



Kohl's Corporation (KSS)

Updated December 5th, 2021, by Josh Arnold

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|----------------------------------|------------|
| Current Price: | \$48 | 5 Year CAGR Estimate: | 8.4% | Market Cap: | \$6.7 B |
| Fair Value Price: | \$80 | 5 Year Growth Estimate: | -4.0% | Ex-Dividend Date: | 12/07/2021 |
| % Fair Value: | 60% | 5 Year Valuation Multiple Estimate: | 10.8% | Dividend Payment Date: | 12/22/2021 |
| Dividend Yield: | 2.1% | 5 Year Price Target | \$65 | Years Of Dividend Growth: | 0 |
| Dividend Risk Score: | C | Retirement Suitability Score: | D | 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 1,100 stores in 49 states. The \$6.7 billion market capitalization company should generate nearly \$19 billion in sales this year.

Kohl's reported third quarter earnings on November 18th, 2021, and results were ahead of expectations on both the top and adjusted bottom lines. The company also boosted its full-year outlook, and the stock initially traded higher after the report. Third quarter sales were up 15.5% year-over-year, driven almost entirely by a 14.7% gain in comparable sales. Total revenue was \$4.6 billion and beat estimates by an impressive \$330 million. Kohl's reported Active sales and the strong launches of new brands as drivers of sales growth in Q3.

Gross margins were 39.9% of revenue, a massive gain against 35.8% in the year-ago period. That helped the company swing from a loss of -\$12 million in the year-ago period, to a profit of \$243 million in the same period this year. The company also repurchased \$506 million of shares in the quarter and plans for a total of \$1.3 billion in total repurchases for this year.

Earnings-per-share came to \$1.65 in Q3, and we now expect \$7.30 in earnings-per-share for this year, which would represent a record.

Growth on a Per-Share Basis

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2026 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|---------------|---------------|
| EPS | \$4.30 | \$4.17 | \$4.05 | \$4.24 | \$3.46 | \$3.11 | \$4.19 | \$5.60 | \$4.86 | -\$1.21 | \$7.30 | \$5.95 |
| DPS | \$1.00 | \$1.28 | \$1.40 | \$1.56 | \$1.80 | \$2.00 | \$2.20 | \$2.44 | \$2.68 | \$0.70 | \$1.00 | \$1.47 |
| Shares¹ | 247 | 222 | 211 | 201 | 186 | 174 | 168 | 165 | 154 | 154 | 139 | 115 |

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. 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 declined enormously in 2020 to a sizable loss.

With the share repurchase program now back on, and in a big way, we've reduced our share count forecast accordingly. Fears of struggling margins have proven unfounded, but we note that this year's earnings may well be the top for some time to come. We forecast earnings-per-share at \$7.30 this year as the company is seeing strong pent-up demand come to fruition, as well as margin tailwinds that are boosting earnings significantly. Kohl's capital return program is back in terms of being a sizable draw for the stock. We do see a partial recovery in the dividend to \$1.47 per share by 2026, but that is dependent upon earnings normalizing off extremely high current levels.

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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Valuation Analysis

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Now | 2026 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E | 11.9 | 11.7 | 12.7 | 13.2 | 17.1 | 14.1 | 10.4 | 11.9 | 11.3 | --- | 6.6 | 11.0 |
| Avg. Yld. | 2.0% | 2.6% | 2.7% | 2.8% | 3.1% | 4.6% | 5.1% | 3.7% | 4.9% | 2.7% | 2.1% | 2.2% |

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. Our fair value estimate stands at 11 times earnings, which is almost double the current multiple of 6.6. However, the current valuation is driven by what we believe may be a long-term peak in earnings for Kohl's, so we expect the multiple and the fair value estimate to converge over time. The yield is currently 2.1%, but we see this yield potentially rising in the years to come.

Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2026 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 23% | 30% | 34% | 37% | 52% | 64% | 64% | 44% | 55% | --- | 14% | 25% |

We forecast the payout ratio to be just 14% of earnings for this year given the strong rebound in earnings that we are currently expecting. With modest earnings declines projected from 2021's high base, the payout ratio may move significantly higher if Kohl's tries to rebuild its dividend back to prior levels.

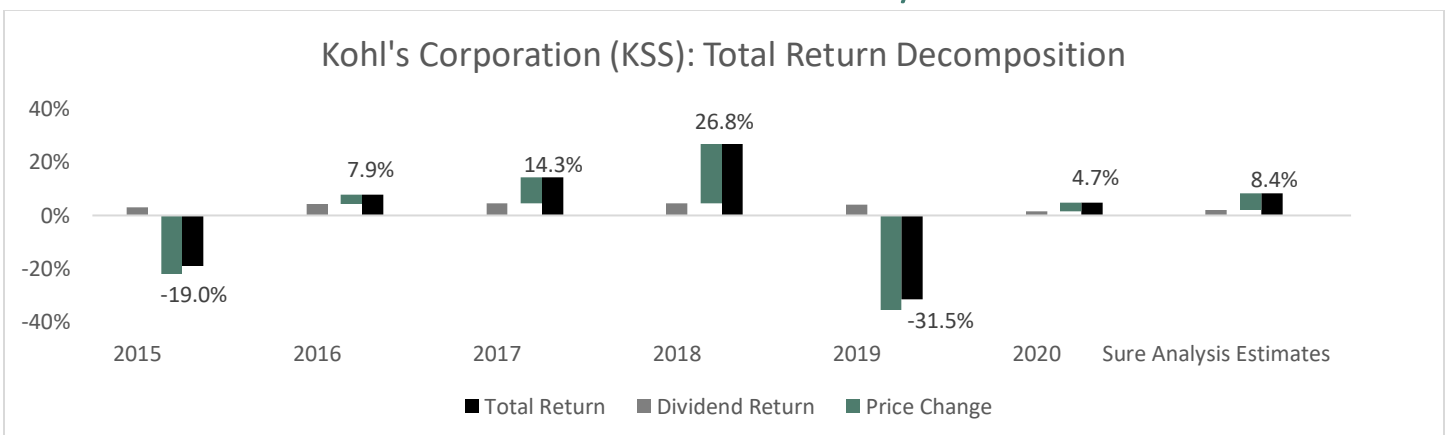
Compared to other retailers we believe Kohl's has a competitive advantage in the way of a well-entrenched store footprint outside of large malls, private-label brands, a large loyalty program, and an Amazon return service. This is offset somewhat by the competitive nature of the business, but it still allows Kohl's to stand out. Unfortunately, this reliance upon physical stores is more of a curse than a blessing in today's environment. That said, the company's Q3 was a very bright spot, particularly with respect to margins.

During the Great 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 was much worse in 2020 as Kohl's posted a sizable loss but is now well on the road to recovery.

Final Thoughts & Recommendation

Kohl's projected total returns now stand at 8.4% given the enormous increase in earnings estimates, so the stock appears more attractive. We like that Kohl's has reinstated the dividend and share repurchases but are cautious on growth from this year's extremely high base. We're reiterating the stock at a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|-------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Revenue | 18,804 | 19,279 | 19,031 | 19,023 | 19,204 | 19,681 | 20,084 | 20,229 | 19,974 | 15,955 |
| Gross Profit | 7,179 | 6,990 | 6,944 | 6,925 | 6,939 | 7,737 | 7,908 | 8,030 | 7,834 | 5,595 |
| Gross Margin | 38.2% | 36.3% | 36.5% | 36.4% | 36.1% | 39.3% | 39.4% | 39.7% | 39.2% | 35.1% |
| SG&A Exp. | 4,243 | 4,267 | 4,313 | 4,350 | 4,452 | 5,430 | 5,501 | 5,601 | 5,705 | 5,021 |
| D&A Exp. | 778 | 833 | 889 | 886 | 934 | 938 | 991 | 964 | 917 | 874 |
| Operating Profit | 2,158 | 1,890 | 1,742 | 1,689 | 1,553 | 1,369 | 1,416 | 1,465 | 1,212 | (300) |
| Op. Margin | 11.5% | 9.8% | 9.2% | 8.9% | 8.1% | 7.0% | 7.1% | 7.2% | 6.1% | -1.9% |
| Net Profit | 1,167 | 986 | 889 | 867 | 673 | 556 | 859 | 801 | 691 | (163) |
| Net Margin | 6.2% | 5.1% | 4.7% | 4.6% | 3.5% | 2.8% | 4.3% | 4.0% | 3.5% | -1.0% |
| Free Cash Flow | 1,212 | 480 | 1,241 | 1,342 | 794 | 1,385 | 1,019 | 1,529 | 802 | 1,004 |
| Income Tax | 692 | 575 | 515 | 482 | 384 | 319 | 258 | 241 | 210 | (383) |

Balance Sheet Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Assets | 14,148 | 13,905 | 14,357 | 14,333 | 13,606 | 13,574 | 13,389 | 12,469 | 14,555 | 15,337 |
| Cash & Equivalents | 1,205 | 537 | 971 | 1,407 | 707 | 1,074 | 1,308 | 934 | 723 | 2,271 |
| Inventories | 3,216 | 3,748 | 3,874 | 3,814 | 4,038 | 3,795 | 3,542 | 3,475 | 3,537 | 2,590 |
| Total Liabilities | 7,640 | 7,857 | 8,379 | 8,342 | 8,115 | 8,397 | 7,970 | 6,942 | 9,105 | 10,141 |
| Accounts Payable | 1,233 | 1,307 | 1,365 | 1,511 | 1,251 | 1,507 | 1,271 | 1,187 | 1,206 | 1,476 |
| Long-Term Debt | 2,141 | 2,492 | 2,792 | 2,780 | 2,792 | 2,795 | 2,797 | 1,861 | 1,856 | 2,451 |
| Total Equity | 6,508 | 6,048 | 5,978 | 5,991 | 5,491 | 5,177 | 5,419 | 5,527 | 5,450 | 5,196 |
| D/E Ratio | 0.33 | 0.41 | 0.47 | 0.46 | 0.51 | 0.54 | 0.52 | 0.34 | 0.34 | 0.47 |

Profitability & Per Share Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|-------------------------|-------|-------|-------|-------|-------|--------|--------|--------|--------|--------|
| Return on Assets | 8.4% | 7.0% | 6.3% | 6.0% | 4.8% | 4.1% | 6.4% | 6.2% | 5.1% | -1.1% |
| Return on Equity | 16.0% | 15.7% | 14.8% | 14.5% | 11.7% | 10.4% | 16.2% | 14.6% | 12.6% | -3.1% |
| ROIC | 12.4% | 11.5% | 10.3% | 9.9% | 7.9% | 6.8% | 10.6% | 10.3% | 9.4% | -2.2% |
| Shares Out. | 247 | 222 | 211 | 201 | 186 | 174 | 168 | 165 | 154 | 154 |
| Revenue/Share | 69.39 | 81.35 | 86.50 | 93.25 | 98.48 | 109.95 | 119.55 | 122.60 | 126.42 | 103.60 |
| FCF/Share | 4.47 | 2.03 | 5.64 | 6.58 | 4.07 | 7.74 | 6.07 | 9.27 | 5.08 | 6.52 |

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

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