



# Kohl's Corporation (KSS)

Updated March 13<sup>th</sup>, 2024, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$25	<b>5 Year CAGR Estimate:</b>	13.7%	<b>Market Cap:</b>	\$2.8 B
<b>Fair Value Price:</b>	\$26	<b>5 Year Growth Estimate:</b>	8.0%	<b>Ex-Dividend Date:</b>	03/19/2024
<b>% Fair Value:</b>	98%	<b>5 Year Valuation Multiple Estimate:</b>	0.4%	<b>Dividend Payment Date:</b>	04/03/2024
<b>Dividend Yield:</b>	8.0%	<b>5 Year Price Target</b>	\$37	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	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 \$2.8 billion market capitalization company should generate nearly \$17 billion in sales this year.

Kohl's posted fourth quarter and full-year earnings on March 12<sup>th</sup>, 2024, and results were better than expected on both the top and bottom lines. Fourth quarter earnings came to \$1.67 per share, which was 39 cents ahead of estimates. Revenue was \$5.96 billion, which was off 1% year-over-year, but beat estimates by \$190 million. Comparable sales for the period were down 4.3%.

Gross margin was up 937 basis points year-over-year to 32.4% of revenue, which is incredibly impressive given the fact that revenue declined. Kohl's also saw inventory decline 10% to \$2.9 billion, which will help buoy margins into this year.

Cash and cash equivalents ended the year up 19% at \$183 million.

Kohl's setup a partnership with Babies "R" Us, which it believes will help it offset some of their comparable sales weakness this year.

The company guided for \$2.10 to \$2.70 in earnings-per-share for this year, and we see \$2.55 as an initial estimate. The massive up move in margins to end the year are quite bullish, and we like the reduction in inventory.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$4.24	\$3.46	\$3.11	\$4.19	\$5.60	\$4.86	(\$1.21)	\$7.33	(\$0.15)	\$2.85	<b>\$2.55</b>	<b>\$3.75</b>
<b>DPS</b>	\$1.56	\$1.80	\$2.00	\$2.20	\$2.44	\$2.68	\$0.70	\$1.00	\$2.00	\$2.00	<b>\$2.00</b>	<b>\$2.00</b>
<b>Shares<sup>1</sup></b>	201	186	174	168	165	154	154	134	110	111	<b>111</b>	<b>111</b>

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. We saw the same sort of thing in 2022.

With the share repurchase program having been paused, we don't see that as a tailwind for the time being. Fears of struggling margins have proven to be right, as 2022 was awful 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 \$2.55 this year as the company is seeing weakened demand come to fruition, and significant margin headwinds. Kohl's capital return program is back in terms of being a sizable draw for the stock. We believe the dividend will remain at its current level of \$2 per share annually for the foreseeable future. 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.

<sup>1</sup> 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	13.2	17.1	14.1	10.4	11.9	11.3	---	7.4	---	9.0	9.8	10.0
Avg. Yld.	2.8%	3.1%	4.6%	5.1%	3.7%	4.9%	2.7%	1.9%	7.9%	7.8%	8.0%	5.3%

Over the past decade, shares of Kohl's have routinely traded hands with an average multiple of nearly 13 times earnings. However, our fair value estimate stands at 10 times earnings, which is slightly higher than the current multiple of 9.8. The yield is currently 8%, and we expect it will decline as the dividend is flat, with a higher share price as earnings rise.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	37%	52%	64%	64%	44%	55%	---	14%	---	70%	78%	53%

We forecast the payout ratio to be 78% of earnings for this year given the level of earnings that we are currently expecting. With modest earnings gains projected from this year's base, the payout ratio should move lower assuming the company doesn't raise the dividend.

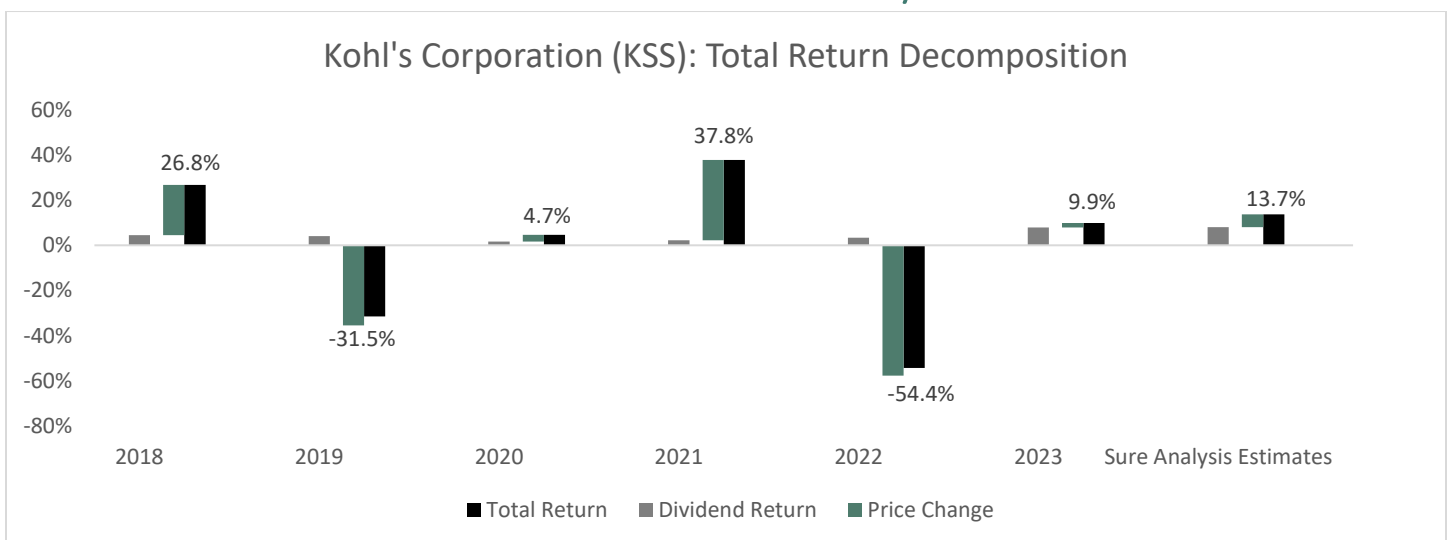
Compared to other retailers we believe Kohl's has a competitive advantage in the way of a well-entrenched store footprint outside of large malls, private-label brands, a large loyalty program, and an Amazon return service. This is offset somewhat by the competitive nature of the business, but it still 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 13.7% given updated earnings estimates, so the stock appears attractive still. Returns could be from the 8% yield, 0.4% valuation tailwind, and 8% growth. We like the dividend yield, but especially progress made on margins and inventory levels. Given this, we're boosting the stock from hold to buy, noting that prospective returns are quite strong.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	19,031	19,023	19,204	19,681	20,229	19,974	19,974	15,955	19,433	18,098
<b>Gross Profit</b>	6,944	6,925	6,939	7,737	8,030	7,834	7,834	5,595	7,996	6,641
<b>Gross Margin</b>	36.5%	36.4%	36.1%	39.3%	39.7%	39.2%	39.2%	35.1%	41.1%	36.7%
<b>SG&amp;A Exp.</b>	4,313	4,350	4,452	5,430	5,601	5,705	5,705	5,021	5,478	5,587
<b>D&amp;A Exp.</b>	889	886	934	938	964	917	917	874	838	808
<b>Operating Profit</b>	1,742	1,689	1,553	1,369	1,465	1,212	1,212	(300)	1,680	246
<b>Op. Margin</b>	9.2%	8.9%	8.1%	7.0%	7.2%	6.1%	6.1%	-1.9%	8.6%	1.4%
<b>Net Profit</b>	889	867	673	556	801	691	691	(163)	938	(19)
<b>Net Margin</b>	4.7%	4.6%	3.5%	2.8%	4.0%	3.5%	3.5%	-1.0%	4.8%	-0.1%
<b>Free Cash Flow</b>	1,241	1,342	794	1,385	1,529	802	802	1,004	1,666	(544)
<b>Income Tax</b>	515	482	384	319	241	210	210	(383)	281	(39)

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	14,357	14,333	13,606	13,574	13,389	12,469	14,555	15,337	15,054	14,345
<b>Cash &amp; Equivalents</b>	971	1,407	707	1,074	1,308	934	723	2,271	1,587	153
<b>Inventories</b>	3,874	3,814	4,038	3,795	3,542	3,475	3,537	2,590	3,067	3,189
<b>Total Liabilities</b>	8,379	8,342	8,115	8,397	7,970	6,942	9,105	10,141	10,393	10,582
<b>Accounts Payable</b>	1,365	1,511	1,251	1,507	1,271	1,187	1,206	1,476	1,683	1,330
<b>Long-Term Debt</b>	2,792	2,780	2,792	2,795	2,797	1,861	1,856	2,451	1,910	1,997
<b>Total Equity</b>	5,978	5,991	5,491	5,177	5,419	5,527	5,450	5,196	4,661	3,763
<b>LTD/E Ratio</b>	0.47	0.46	0.51	0.54	0.52	0.34	0.34	0.47	0.41	0.53

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	6.3%	6.0%	4.8%	4.1%	5.9%	5.3%	5.1%	-1.1%	6.2%	-0.1%
<b>Return on Equity</b>	14.8%	14.5%	11.7%	10.4%	15.1%	12.6%	12.6%	-3.1%	19.0%	-0.5%
<b>ROIC</b>	10.3%	9.9%	7.9%	6.8%	9.9%	8.9%	9.4%	-2.2%	13.2%	-0.3%
<b>Shares Out.</b>	211	201	186	174	168	165	154	154	134	120
<b>Revenue/Share</b>	86.50	93.25	98.48	109.95	122.60	126.42	126.42	103.60	131.30	150.82
<b>FCF/Share</b>	5.64	6.58	4.07	7.74	9.27	5.08	5.08	6.52	11.26	-4.53

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

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