



Kohl's Corporation (KSS)

Updated December 5th, 2022, by Josh Arnold

Key Metrics

Current Price:	\$32	5 Year CAGR Estimate:	10.8%	Market Cap:	\$3.5 B
Fair Value Price:	\$33	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	12/06/2022
% Fair Value:	97%	5 Year Valuation Multiple Estimate:	0.6%	Dividend Payment Date:	12/21/2022
Dividend Yield:	6.3%	5 Year Price Target	\$42	Years Of Dividend Growth:	2
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Buy

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 \$3.5 billion market capitalization company should generate about \$17.5 billion in sales this year.

Kohl's reported third quarter earnings on November 17th, 2022, and results were better than expected on both the top and bottom lines. Adjusted earnings-per-share came to 82 cents, which was seven cents better than estimates. Revenue was down 7% year-over-year to \$4.28 billion, which was \$220 million ahead of expectations. Comparable sales declined 6.9% year-over-year.

Merchandise inventories soared 33% higher year-over-year. This spooked investors from a margin perspective as it is feared this inventory will require markdowns.

The company noted the CEO, Michelle Gass, resigned to take the CEO role at Levi Strauss (LEVI). This was unexpected and caused angst among investors. The company noted there was a short transition plan in place and that the search for a permanent CEO replacement was underway.

The company revoked guidance given significant macroeconomic headwinds and uncertainty, as well as the unexpected change at the top.

We are reiterating our expectation of \$3.00 in earnings-per-share for this year.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$4.17	\$4.05	\$4.24	\$3.46	\$3.11	\$4.19	\$5.60	\$4.86	-\$1.21	\$7.33	\$3.00	\$3.83
DPS	\$1.28	\$1.40	\$1.56	\$1.80	\$2.00	\$2.20	\$2.44	\$2.68	\$0.70	\$1.00	\$2.00	\$2.43
Shares¹	222	211	201	186	174	168	165	154	154	134	120	100

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 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 back on, and in a big way, we've reduced our share count forecast accordingly. Fears of struggling margins have proven to be right, as 2022 is off to a tough start from a margin perspective. We note that 2021's earnings has the potential to be the top for some time. We forecast earnings-per-share at \$3.00 this year as the company is seeing weakened demand come to fruition, and margin headwinds. Kohl's capital return program is back in terms of being a sizable draw for the stock. We do see a recovery in the dividend to \$2.43 per share by 2027, but that is dependent upon earnings normalizing off extremely high current levels. We note the sizable reduction in the share count makes it easier for Kohl's to raise the dividend per share, as the number of shares receiving the dividend declines.

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	11.7	12.7	13.2	17.1	14.1	10.4	11.9	11.3	---	7.4	10.7	11.0
Avg. Yld.	2.6%	2.7%	2.8%	3.1%	4.6%	5.1%	3.7%	4.9%	2.7%	1.9%	6.3%	5.8%

Over the past decade, shares of Kohl's have routinely traded hands with an average multiple of nearly 13 times earnings. However, given weak Q3 2022 results and the revocation of guidance, 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 much higher than the current multiple of 10.7. The yield is currently 6.3%, which is around where we expect it to stay after the large 2022 dividend increase.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	30%	34%	37%	52%	64%	64%	44%	55%	---	14%	67%	64%

We forecast the payout ratio to be 67% of earnings for this year given the high level of earnings that we are currently expecting. With modest earnings gains projected from this year's base, the payout ratio may move higher if Kohl's tries to rebuild its dividend back to prior levels. We do not currently forecast that.

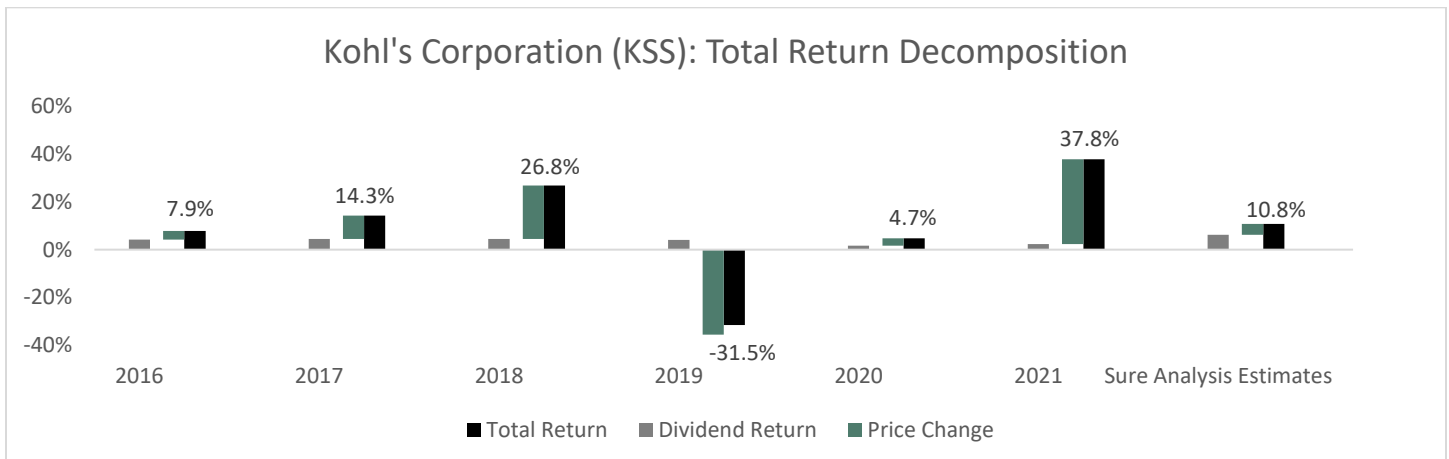
Compared to other retailers we believe Kohl's has a competitive advantage in the way of a well-entrenched store footprint outside of large malls, private-label brands, a large loyalty program, and an Amazon return service. This is offset somewhat by the competitive nature of the business, but it still allows Kohl's to stand out. This focus was a headwind during the COVID recession, but that appears to no longer be the case.

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 the company's earnings recovered quickly.

Final Thoughts & Recommendation

Kohl's projected total returns now stand at 10.8% given updated earnings estimates, so the stock appears attractive still. Returns could be from the 6.3% yield, 0.6% valuation tailwind, and 5% growth. We like that Kohl's has reinstated the dividend and share repurchases but are cautious on growth based on massive headwinds from inventory levels and inflationary pressures. However, due to strong total return potential, we're reiterating the stock at a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	19,279	19,031	19,023	19,204	19,681	20,229	19,974	19,974	15,955	19,433
Gross Profit	6,990	6,944	6,925	6,939	7,737	8,030	7,834	7,834	5,595	7,996
Gross Margin	36.3%	36.5%	36.4%	36.1%	39.3%	39.7%	39.2%	39.2%	35.1%	41.1%
SG&A Exp.	4,267	4,313	4,350	4,452	5,430	5,601	5,705	5,705	5,021	5,478
D&A Exp.	833	889	886	934	938	964	917	917	874	838
Operating Profit	1,890	1,742	1,689	1,553	1,369	1,465	1,212	1,212	(300)	1,680
Op. Margin	9.8%	9.2%	8.9%	8.1%	7.0%	7.2%	6.1%	6.1%	-1.9%	8.6%
Net Profit	986	889	867	673	556	801	691	691	(163)	938
Net Margin	5.1%	4.7%	4.6%	3.5%	2.8%	4.0%	3.5%	3.5%	-1.0%	4.8%
Free Cash Flow	480	1,241	1,342	794	1,385	1,529	802	802	1,004	1,666
Income Tax	575	515	482	384	319	241	210	210	(383)	281

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	13,905	14,357	14,333	13,606	13,574	13,389	12,469	14,555	15,337	15,054
Cash & Equivalents	537	971	1,407	707	1,074	1,308	934	723	2,271	1,587
Inventories	3,748	3,874	3,814	4,038	3,795	3,542	3,475	3,537	2,590	3,067
Total Liabilities	7,857	8,379	8,342	8,115	8,397	7,970	6,942	9,105	10,141	10,393
Accounts Payable	1,307	1,365	1,511	1,251	1,507	1,271	1,187	1,206	1,476	1,683
Long-Term Debt	2,492	2,792	2,780	2,792	2,795	2,797	1,861	1,856	2,451	1,910
Total Equity	6,048	5,978	5,991	5,491	5,177	5,419	5,527	5,450	5,196	4,661
LTD/E Ratio	0.41	0.47	0.46	0.51	0.54	0.52	0.34	0.34	0.47	0.41

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	7.0%	6.3%	6.0%	4.8%	4.1%	5.9%	5.3%	5.1%	-1.1%	6.2%
Return on Equity	15.7%	14.8%	14.5%	11.7%	10.4%	15.1%	12.6%	12.6%	-3.1%	19.0%
ROIC	11.5%	10.3%	9.9%	7.9%	6.8%	9.9%	8.9%	9.4%	-2.2%	13.2%
Shares Out.	222	211	201	186	174	168	165	154	154	134
Revenue/Share	81.35	86.50	93.25	98.48	109.95	122.60	126.42	126.42	103.60	131.30
FCF/Share	2.03	5.64	6.58	4.07	7.74	9.27	5.08	5.08	6.52	11.26

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

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