

Kohl's Corporation (KSS)

\$44.47 (As of 02/14/20)

Price Target (6-12 Months): **\$37.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 01/10/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)
4-Sell

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: C

Summary

Kohl's shares have lagged the industry in the past three months. The stock came under pressure after it released soft holiday season comps, which also prompted management to slightly pull down its fiscal 2019 earnings view. This apart, the company is grappling with rising SG&A expenses, which along with aggressive pricing dented its bottom line in third-quarter fiscal 2019. Further, SG&A costs are expected to grow 1.5-2% in fiscal 2019 due to higher spending related to payroll, technology, store expansion and the Amazon returns program. Also, elevated tariffs on Chinese merchandise are a threat. Nonetheless, we commend Kohl's solid e-commerce efforts, which have been driving digital sales. To this end, the company is focused on expanding fulfilment centres, improving online assortments and enhancing online applications.

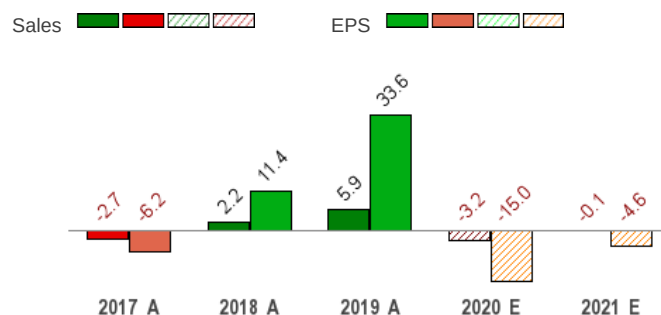
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$75.91 - \$42.50
20 Day Average Volume (sh)	2,421,364
Market Cap	\$7.0 B
YTD Price Change	-12.7%
Beta	1.07
Dividend / Div Yld	\$2.68 / 6.0%
Industry	Retail - Regional Department Stores
Zacks Industry Rank	Top 10% (25 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-12.9%
Last Sales Surprise	-0.9%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	03/03/2020
Earnings ESP	0.0%
P/E TTM	8.7
P/E F1	9.8
PEG F1	1.0
P/S TTM	0.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,086 E	4,449 E	4,623 E	6,783 E	19,569 E
2020	4,087 A	4,430 A	4,625 A	6,803 E	19,587 E
2019	4,208 A	4,570 A	4,628 A	6,823 A	20,229 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.48 E	\$1.57 E	\$0.71 E	\$1.90 E	\$4.54 E
2020	\$0.61 A	\$1.55 A	\$0.74 A	\$1.92 E	\$4.76 E
2019	\$0.64 A	\$1.76 A	\$0.98 A	\$2.24 A	\$5.60 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 02/14/2020. The reports text is as of 02/17/2020.

Overview

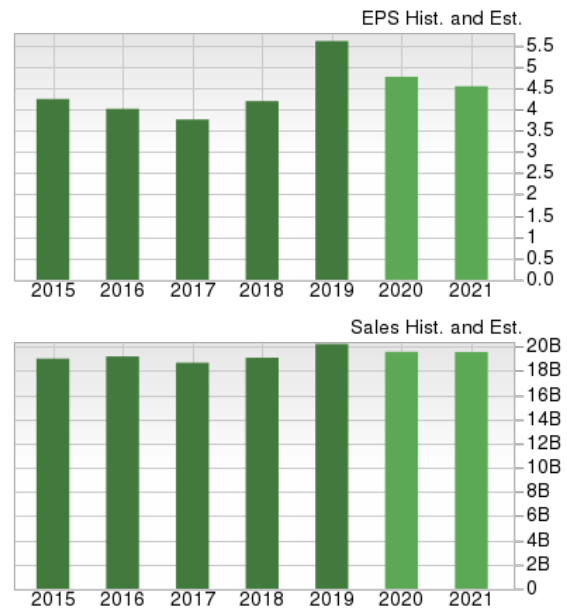
Headquartered in Menomonee Falls, WI, Kohl's Corp. is a U.S. based department store chain that operates specialty department stores and an e-commerce site in the U.S. As of Nov 19, 2019, Kohl's operated more than 1,100 stores across 49 states.

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 Sell:

▼ **Soft Holiday Comps & Guidance Hurt Stock:** Kohl's shares have declined 22.8% in the past three months, compared with the industry's growth of 14.8%. The stock came under pressure after it released soft comparable store sales (comps) for the holiday season. Moreover, the holiday season results prompted management to slightly pull down its earnings guidance for fiscal 2019.

The company is grappling with weak comps. Also, high SG&A expenses remains a threat to profitability.

Kohl's holiday period comps dipped 0.2% year over year. Although the company saw strength in several key business areas like digital, beauty, active, children's, men's and footwear, softness in the women's category impeded results. Industry experts believe that increased promotions and escalated digital fulfillment costs have been a threat to Kohl's comps and margins. Additionally, the company is facing volatile customer traffic. Kohl's now envisions the fiscal 2019 bottom line to come at the lower end of its previously guided range of \$4.75-\$4.95 per share.

▼ **Dismal Q3 Results:** Kohl's posted dismal third-quarter fiscal 2019 results, wherein top and the bottom lines declined year on year. Moreover, revenues and earnings missed the Zacks Consensus Estimate. Notably, gross margin in the fiscal third quarter was hit by aggressive pricing strategy in response to the competitive environment along with underperformance in women's business. Also, increased shipping costs are headwinds. In this regard, gross margin plummeted 70 basis points (bps) to 36.3% in the reported quarter.

▼ **Higher Expenses & Tariffs A Worry:** Kohl's remains vulnerable to the impact of rising selling, general and administrative (SG&A) expenses for a while now. In the fiscal third quarter, SG&A expenses, as percentage of sales, expanded 100 bps to 30.7% due to increased marketing and IT expenses. Moreover, the company witnessed higher store related expenses due to the significant number of brand launches, wage rate pressures, early holiday hiring, and the Amazon Returns program. Further, operating income came in at \$204 million, down 20.9% from the prior-year quarter's figure. For fiscal 2019, management expects SG&A expenses to increase 1.5-2%. Further, the potential impacts from tariffs on merchandise sourced from China are a concern.

▼ **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.

Risks

- **Growing e-Commerce Business:** The company has been benefiting from its growing e-commerce business for a while now. Markedly, digital sales witnessed a mid-teen increase during third-quarter fiscal 2019. Online business gained from strong assortments and favorable impacts from the company's customer-centric investments. Further, we note that the company's investments toward boosting capabilities of online applications have improved consumer engagement. Notably, mobile sales continued to be a significant driver. 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. During the fiscal third quarter, the Kohl's app grew considerably, with traffic nearly doubling and sales almost tripling on the back of increased customer usage. To improve online offerings, Kohl's has been expanding its e-commerce fulfillment centers. Recently, the company made investments in its sixth fulfillment center. Additionally, it focuses on strengthening in-store pickups. In fact, the company witnessed increased adoption of Buy-Online-Ship-to-Store (or BOSS) and BOPUS in the fiscal third quarter. Additionally, the company is focusing extensively on digital ship to home orders. 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. Management expects consistent strength in digital sales courtesy of the company's innovations and expansion of online offerings. Moreover, the recent contract with Fanatics has helped the company widen its fan gear product range for online customers.

We expect that such upsides combined with prudent moves to strengthen inventory position, gains from the Amazon returns program and new product launches will drive the company's revenues. Notably, the company reverted to comps growth in this quarter after posting declines in the preceding two quarters. Comps in the third quarter were buoyed by a solid back-to-school season. In fact, management is encouraged about holiday season opportunities and is on track to accelerate growth-oriented investments.

- **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 by 1% in the third-quarter an improvement from the last reported-quarters figure of 2%.
- **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. 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. 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. 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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Last Earnings Report

Kohl's Q3 Earnings Miss , View Slashed

Kohl's Corporation reported dismal third-quarter fiscal 2019 results, as both top and bottom lines fell short of the Zacks Consensus Estimate. In fact, revenues marked its third consecutive miss. Further, management lowered its earnings guidance for the fiscal.

Q3 in Detail

Kohl's adjusted earnings of 74 cents per share missed the Zacks Consensus Estimate of 85 cents. Additionally, the bottom line declined 24.5% on a year-over-year basis. The downside can be accountable to soft revenues, reduced gross margin and increased SG&A expenses.

Total revenues came in at \$4,625 million compared with \$4,628 million in the prior-year period. Moreover, the figure came below the Zacks Consensus Estimate of \$4,668 million. Net sales dipped 0.3% to \$4,358 million, while other revenues grew 3.1% to \$267 million in the quarter.

Further, comps rose 0.4% compared with 2.9% growth in the year-ago quarter. Nonetheless, the company reverted to growth in this quarter after posting comps decline in the preceding two quarters. Comps in the third quarter were buoyed by a solid back-to-school season. In fact, management is encouraged about holiday season opportunities and is on track to accelerate growth-oriented investments.

However, gross margin plummeted 70 basis points (bps) to 36.3% in the reported quarter. SG&A expenses, as a percentage of revenues, expanded 100 bps to 30.7%. Further, operating income came in at \$204 million, down 20.9% from the prior-year quarter's figure.

Other Financial Details

The company ended the quarter with cash and cash equivalents of \$490 million, long-term debt of \$1,856 million and shareholders' equity of \$5,355 million. The company generated net cash from operating activities of \$1,045 million during the first nine months of fiscal 2019.

On Nov 13, Kohl's announced a quarterly cash dividend of 67 cents per share, which is payable on Dec 24 to stockholders of record as of Dec 11.

Guidance

Kohl's lowered its bottom-line view for fiscal 2019. It now envisions adjusted earnings per share of \$4.75-\$4.95, down from the previous guidance of \$5.15-\$5.45.

Quarter Ending 10/2019

Report Date	Nov 19, 2019
Sales Surprise	-0.92%
EPS Surprise	-12.94%
Quarterly EPS	0.74
Annual EPS (TTM)	5.14

Recent News

Kohl's Posts Soft Holiday Comps & Updates Guidance - Jan 9, 2020

Kohl's holiday period comps dipped 0.2% year over year. Although the company saw strength in several key business areas like digital, beauty, active, children's, men's and footwear, softness in the women's category impeded results. Management is on track to improve the performance of its women's business, alongside focusing on innovation and enhancing consumers' experience.

Also, industry experts believe that increased promotions and escalated digital fulfillment costs have been a threat to Kohl's comps and margins. Additionally, the company is facing volatile customer traffic, per sources. It seems these factors and a not-so-impressive holiday season performance led management to revise its guidance for fiscal 2019. Kohl's now envisions the fiscal 2019 bottom line to come at the lower end of its previously guided range of \$4.75-\$4.95 per share.

Valuation

Kohl's shares are down 12.7% in the year-to-date period and 29% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 9.4%, whereas stocks in the Zacks Retail – Wholesale sector are up 6% in the year-to-date period. Over the past year, the Zacks sub-industry is down 28.7%, while the sector is up 20.4%.

The S&P 500 index is up 5.2% in the year-to-date period and 23.6% in the past year.

The stock is currently trading at 9.83X forward 12-month earnings, which compares to 10.9X for the Zacks sub-industry, 26.09X for the Zacks sector and 19.36X for the S&P 500 index.

Over the past five years, the stock has traded as high as 17.09X and as low as 8.1X, with a 5-year median of 11.19X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$37 price target reflects 8.19X forward 12-month earnings.

The table below shows summary valuation data for KSS

Valuation Multiples - KSS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	9.83	10.9	26.09	19.36
	5-Year High	17.09	18.34	26.2	19.36
	5-Year Low	8.1	9.31	19.07	15.18
	5-Year Median	11.19	11.28	22.99	17.47
P/S F12M	Current	0.36	0.27	1.09	3.58
	5-Year High	0.82	0.74	1.11	3.58
	5-Year Low	0.33	0.26	0.8	2.54
	5-Year Median	0.46	0.42	0.92	3
EV/EBITDA TTM	Current	5.08	6.36	15.89	12.31
	5-Year High	7.14	9.34	15.89	12.85
	5-Year Low	3.65	4.6	10.79	8.47
	5-Year Median	4.96	6.26	12.41	10.7

As of 02/14/2020

Industry Analysis Zacks Industry Rank: Top 10% (25 out of 255)



Top Peers

Dillards, Inc. (DDS)	Outperform
Costco Wholesale Corporation (COST)	Neutral
Dollar General Corporation (DG)	Neutral
Dollar Tree, Inc. (DLTR)	Neutral
J. C. Penney Company, Inc. (JCP)	Neutral
Macys, Inc. (M)	Neutral
Target Corporation (TGT)	Neutral
Walmart Inc. (WMT)	Neutral

Industry Comparison Industry: Retail - Regional Department Stores				Industry Peers		
	KSS Underperform	X Industry	S&P 500	DDS Outperform	JCP Neutral	M Neutral
VGM Score	A	-	-	B	D	C
Market Cap	6.96 B	4.92 B	24.61 B	1.61 B	227.42 M	5.15 B
# of Analysts	8	5	13	2	4	6
Dividend Yield	6.03%	1.31%	1.78%	0.92%	0.00%	9.06%
Value Score	A	-	-	A	C	A
Cash/Price	0.07	0.07	0.04	0.05	0.71	0.06
EV/EBITDA	5.44	5.07	14.06	4.36	8.69	4.70
PEG Ratio	0.98	0.95	2.09	NA	NA	0.91
Price/Book (P/B)	1.30	0.93	3.29	1.01	0.26	0.85
Price/Cash Flow (P/CF)	3.88	3.88	13.65	4.36	0.86	2.28
P/E (F1)	9.80	9.80	19.21	16.68	NA	6.81
Price/Sales (P/S)	0.35	0.23	2.70	0.25	0.02	0.21
Earnings Yield	10.21%	8.10%	5.19%	5.99%	-122.54%	14.70%
Debt/Equity	1.09	1.16	0.71	0.37	5.90	1.24
Cash Flow (\$/share)	11.45	7.31	6.92	14.93	0.83	7.31
Growth Score	B	-	-	C	C	F
Hist. EPS Growth (3-5 yrs)	6.85%	-1.58%	10.85%	-8.49%	NA	-1.58%
Proj. EPS Growth (F1/F0)	-4.67%	-3.77%	7.17%	-2.86%	16.95%	-10.38%
Curr. Cash Flow Growth	11.63%	6.93%	8.56%	4.90%	-59.25%	6.93%
Hist. Cash Flow Growth (3-5 yrs)	1.24%	-0.63%	8.36%	-7.34%	18.26%	-2.50%
Current Ratio	1.42	1.47	1.23	1.64	1.51	1.28
Debt/Capital	52.13%	53.72%	42.91%	27.11%	85.51%	55.31%
Net Margin	3.50%	2.77%	11.81%	2.03%	-1.92%	3.91%
Return on Equity	15.19%	11.17%	16.86%	7.14%	-24.09%	17.44%
Sales/Assets	1.40	1.39	0.54	1.74	1.39	1.18
Proj. Sales Growth (F1/F0)	-0.09%	-0.46%	3.85%	-0.46%	-3.60%	-3.07%
Momentum Score	C	-	-	B	D	C
Daily Price Chg	-0.38%	-0.40%	0.06%	2.71%	-0.64%	-0.42%
1 Week Price Chg	2.46%	1.23%	2.47%	6.52%	-6.98%	2.82%
4 Week Price Chg	-5.44%	-8.48%	0.59%	-7.08%	-15.59%	-4.91%
12 Week Price Chg	-5.56%	-8.23%	6.98%	-8.69%	-34.19%	13.63%
52 Week Price Chg	-32.65%	-19.81%	16.62%	-3.60%	-48.50%	-33.69%
20 Day Average Volume	2,421,364	1,358,151	2,020,569	294,937	5,327,300	10,240,572
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.85%
(F1) EPS Est 4 week change	0.00%	1.69%	-0.05%	3.38%	0.00%	5.92%
(F1) EPS Est 12 week change	-15.30%	-3.79%	-0.17%	11.65%	-2.59%	-4.98%
(Q1) EPS Est Mthly Chg	0.00%	0.47%	-0.24%	0.94%	0.00%	20.00%

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	C
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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