

## Kohls Corporation (KSS)

**\$18.20** (As of 05/08/20)

Price Target (6-12 Months): **\$19.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 05/04/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: F

### Summary

Kohl's which recently announced plans to reopen some stores has outpaced the industry in the past three months. The company expects to reopen 25% of its stores by next week following the relaxation of coronavirus-induced lockdown restrictions in some regions. Apart from these, its revenues in fourth-quarter fiscal 2019 were backed by solid digital sales, thanks to app and mobile sales. Also, nationwide rollout of the Amazon returns program has been boosting traffic. However, management suspended share buybacks and is evaluating its dividend program as part of capital allocation alteration amid the coronavirus outbreak. Also, the company continued to witness escalated costs and strained margins in fourth-quarter, wherein the bottom line dropped year over year.

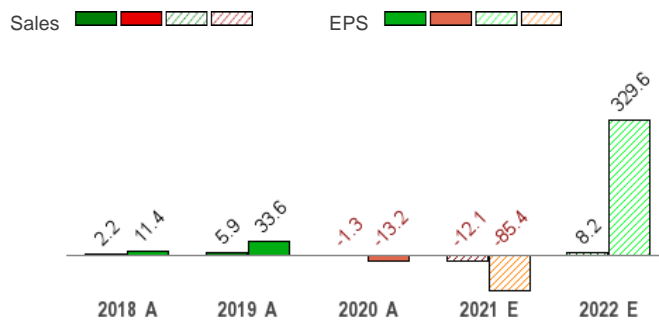
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$68.65 - \$10.89
20 Day Average Volume (sh)	10,208,897
Market Cap	\$2.8 B
YTD Price Change	-64.3%
Beta	1.73
Dividend / Div Yld	\$2.82 / 15.5%
Industry	<a href="#">Retail - Regional Department Stores</a>
Zacks Industry Rank	Top 31% (78 out of 253)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.9%
Last Sales Surprise	0.3%
EPS F1 Est- 4 week change	-67.1%
Expected Report Date	05/19/2020
Earnings ESP	-53.8%
P/E TTM	3.7
P/E F1	25.6
PEG F1	2.6
P/S TTM	0.1

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					18,989 E
2021	2,913 E	3,419 E	4,487 E	6,737 E	17,557 E
2020	4,087 A	4,430 A	4,625 A	6,832 A	19,974 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022					\$3.05 E
2021	-\$1.41 E	-\$0.03 E	\$0.41 E	\$1.72 E	\$0.71 E
2020	\$0.61 A	\$1.55 A	\$0.74 A	\$1.99 A	\$4.86 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/08/2020. The reports text is as of 05/11/2020.

## Overview

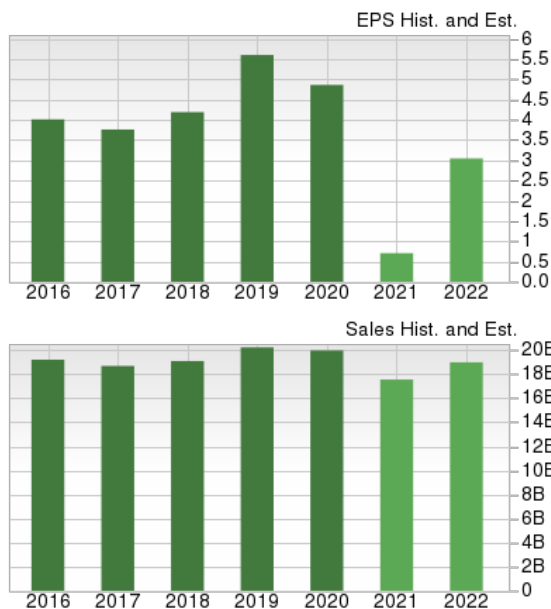
Headquartered in Menomonee Falls, WI, Kohl's Corp. is a U.S. based department store chain that operates specialty department stores and an e-commerce site in the U.S. As of Nov 19, 2019, Kohl's operated more than 1,100 stores across 49 states.

These offer moderately-priced apparel, footwear and accessories for women, men and children; beauty and home articles. The department store appeals to middle-class consumers as it sells discounted branded and private label clothing and home goods.

The company's merchandise includes both national brands and private and exclusive brands that are available only at Kohl's. National brands including Dockers, Levi's, Columbia Sportswear, Reebok, Champion, Oshkosh, Pfaltzgraff, and KitchenAid generally have higher selling prices, but lower gross margins, than private and exclusive brands. Kohl's private brands include Apt. 9, Croft & Barrow, Jumping Beans, SO and Sonoma Goods for Life.

Despite having lower selling prices, private brands generally have higher gross margins than exclusive and national brands. Exclusive brands including Food Network, Jennifer Lopez, Marc Anthony, Rock & Republic and Simply Vera Vera Wang are developed and marketed through agreements with nationally-recognized brands.

In addition, Kohl's also offers online shopping. Its website features a selection of items and categories beyond what is available in stores, with a primary focus on extended sizes, product line extensions and web-exclusive product lines.



## Reasons To Buy:

- ▲ **Growing e-Commerce Business:** The company has been benefiting from its growing e-commerce business for a while now. Markedly, digital sales witnessed a double-digit increase during fourth-quarter fiscal 2019, with mobile sales and Kohl's app accounting for 75% of the traffic. Further, the company's investments toward boosting capabilities of online applications have improved consumer engagement. We note that the company's solid endeavors to boost mobile traffic have augmented the adoption of the Kohl app, making it a vital constituent of online sales. To improve online offerings, Kohl's has been expanding its e-commerce fulfillment centers alongside strengthening in-store pickups. In fact, the company has been witnessing increased adoption of Buy-Online-Ship-to-Store (or BOSS) and BOPIS. Other efforts to bolster digital sales include Smart Cart, Your Price and personalized search. Also, Kohl's is on track to consolidate its call centers that support the company's online and Kohl's Charge customers. Moreover, the contract with Fanatics has helped the company widen its fan gear product range for online customers.

Kohl's initiatives to drive traffic and sales are encouraging. The company also has a strong brand portfolio and a solid e-commerce business.

Kohl's remains on track to improve store as well as digital experience in 2020. Management expects strength in digital sales, courtesy of the company's innovation and expansion of online offerings. Moreover, the company had closed its stores owing to the coronavirus outbreak but shoppers could continue purchasing 24 hours a day via Kohl's App or on Kohls.com. Such upsides combined with prudent moves to strengthen inventory position, gains from the Amazon returns program and new product launches bode well. Although, shares of the company have lost 57.7% in the past three months it has outpaced the industry's decline of 63.6%.

- ▲ **Inventory Management Initiatives:** Kohl's efficient inventory management involves four key strategies, which have been helping the company achieve cleaner inventory levels. In this regard, Kohl's is progressing well with standard to small initiative. Further, the company's localization efforts have enabled it to bring the appropriate product in the apt store at the right time. Moving on, Kohl's is gaining from its speed initiative, which facilitates improved flow receipts in order to match demand. Finally, Kohl's concentrates on strategically lowering consumer choices, while augmenting depth in core products. Such efforts have aided the company to achieve balanced inventory levels. Moreover, the company's aged inventories have been declining consistently and providing more space for fresh assortments. Notably, inventory dollars increased 1.8% in fiscal 2019. Inventory remains a major priority for the company in fiscal 2020, wherein management expects inventory to decline in low-single digits.

- ▲ **Strong Brand Portfolio and Regular Innovation:** Kohl's offers moderately priced exclusive and national brands, which include apparel, shoes, accessories, beauty and home products. The company has established a strong brand portfolio with national brands such as Dockers, Levi's, Columbia Sportswear, Reebok, Champion, Oshkosh, Pfaltzgraff, and KitchenAid. Also, Kohl's added Land's End products to its national brands portfolio. Further, exclusive brands such as Simply Vera by fashion designer Vera Wang and Chaps by Polo Ralph Lauren have helped draw customers to Kohl's stores in the past as the products can only be found at Kohl's. Private and exclusive brands like Jennifer Lopez, Marc Anthony, Rock & Republic, and Van Heusen brands have been doing well in sportswear, dresses and other apparel categories. Moreover, in the active category, brands like Adidas, Under Armour and Nike have particularly been doing well.

Kohl's also regularly introduces new brands in order to keep the inventory assortment fresh and drive customer traffic to its stores and website. In this regard, the company recently launched an exclusive collaboration with Ashley and Mary Kate Olson for Elizabeth and James brand. Apart from this, Kohl's recently collaborated with famous designer, Jason Wu, for an exclusive limited edition of women's apparel line. Additionally, the company partnered with Ellen DeGeneres to offer an assortment of pet offerings. Kohl's also launched a fresh apparel collection — POPSUGAR - in 2018. Moreover, the company launched the iconic Nine West brand in September 2019, which will strengthen its stores and online assortment as well as solidify Kohl's brand position.

- ▲ **Partnerships Boost performance:** Kohl's has been strengthening its ties with retail giant Amazon to drive traffic. Incidentally, the company completed the nationwide rollout of the Amazon returns program nationwide, which boosted traffic during the fourth quarter. According to this program, Kohl's stores are accepting free, unpackaged and easy returns for customers of Amazon. The company expects to witness improved store traffic from the Amazon returns program. One of the prime objectives of this program is to convert more customers as loyal Kohl's shoppers. In an earlier development, Kohl's decided to sell Amazon devices, accessories and smart home devices in selected stores in Los Angeles and Chicago. Kohl's believes that this store-within-store concept will boost traffic, thanks to the availability of Amazon's varied electronics options. In the long run, the company is expected to receive significant boost to its business through this partnership. Further Kohl's partnership with Fanatics, Property Brothers and Home Decor is expected to strengthen performance.

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## Reasons To Sell:

▼ **Coronavirus-Led Hurdles:** The outbreak of the novel coronavirus has derailed economic activities worldwide. In response to the pandemic, retailers are either shutting down stores or trimming work hours. Incidentally, several retailers have chosen to withdraw their guidance, unable to ascertain the possible impact of the deadly virus on their performance. In connection with this, Kohl's had earlier shut down all its stores — roughly more than 1,100 — effective Mar 19. Although, the company recently announced its plans to reopen 25% of its stores by next week following the relaxation of coronavirus-induced lockdown restrictions in some regions, these stores are going to be operational at reduced working hours.

The company is grappling with high SG&A expenses and soft margins. Also, coronavirus-led impact is concerning.

To top it, management withdrew its recently provided guidance for the first quarter and fiscal 2020, given the current situation and its unpredictable impact on demand for the merchandise it offers. Kohl's also informed that it is altering fiscal 2020 capital allocation strategy, which comprises curtailment in capital expenditures, temporary suspension of share buyback activities and evaluation of dividend program. Nonetheless, shoppers can continue purchasing 24 hours a day via Kohl's App or on Kohls.com. Further, management highlighted that the company will support store employees with two calendar weeks of pay. However, this may weigh on margins, given the lost sales from store closures.

▼ **Higher Expenses a Worry:** Kohl's has been seeing rising selling, general and administrative (SG&A) expenses for a while now. In the fiscal fourth quarter, SG&A expenses, as percentage of sales, expanded 70 bps to 25.5% due to increased marketing expenses, wage rate pressures, costs related to the Amazon Returns program and escalated rent costs. Further, operating income came in at \$401 million, down 9.1% from the prior-year quarter's figure. Apart from this, the company saw its gross margin contract 81 bps to 32.7% due to pricing along with increased shift to digital, which resulted in higher shipping costs. In its last earnings call, management stated that it expects gross margin to decline 10-20 bps and SG&A expenses to increase 1-2% in fiscal 2020. However, this guidance has been withdrawn due to COVID-19-related uncertainties.

▼ **Weakness in Women's Category:** Kohl's women's business remained difficult throughout fiscal 2019. This could be accountable to softness in Women's classic and contemporary sportswear businesses. Management stated that Kohl's needs a considerable revamp in the women's category and is making efforts to do the same.

▼ **Industry-Wide Headwinds:** Kohl's is exposed to the threat of constantly changing consumer spending habits that may impact the performance of the company's business assortments and categories. Amongst such concerns, the risk of losing foot-traffic in brick-and-mortar stores, thanks to consumer shift toward online shopping poses significant risks. Further, competition from discount retailers poses significant threats to the company's performance.

▼ **Lack of International Exposure:** Kohl's has no stores outside the U.S. and therefore no international presence to serve as a buffer to fluctuations in the U.S. economy. Other departmental store chains like Walmart have a strong international presence. This lowers Kohl's competitive advantage over peers.

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## Last Earnings Report

### Kohl's Q4 Earnings Beat Estimates, Dividend Hiked

Kohl's Corporation reported fourth-quarter fiscal 2019 results, wherein both top and bottom lines came ahead of the Zacks Consensus Estimate. Moreover, management announced a 5% hike in its quarterly cash dividend on Feb 26, taking it to 70.4 cents per share. This is payable on Apr 1 to stockholders of record, as of Mar 18. Shares of the company were up more than 5% during the pre-market trading session on Mar 3.

Kohl's adjusted earnings of \$1.99 per share surpassed the Zacks Consensus Estimate of \$1.88. However, the bottom line declined 11% on a year-over-year basis. The downside can be accountable to reduced gross margin and increased SG&A expenses.

Total revenues came in at \$6,832 million compared with \$6,823 million in the prior-year period. Total revenues came ahead of the Zacks Consensus Estimate of \$6,810 million. Net sales remained almost flat at \$6,537 million, while other revenues grew 2.4% to \$295 million in the quarter. Further, comps were flat year over year compared with 1% growth in the year-ago quarter.

However, gross margin plummeted 81 basis points (bps) to 32.7% in the reported quarter. SG&A expenses rose 2.8% to \$1,742 million. As a percentage of sales, it grew 70 bps to 25.5%. Further, operating income came in at \$401 million, down 9.1% from the prior-year quarter's figure.

### Other Financial Details

Kohl's company ended the quarter with cash and cash equivalents of \$723 million, long-term debt of \$1,856 million and shareholders' equity of \$5,450 million. The company generated net cash from operating activities of \$1,657 million during fiscal 2019.

### Guidance

While Kohl's fiscal 2019 results came below management's expectations, it remains encouraged about the improved store and online traffic. This can be accountable to the company's focus on innovation, brand investments and alliances undertaken in the fiscal. For fiscal 2020, management expects comps growth in the range of negative 1% to positive 1%. In fiscal 2019, comps dropped 1.3%.

Further, it expects the gross margin to decline 10-20 bps. SG&A expenses are anticipated to increase 1-2% from the 2019 figure. Kohl's envisions adjusted earnings per share of \$4.20-\$4.60 for fiscal 2020, which indicates a decline from \$4.86 in fiscal 2019.

Quarter Ending 01/2020

Report Date	Mar 03, 2020
Sales Surprise	0.32%
EPS Surprise	5.85%
Quarterly EPS	1.99
Annual EPS (TTM)	4.89

## Recent News

### Kohl's to Reopen Some Stores Owing to Relaxation of Lockdown Rules - May 7, 2020

Kohl's recently announced its plans to reopen 25% of its stores by next week following the relaxation of coronavirus-induced lockdown restrictions in some regions. The company said that it has already re-opened company operated stores in four U.S. states and expects to open stores in 10 more states soon.

However, Kohl's informed investors that the re-opened stores would operate at reduced working hours, keep fitting rooms closed and enhanced cleaning processes among various others as precautionary measures amid the coronavirus outbreak.

### Kohl's Extends Store Closure Amid Rising Coronavirus Scares – March 31, 2020

Kohl's stated that it will prolong its temporary store closure plan until any further notification. Also, the company is undertaking efforts to enhance financial flexibility. Incidentally, Kohl's had shut down all its stores — roughly more than 1,100 — effective Mar 19. Nonetheless, the company then informed that shoppers can continue purchasing 24-hours a day via Kohl's App or on Kohls.com. Further, management highlighted that the company will support store employees with two calendar weeks of pay.

### Kohl's Shuts Stores, Calls Off Guidance Amid Coronavirus – March 20, 2020

Kohl's Corporation has shut down all its stores — roughly more than 1,100 — effective March 19 till at least April 1. However, the company informed that shoppers can continue purchasing 24-hours a day via Kohl's App or on Kohls.com. Further, management highlighted that the company will support store employees with two calendar weeks of pay. Well, this move has been undertaken by many other retailers.

Coming back to Kohl's, the company withdrew its recently provided guidance for first quarter and fiscal 2020, given the current situation and its unpredictable impact on demand for the merchandise it offers. Management also informed that it is altering fiscal 2020 capital allocation strategy, which comprises curtailment in capital expenditures, temporary suspension of share buyback activities and evaluation of dividend program. However, the company stated that it will pay previously announced quarterly cash dividend of 70.4 cents a share on Apr 1 to shareholders of record at the close of business on March 18. Kohl's further revealed that it has fully drawn its \$1 billion unsecured credit facility in an effort to improve financial flexibility amid coronavirus crisis.

## Valuation

Kohl's shares are down 63.4% in the year-to-date period and 71.6% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 67.6%, whereas stocks in the Zacks Retail – Wholesale sector gained 0.5% in the year-to-date period. Over the past year, the Zacks sub-industry declined 74.1% while and the sector gained 8.7%.

The S&P 500 index is down 10.9% in the year-to-date period and up 1.1% in the past year.

The stock is currently trading at 0.15X forward 12-month sales, which compares to 0.11X for the Zacks sub-industry, 1.01X for the Zacks sector and 3.21X for the S&P 500 index.

Over the past five years, the stock has traded as high as 0.77X and as low as 0.09X, with a 5-year median of 0.44X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$19 price target reflects 0.16X forward 12-month sales.

The table below shows summary valuation data for KSS

Valuation Multiples - KSS					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	0.15	0.11	1.01	3.21
	5-Year High	0.77	0.69	1.11	3.44
	5-Year Low	0.09	0.1	0.8	2.54
	5-Year Median	0.44	0.4	0.93	3.01
P/B TTM	Current	0.51	0.42	4.61	3.78
	5-Year High	2.51	3.46	5.88	4.55
	5-Year Low	0.33	0.36	3.6	2.84
	5-Year Median	1.59	2.11	4.83	3.64
EV/EBITDA TTM	Current	3.19	4.38	15.34	10.44
	5-Year High	7.28	8.05	16.33	12.86
	5-Year Low	2.73	4.27	10.9	8.28
	5-Year Median	4.86	6.2	12.56	10.78

As of 05/07/2020

## Industry Analysis Zacks Industry Rank: Top 31% (78 out of 253)



## Top Peers

Company (Ticker)	Rec	Rank
Costco Wholesale Corporation (COST)	Neutral	3
Dillards Inc (DDS)	Neutral	3
Dollar General Corporation (DG)	Neutral	2
Dollar Tree Inc (DLTR)	Neutral	3
J C Penney Company Inc (JCP)	Neutral	3
Macys Inc (M)	Neutral	3
Target Corporation (TGT)	Neutral	3
Walmart Inc (WMT)	Neutral	3

Industry Comparison Industry: Retail - Regional Department Stores				Industry Peers		
	KSS	X Industry	S&P 500	DDS	JCP	M
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	A	A	B
Market Cap	2.83 B	1.66 B	20.19 B	698.02 M	54.57 M	1.66 B
# of Analysts	9	6	14	5	5	7
Dividend Yield	15.47%	1.06%	2.12%	2.12%	0.00%	0.00%
Value Score	A	-	-	A	A	A
Cash/Price	0.26	0.40	0.06	0.40	4.99	0.41
EV/EBITDA	3.92	3.92	11.95	2.52	7.61	3.92
PEG Ratio	2.56	3.22	2.60	NA	NA	NA
Price/Book (P/B)	0.52	0.35	2.75	0.43	0.07	0.26
Price/Cash Flow (P/CF)	1.69	1.69	10.78	2.11	0.19	0.88
P/E (F1)	25.63	25.75	19.85	NA	NA	NA
Price/Sales (P/S)	0.14	0.09	2.03	0.11	0.00	0.07
Earnings Yield	3.90%	-4.56%	4.83%	-7.08%	-1,129.41%	-2.05%
Debt/Equity	1.07	1.05	0.75	0.37	5.65	1.03
Cash Flow (\$/share)	10.77	6.12	7.01	13.37	0.90	6.12
Growth Score	B	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	7.34%	-1.84%	10.87%	-8.57%	NA	-1.84%
Proj. EPS Growth (F1/F0)	-85.46%	-94.67%	-9.87%	-147.87%	-139.50%	-103.93%
Curr. Cash Flow Growth	-10.84%	-10.84%	5.88%	-16.01%	10.38%	-15.88%
Hist. Cash Flow Growth (3-5 yrs)	-0.78%	-3.55%	8.55%	-10.66%	28.85%	-6.32%
Current Ratio	1.68	1.55	1.24	1.99	1.41	1.18
Debt/Capital	51.74%	51.18%	44.23%	26.96%	84.96%	50.63%
Net Margin	3.46%	2.04%	10.68%	1.77%	-2.40%	2.30%
Return on Equity	14.17%	10.16%	16.36%	6.15%	-27.83%	14.47%
Sales/Assets	1.35	1.34	0.55	1.73	1.34	1.15
Proj. Sales Growth (F1/F0)	-12.10%	-14.29%	-2.26%	-13.01%	-15.64%	-15.57%
Momentum Score	F	-	-	D	B	F
Daily Price Chg	1.68%	3.45%	2.40%	8.57%	-9.57%	5.71%
1 Week Price Chg	11.65%	7.80%	0.53%	8.83%	-1.27%	6.77%
4 Week Price Chg	-8.59%	-11.80%	2.68%	-15.01%	-50.25%	-19.37%
12 Week Price Chg	-59.23%	-57.33%	-19.20%	-55.43%	-76.23%	-67.92%
52 Week Price Chg	-73.38%	-66.79%	-8.44%	-57.95%	-86.72%	-76.34%
20 Day Average Volume	10,208,897	5,466,885	2,398,409	724,873	18,149,246	31,923,364
(F1) EPS Est 1 week change	-43.77%	-23.54%	0.00%	-3.31%	-1.16%	-263.64%
(F1) EPS Est 4 week change	-67.10%	-88.62%	-6.95%	-320.80%	-51.46%	-110.14%
(F1) EPS Est 12 week change	-84.43%	-112.20%	-15.68%	-151.11%	-119.73%	-104.67%
(Q1) EPS Est Mthly Chg	-103.92%	-221.60%	-13.12%	-70.90%	-339.29%	-23,900.03%

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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	B
Momentum Score	F
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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