means the **following types of Liens**:
  - (4) **Liens of the Issuer or a Subsidiary of the Issuer on assets of any Subsidiary of the Issuer**;

❑ 4.05(a)(ii)

- SECTION 4.05. **Limitation on Sale and Leaseback Transactions**.
  - (a) The Issuer **shall not**, and shall not **permit any Restricted Subsidiary** to, enter into any arrangement with any Person providing for the sale by the Issuer or any Restricted Subsidiary of any property more than 180 days following the Issuer's or such Restricted Subsidiary's acquisition of such property, with the intention of taking back a lease of such property (a "**Sale and Leaseback Transaction**") **unless** the **terms of such sale or transfer have been determined by the Issuer's Board of Directors to be fair and arm's- length and either**:
    - (ii) the **Issuer or such Restricted Subsidiary would be entitled**, at the effective date of the sale or transfer, **to incur indebtedness secured by a Lien on such property (and such Attributable Debt shall be deemed to be secured by a Lien on such property) in an amount at least equal to the Attributable Debt in respect of the Sale and Leaseback Transaction pursuant to Section 4.04**.

Leveraged Recapitalization

2016 ABL

- **"Permitted Debt" (e)(ii) & (j)**
  - "**Permitted Debt**" means each of the following **as long as no Default or Event of Default exists** at the time of incurrence thereof **or would arise from the incurrence thereof**:
    - (e)(ii) **Debt incurred in connection with sale- leaseback transactions** with respect to **assets not constituting Collateral**;
    - (j) **any other Debt**, **provided**, that such Debt (i) **does not require the repayment of principal prior to the Termination Date** in excess of 1.0% of the original principal amount thereof per annum (excluding, for the avoidance of doubt, repayments required as a result of the sale of assets and repayments required in connection with an event that would constitute an Event of Default under Section 7.01(g) hereof) (ii) **does not have a maturity date which is earlier than the Termination Date** and (iii) is incurred on **arm's- length terms**;
- **6.02 (see previous page)**
  - (a) Liens, Etc. **Create or suffer to exist any Lien upon property of Holdings, the Borrowers or any Domestic Subsidiary** constituting **Inventory**, **Credit Card Accounts Receivable**, **Pharmacy Receivables** or **any other Collateral** (as defined in the Guarantee and Collateral Agreement as in effect on the Effective Date) or any Related Intellectual Property, other than:
- **See the "SECOND AMENDED AND RESTATED GUARANTEE AND COLLATERAL AGREEMENT" for the definition of "other Collateral"**
  - 3.1 **Collateral**; Grant of Security Interest. Each Grantor hereby grants to the Control Co- Collateral Agent, for the ratable benefit of the Credit Parties, a security interest in, all of the following property now owned or at any time hereafter acquired by such Grantor or in which such Grantor now has or at any time in the future may acquire any right, title or interest (collectively, the "Collateral"), as collateral security for the prompt and complete payment and performance when due (whether at the stated maturity, by acceleration or otherwise) of such Grantor's Obligations:
    - (a) all Credit Card Accounts Receivable; (b) all Pharmacy Receivables; (c) all Inventory; (d) all Chattel Paper relating to Credit Card Accounts Receivable and Pharmacy Receivables; (e) all Instruments relating to Credit Card Accounts Receivable and Pharmacy Receivables; (f) all Prescription Lists; (g) all Documents relating to any Inventory; (h) all Deposit Accounts; (i) all cash and cash equivalents; (j) all books and records pertaining to the Collateral; and (k) to the extent not otherwise included, all Proceeds, insurance claims, Supporting Obligations and products of any and all of the foregoing and all collateral security and guarantees given by any Person with respect to any of the foregoing.
- **Appears Sears' subsidiaries' equity and real estate is available to borrow against**

Operating Company Bankruptcy

2018 Notes

- **Filing SRAC or other subsidiaries does not appear to be an Event of Default despite the fact that this is where the collateral is**
- **6.01(4)&(5)**
  - SECTION 6.01. Events of Default.
    - Each of the following in an "**Event of Default**":
      - (4) the **entry by a court** having jurisdiction in the premises of a decree or order for relief in respect **of the *Issuer*** in an involuntary case under the **Federal bankruptcy laws**, as now or hereafter constituted, or any other applicable Federal or State bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee or sequestrator (or similar official) of the Issuer or for substantially all of its property, or ordering the winding- up or liquidation of the Issuer's affairs, and such decree or order shall remain unstayed and in effect for a period of 90 consecutive days;
      - (5) the **commencement** **by the *Issuer*** of a **voluntary case under the Federal bankruptcy laws**, as now or hereafter constituted, or any other applicable Federal or State bankruptcy, insolvency or other similar law now or hereafter in effect, or the consent by the Issuer to the entry of an order for relief in an involuntary case under any such law, or the consent by the Issuer to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian or sequestrator (or similar official) of the Issuer or for substantially all of its property, or the making by it of an assignment for the benefit of creditors

2016 ABL

- **Would need an amendment but see no reason that one should not be obtainable given that the ABL's tight secured lien position on assets should fully protect the ABL from losses and there are many gives that could be negotiated (interest rate, more collateral, nearer maturity, etc.)**
  - The revolver may not be drawn today and Lampert would not draw it if it backed him into a corner (if he sees filing as a likely scenario)

Collateral

2018 Notes

- ## 2.1. Collateral; Grant of Security Interest
  - Each Grantor hereby grants to the Collateral Agent for the equal and ratable benefit of the Secured Parties a security interest in all of the following property now owned, or at any time hereafter acquired, by such Grantor or in which such Grantor now has, or at any time in the future may acquire, any right, title or interest (collectively, the "**Collateral**"), as collateral security for the prompt and complete payment and performance when due (whether at the stated maturity, by acceleration or otherwise) of such Grantor's Secured Obligations:
    - (a) all Credit Card Accounts Receivable; (b) all Inventory; (c) all Chattel Paper relating to Credit Card Accounts Receivable; (d) all Instruments relating to Credit Card Accounts Receivable; (e) all Documents relating to any Inventory; (f) all books and records pertaining to the Collateral; and (g) to the extent not otherwise included, all Proceeds, insurance claims, Supporting Obligations and products of any and all of the foregoing and all collateral security and guarantees given by any Person with respect to any of the foregoing.

2016 ABL

- ## See previous slide