



Kohl's Corporation (KSS)

Updated December 7th, 2020 by Josh Arnold

Key Metrics

Current Price:	\$41	5 Year CAGR Estimate:	-0.8%	Market Cap:	\$6.5 B
Fair Value Price:	\$28	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	N/A
% Fair Value:	149%	5 Year Valuation Multiple Estimate:	-7.7%	Dividend Payment Date:	N/A
Dividend Yield:	0.0%	5 Year Price Target	\$33	Years Of Dividend Growth:	N/A
Dividend Risk Score:	N/A	Retirement Suitability Score:	N/A	Last Dividend Increase:	N/A

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 1,000 stores in 49 states. The \$6.5 billion market capitalization company should generate just over \$15 billion in sales this year, and closer to \$18 billion in 2021.

Kohl's reported third quarter earnings on November 17th, 2020 with results coming in better than expected on the top and bottom lines, despite comparable sales missing estimates. Total revenue came to \$4 billion, which was down -14% year-over-year as the company continues to grapple with very low productivity from its stores, as well as its prior reluctance to invest in its digital channels. Comparable sales fell -13.3%, which missed consensus estimates for a decline of -11.7%, driving the total revenue decline. On a positive note, digital sales soared 25% year-over-year.

Gross margins were down 48bps to 35.8% of revenue, the product of increased promotional activity, unfavorable mix, and higher shipping costs. Inventory on hand declined -26% year-over-year to \$3.61 billion as Kohl's continues to make itself leaner to boost margins and conserve cash. Kohl's fully repaid its revolver during the quarter and ended Q3 with \$1.9 billion in cash on hand. Cash from operations was \$606 million, while free cash flow was strong at \$511 million.

We've boosted our earnings-per-share estimate for this year to a loss of -\$2.75 per share, and we've increased our earnings power estimate from \$2 to \$2.50 on a faster than expected recovery. Kohl's said it plans to reinstate its dividend at some point in the first half of 2021, but no amount or specific time frame was set.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$3.65	\$4.30	\$4.17	\$4.05	\$4.24	\$3.46	\$3.11	\$4.19	\$5.60	\$4.86	-\$2.75	\$3.04
DPS	---	\$1.00	\$1.28	\$1.40	\$1.56	\$1.80	\$2.00	\$2.20	\$2.44	\$2.68	---	\$1.36
Shares¹	291	247	222	211	201	186	174	168	165	154	155	145

From 2007 through 2018, Kohl's was able to grow earnings-per-share by about 4.7% 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 -5.6% per annum. On a dollar basis, net profits are actually down (\$769 million in 2019 versus \$1.05 billion in 2007). After a sizable uptick in earnings in 2018 (in large part due to a lower tax rate), Kohl's produced a -13% decline in 2019, and earnings will decline enormously this year to a sizable loss. We expect Kohl's to be profitable next year.

With the share repurchase program now suspended indefinitely, we've boosted our estimate of the share count over time again, which will slow EPS projected growth. In addition, we think Kohl's will struggle with margins as its stores reopen, with reduced capacity and additional costs related to COVID-19. We see earnings-per-share at \$3.04 by 2025.

¹ Share count in millions

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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Kohl's capital return program was a huge draw for the stock but with dividends and the buyback suspended, we see little reason for investors be encouraged. We do see a partial recovery in the dividend to \$1.36 per share by 2025, but that is dependent upon earnings normalizing at some point. We note this forecast is an improvement from our last update.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	14.3	11.9	11.7	12.7	13.2	17.1	14.1	10.4	11.9	11.3	16.4	11.0
Avg. Yld.	---	2.0%	2.6%	2.7%	2.8%	3.1%	4.6%	5.1%	3.7%	4.9%	---	4.1%

Given the extremely unusual circumstances of today's environment, we are using an earnings power estimate of \$2.50 per share for our fair value and valuation calculations, rather than actual estimates for 2020.

Over the past decade, shares of Kohl's have routinely traded hands with an average multiple of nearly 13 times earnings. However, given weak 2020 results, along with declining valuations in the sector, we believe investors will be less willing to pay 13 times earnings or more in the near-term. However, we're boosting our fair value estimate to 11 times earnings given that Kohl's is rapidly seeing improvement from the bottom earlier this year. The yield is currently zero until further notice, but we see the stock as paying a strong dividend again in the coming years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	23%	30%	34%	37%	52%	64%	64%	44%	55%	---	45%

We see the payout ratio eventually increasing back to about 45% of earnings over time after the dividend is reinstated.

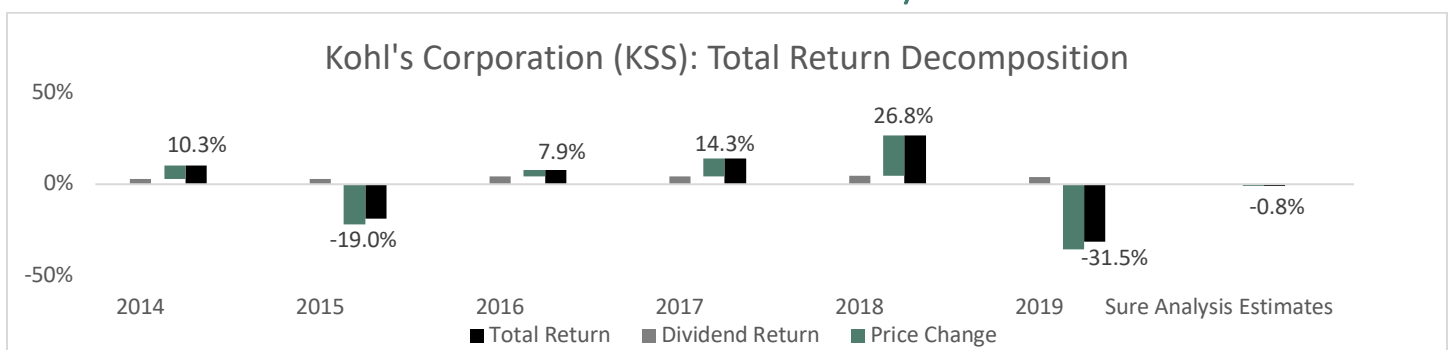
Compared to other retailers we believe Kohl's has a competitive advantage in the way of a well-entrenched store footprint outside of large malls, private-label brands, a large loyalty program, and an Amazon return service. This is offset somewhat by the competitive nature of the business, but it still allows Kohl's to stand out. Unfortunately, this reliance upon physical stores is more of a curse than a blessing in today's environment.

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 through 2009 period – representing a decline of just -15% when competitors were faring much worse. Damage will be much worse for this recession, however, and indeed, Kohl's is going to post a massive loss for 2020.

Final Thoughts & Recommendation

Kohl's projected total returns now stand at -0.8%, and even though the company's fundamentals have improved, the share price has more than doubled since our last update. That has taken the valuation to what we view as an extreme, so the stock appears quite unattractive at this point. We are reiterating our sell rating on Kohl's.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	18,391	18,804	19,279	19,031	19,023	19,204	19,681	20,084	20,229	19,974
Gross Profit	7,032	7,179	6,990	6,944	6,925	6,939	7,737	7,908	8,030	7,834
Gross Margin	38.2%	38.2%	36.3%	36.5%	36.4%	36.1%	39.3%	39.4%	39.7%	39.2%
SG&A Exp.	4,190	4,243	4,267	4,313	4,350	4,452	5,430	5,501	5,601	5,705
D&A Exp.	750	778	833	889	886	934	938	991	964	917
Operating Profit	2,092	2,158	1,890	1,742	1,689	1,553	1,369	1,416	1,465	1,212
Op. Margin	11.4%	11.5%	9.8%	9.2%	8.9%	8.1%	7.0%	7.1%	7.2%	6.1%
Net Profit	1,120	1,167	986	889	867	673	556	859	801	691
Net Margin	6.1%	6.2%	5.1%	4.7%	4.6%	3.5%	2.8%	4.3%	4.0%	3.5%
Free Cash Flow	949	1,212	480	1,241	1,342	794	1,385	1,019	1,529	802
Income Tax	668	692	575	515	482	384	319	258	241	210

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	13,564	14,148	13,905	14,357	14,333	13,606	13,574	13,389	12,469	14,555
Cash & Equivalents	2,277	1,205	537	971	1,407	707	1,074	1,308	934	723
Inventories	3,036	3,216	3,748	3,874	3,814	4,038	3,795	3,542	3,475	3,537
Total Liabilities	5,462	7,640	7,857	8,379	8,342	8,115	8,397	7,970	6,942	9,105
Accounts Payable	1,138	1,233	1,307	1,365	1,511	1,251	1,507	1,271	1,187	1,206
Long-Term Debt	2,096	2,141	2,492	2,792	2,780	2,792	2,795	2,797	1,861	1,856
Total Equity	8,102	6,508	6,048	5,978	5,991	5,491	5,177	5,419	5,527	5,450
D/E Ratio	0.26	0.33	0.41	0.47	0.46	0.51	0.54	0.52	0.34	0.34

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	8.0%	8.4%	7.0%	6.3%	6.0%	4.8%	4.1%	6.4%	6.2%	5.1%
Return on Equity	14.3%	16.0%	15.7%	14.8%	14.5%	11.7%	10.4%	16.2%	14.6%	12.6%
ROIC	10.3%	12.4%	11.5%	10.3%	9.9%	7.9%	6.8%	10.6%	10.3%	9.4%
Shares Out.	291	247	222	211	201	186	174	168	165	154
Revenue/Share	60.10	69.39	81.35	86.50	93.25	98.48	109.95	119.55	122.60	126.42
FCF/Share	3.10	4.47	2.03	5.64	6.58	4.07	7.74	6.07	9.27	5.08

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

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