



Kohl's Corporation (KSS)

Updated September 8th, 2024, by Josh Arnold

Key Metrics

Current Price:	\$20	5 Year CAGR Estimate:	11.7%	Market Cap:	\$2.2 B
Fair Value Price:	\$19	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	09/11/2024
% Fair Value:	108%	5 Year Valuation Multiple Estimate:	-1.5%	Dividend Payment Date:	09/25/2024
Dividend Yield:	10.0%	5 Year Price Target	\$25	Years Of Dividend Growth:	0
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 \$2.2 billion market capitalization company should generate roughly \$16 billion in sales this year.

Kohl's posted second quarter earnings on August 28th, 2024, and results were somewhat mixed, although guidance was raised. Earnings-per-share came to 59 cents, which was 15 cents ahead of estimates. Revenue was off 4.1% year-over-year at \$3.53 billion, which missed estimates by \$120 million.

Comparable sales were down 5.1% for the quarter, widely missing estimates of a 2.5% decline. Inventory was down 9% from the year-ago period to \$3.2 billion. Net income was \$66 million, up from \$58 million in the comparable period last year.

Kohl's now expects earnings of \$1.75 to \$2.25 per share for this year, well ahead of prior estimates. We've boosted our estimate by 30 cents as a result. The company also sees operating margin of 3.4% to 3.8% of revenue for the year, up from a prior guidance range of 3.0% to 3.5%. Sales are expected to fall 4% to 6%, worse than the prior estimate of a decline of 2% to 4%, with comparable sales expected to fall 3% to 5%.

We now see \$1.85 in adjusted earnings-per-share for this year after Q2 results.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$4.24	\$3.46	\$3.11	\$4.19	\$5.60	\$4.86	(\$1.21)	\$7.33	(\$0.15)	\$2.85	\$1.85	\$2.48
DPS	\$1.56	\$1.80	\$2.00	\$2.20	\$2.44	\$2.68	\$0.70	\$1.00	\$2.00	\$2.00	\$2.00	\$2.00
Shares¹	201	186	174	168	165	154	154	134	110	111	111	111

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 \$1.85 this year as the company is seeing weakened demand come to fruition, and significant margin headwinds, along with much weaker sales. 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, unless there needs to be a cut given weak earnings for

¹ Share count in millions

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this year. 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.

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	10.8	10.0
Avg. Yld.	2.8%	3.1%	4.6%	5.1%	3.7%	4.9%	2.7%	1.9%	7.9%	7.8%	10.0%	8.1%

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 lower than the current multiple of 10.8. The yield is currently 10%, 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%	108%	81%

We forecast the payout ratio to be 108% 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, and we see virtually zero chance of any kind of raise for the foreseeable future.

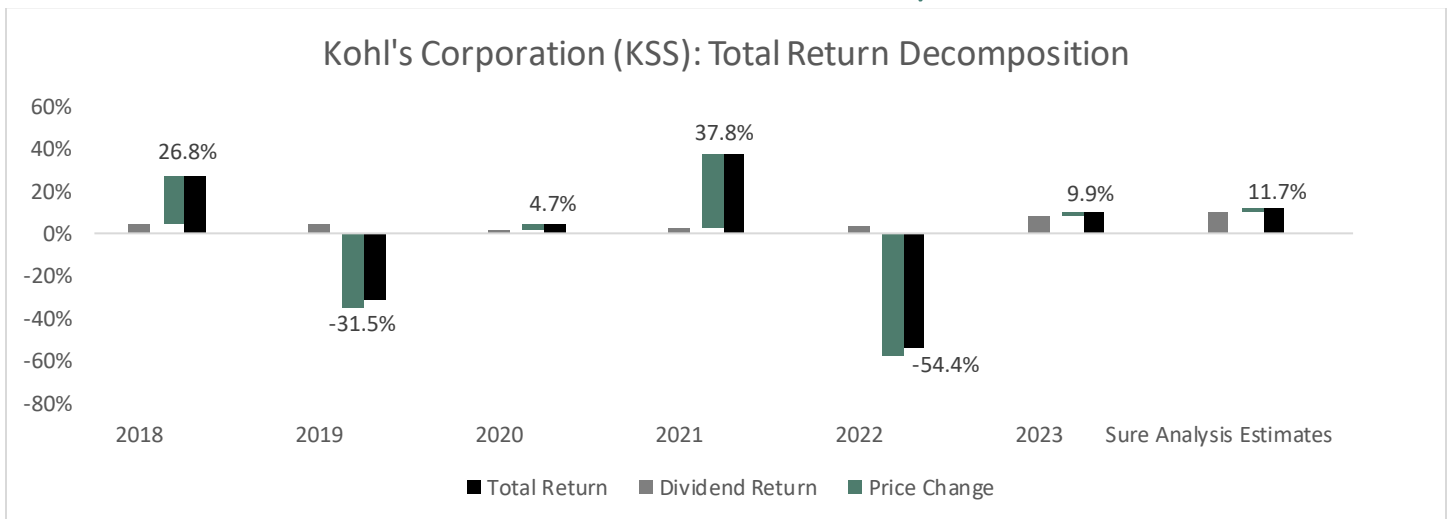
Compared to other retailers we believe Kohl's has a competitive advantage in the way of a well-entrenched store footprint outside of large malls, private-label brands, a large loyalty program, and an Amazon return service. This is offset somewhat by the competitive nature of the business, but it still 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 11.7% given updated earnings estimates, so the stock appears somewhat attractive still. Returns could be from the 10% yield, 1.5% valuation headwind, and 6% growth. We like the dividend yield, and find the case for the stock to be bolstered by the guidance raise. Given this, we're boosting the stock from hold to buy, even on lower growth projections.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	19,023	19,204	19,681	20,229	19,974	19,974	15,955	19,433	18,098	17,476
Gross Profit	6,925	6,939	7,737	8,030	7,834	7,834	5,595	7,996	6,641	6,978
Gross Margin	36.4%	36.1%	39.3%	39.7%	39.2%	39.2%	35.1%	41.1%	36.7%	40.0%
SG&A Exp.	4,350	4,452	5,430	5,601	5,705	5,705	5,021	5,478	5,587	5,512
D&A Exp.	886	934	938	964	917	917	874	838	808	749
Operating Profit	1,689	1,553	1,369	1,465	1,212	1,212	(300)	1,680	246	717
Op. Margin	8.9%	8.1%	7.0%	7.2%	6.1%	6.1%	-1.9%	8.6%	1.4%	4.1%
Net Profit	867	673	556	801	691	691	(163)	938	(19)	317
Net Margin	4.6%	3.5%	2.8%	4.0%	3.5%	3.5%	-1.0%	4.8%	-0.1%	1.8%
Free Cash Flow	1,342	794	1,385	1,529	802	802	1,004	1,666	(544)	591
Income Tax	482	384	319	241	210	210	(383)	281	(39)	56

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	14,333	13,606	13,574	13,389	12,469	14,555	15,337	15,054	14,345	14,009
Cash & Equivalents	1,407	707	1,074	1,308	934	723	2,271	1,587	153	183
Inventories	3,814	4,038	3,795	3,542	3,475	3,537	2,590	3,067	3,189	2,880
Total Liabilities	8,342	8,115	8,397	7,970	6,942	9,105	10,141	10,393	10,582	10,116
Accounts Payable	1,511	1,251	1,507	1,271	1,187	1,206	1,476	1,683	1,330	1,134
Long-Term Debt	2,780	2,792	2,795	2,797	1,861	1,856	2,451	1,910	1,997	1,730
Total Equity	5,991	5,491	5,177	5,419	5,527	5,450	5,196	4,661	3,763	3,893
LTD/E Ratio	0.46	0.51	0.54	0.52	0.34	0.34	0.47	0.41	0.53	0.44

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	6.0%	4.8%	4.1%	5.9%	5.3%	5.1%	-1.1%	6.2%	-0.1%	2.2%
Return on Equity	14.5%	11.7%	10.4%	15.1%	12.6%	12.6%	-3.1%	19.0%	-0.5%	8.3%
ROIC	9.9%	7.9%	6.8%	9.9%	8.9%	9.4%	-2.2%	13.2%	-0.3%	5.6%
Shares Out.	201	186	174	168	165	154	154	134	120	111
Revenue/Share	93.25	98.48	109.95	122.60	126.42	126.42	103.60	131.30	150.82	157.44
FCF/Share	6.58	4.07	7.74	9.27	5.08	5.08	6.52	11.26	-4.53	5.32

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

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