



Kohl's Corporation (KSS)

Updated November 20th, 2018 by Eli Inkrot

Key Metrics

Current Price:	\$64	5 Year CAGR Estimate:	9.8%	Volatility Percentile:	92.9%
Fair Value Price:	\$68	5 Year Growth Estimate:	4.0%	Momentum Percentile:	97.3%
% Fair Value:	90%	5 Year Valuation Multiple Estimate:	2.0%	Growth Percentile:	20.9%
Dividend Yield:	3.8%	5 Year Price Target	\$86	Valuation Percentile:	53.7%
Dividend Risk Score:	C	Retirement Suitability Score:	B	Total Return Percentile:	41.1%

Overview & Current Events

Wisconsin-based retailer Kohl's traces its roots back to a single store – Kohl's Department Store – in 1962. Since then it has grown into a leader in the space – offering women's, men's and children's apparel, housewares, accessories and footwear in more than 1,100 stores in 49 states. The company's market cap stands around \$10.2 billion and is anticipated to earn ~\$900 million on ~\$19 billion in sales this year.

On November 20th, 2018 Kohl's reported Q3 2018 results. The top line grew 1.3% for the quarter to \$4.63 billion. Earnings-per-share came in at \$0.98 against \$0.70 in the year ago period, with gross margins improving 25 basis points.

Kohl's also announced a \$0.61 quarterly dividend (in-line with the previous mark) and provided updated guidance of \$5.16 to \$5.36 compared to \$4.96 to \$5.36 previously. Excluding the extinguishment of debt, 2018 diluted earnings-per-share are anticipated to be between \$5.35 and \$5.55 compared to the prior guidance of \$5.15 to \$5.55.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$2.89	\$3.23	\$3.65	\$4.30	\$4.17	\$4.05	\$4.24	\$3.46	\$3.11	\$4.19	\$5.25	\$6.39
DPS	N/A	N/A	N/A	\$1.00	\$1.28	\$1.40	\$1.56	\$1.80	\$2.00	\$2.20	\$2.44	\$2.88
Shares	305	307	291	247	222	211	201	186	174	168	165	160

From 2008 through 2017, Kohl's has been able to grow earnings-per-share by about 4.2% annually. However, it should be noted that this was driven by the company's extensive share repurchase program. Over that time period the share count was nearly halved, a reduction rate of ~6% per annum. On a company-level basis net profits were actually down about 20% (\$703 million in 2017 versus \$885 million in 2008). Moving forward the company expects a sizable uptick in earnings this year (in large part due to a lower tax rate), but we are cautious thereafter as the share repurchase program becomes more difficult with a much higher dividend payout ratio, steady total store count and pressured margins.

A dividend was initiated in 2011 and since that time has become a substantial part of the capital allocation plan. This reduces the company's opportunity to retire meaningful blocks of stock, but does offer a reliable income stream.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	14.5	15.0	14.3	11.9	11.7	12.7	13.2	17.1	14.1	10.4	12.2	13.5
Avg. Yld.	N/A	N/A	N/A	2.0%	2.6%	2.7%	2.8%	3.1%	4.6%	5.1%	3.8%	3.3%

Over the past decade shares of Kohl's have routinely traded hands with an average multiple of about 13.5 times earnings. We believe that this is more or less fair, given the company's past record. The business has been chugging out profits, but the growth rate has been a serious question. Previously it was aided by share repurchases, but this becomes more difficult as the payout ratio continues to take up a sizable portion of profits. The company is insulated from declining mall traffic somewhat due to the fact that stores are commonly part of "strip malls" instead of "power center" malls, but margins are still competing against the long-term move toward e-commerce.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
Payout	N/A	N/A	N/A	23%	30%	34%	37%	52%	64%	64%	47%	45%

Here you can see the payout ratio story playing out. Just eight years ago the dividend was non-existent. Now it makes up roughly half of anticipated profits. Will believe this payout is well covered, but in our estimation the pace of dividend increases should slow dramatically.

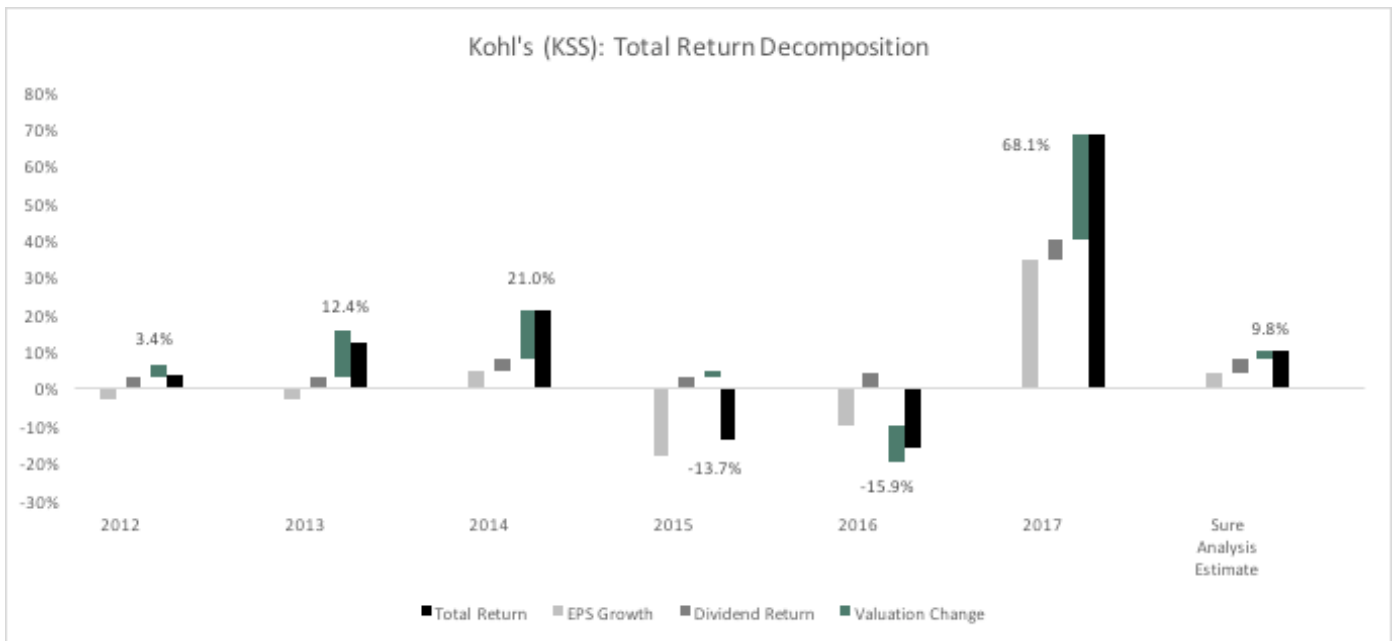
Compared to other retailers we believe Kohl's has a competitive advantage in the way of a well-entrenched store footprint outside of large malls, private-label brands, a large loyalty program and an Amazon return service that could drive traffic. This is offset somewhat by the competitive nature of the business but still allows Kohl's to stand out.

During the last recession Kohl's held up quite well, with earnings-per-share of \$3.39, \$2.89 and \$3.23 during the 2007, 2008 and 2009 periods – representing a decline of just 15% when competitors were faring much worse. Additionally, we are encouraged by management's commitment to extinguish debt early, which ought to bode well for interest coverage.

Final Thoughts & Recommendation

Shares of Kohl's are down ~17% since our last update, bringing the security more in-line with its "typical" earnings multiple and offering a dividend yield near 4%. We're cautious on the company's growth prospects. Past growth has been fueled by share repurchases and this year's growth is greatly aided by a lower tax rate. Looking past this year we do not anticipate either factor playing a large role in significantly growing earnings-per-share. We view Kohl's as an above average retailer in a tough industry. It is a hold at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	16389	17178	18391	18804	19279	19031	19023	19204	18686	19095
Gross Profit	6055	6498	7032	7179	6990	6944	6925	6939	6742	6919
Gross Margin	36.9%	37.8%	38.2%	38.2%	36.3%	36.5%	36.4%	36.1%	36.1%	36.2%
SG&A Exp.	3978	3951	4190	4243	4267	4313	4350	4452	4435	4512
D&A Exp.	543	688	750	778	833	889	886	934	938	991
Operating Profit	1536	1859	2092	2158	1890	1742	1689	1553	1369	1416
Op. Margin	9.4%	10.8%	11.4%	11.5%	9.8%	9.2%	8.9%	8.1%	7.3%	7.4%
Net Profit	885	973	1120	1167	986	889	867	673	556	859
Net Margin	5.4%	5.7%	6.1%	6.2%	5.1%	4.7%	4.6%	3.5%	3.0%	4.5%
Free Cash Flow	684	1611	949	1212	480	1241	1342	794	1385	1019
Income Tax	540	585	668	692	575	515	482	384	319	258

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	11363	14465	13564	14148	13905	14357	14333	13606	13574	13340
Cash & Equivalents	643	2267	2277	1205	537	971	1407	707	1074	1308
Inventories	2799	2923	3036	3216	3748	3874	3814	4038	3795	3542
Goodwill & Int.	201	N/A	193	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Liabilities	4624	6870	5462	7640	7857	8379	8342	8115	8397	7914
Accounts Payable	881	1188	1138	1233	1307	1365	1511	1251	1507	1271
Long-Term Debt	2053	3940	2096	2220	2612	2901	2886	2880	2862	2922
Total Equity	6739	7595	8102	6508	6048	5978	5991	5491	5177	5426
D/E Ratio	0.30	0.52	0.26	0.34	0.43	0.49	0.48	0.52	0.55	0.54

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	8.1%	7.5%	8.0%	8.4%	7.0%	6.3%	6.0%	4.8%	4.1%	6.4%
Return on Equity	13.8%	13.6%	14.3%	16.0%	15.7%	14.8%	14.5%	11.7%	10.4%	16.2%
ROIC	10.4%	9.6%	10.3%	12.3%	11.3%	10.1%	9.8%	7.8%	6.8%	10.5%
Shares Out.	305	307	291	247	222	211	201	186	174	168
Revenue/Share	53.38	56.14	60.10	69.39	81.35	86.50	93.25	98.48	104.39	113.66
FCF/Share	2.23	5.26	3.10	4.47	2.03	5.64	6.58	4.07	7.74	6.07

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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