

## Kohls Corporation (KSS)

**\$19.00** (As of 08/20/20)

Price Target (6-12 Months): **\$20.00**

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:D

Value: C

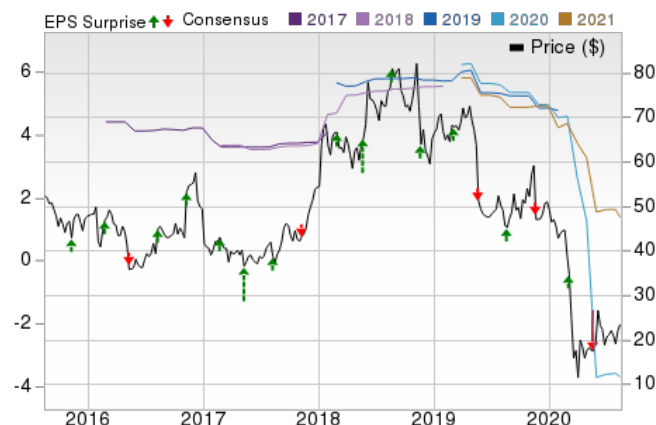
Growth: F

Momentum: A

## Summary

Kohl's shares have lagged the industry in the past three months. The coronavirus outbreak impacted the company's second-quarter fiscal 2020 results. Net sales plunged 22.9% due to nearly 25% less operating days than the prior year. Apart from these, the company continued to witness escalated costs and strained margins in the fiscal second quarter. Further, management anticipates gross margin to remain pressurized on account of higher shipping costs along with an intense promotional environment. Nevertheless, the company reopened all its stores, following the relaxation of the coronavirus-induced lockdown restrictions, though they operated at reduced working hours during the quarter. Apart from these, digital revenues witnessed a 58% jump during the quarter, given customers' increased shift to online shopping amid COVID-19.

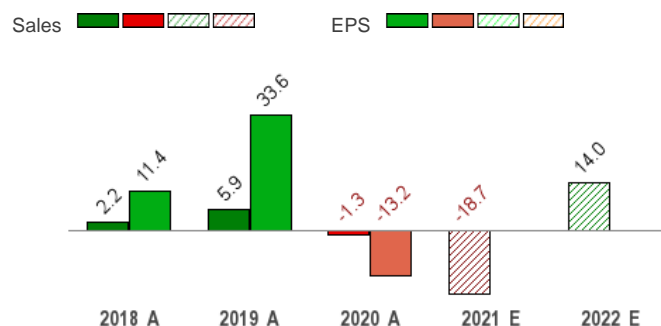
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	\$59.28 - \$10.89
20 Day Average Volume (sh)	10,234,462
Market Cap	\$3.0 B
YTD Price Change	-62.7%
Beta	1.67
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Retail - Regional Department Stores</a>
Zacks Industry Rank	Bottom 19% (205 out of 252)

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



Last EPS Surprise	72.8%
Last Sales Surprise	7.4%
EPS F1 Est- 4 week change	10.9%
Expected Report Date	11/17/2020
Earnings ESP	0.0%
P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	0.2

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	3,394 E	4,144 E	4,336 E	6,656 E	18,505 E
2021	2,428 A	3,407 A	4,039 E	6,346 E	16,239 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	-\$0.70 E	\$1.05 E	\$0.20 E	\$1.56 E	\$2.01 E
2021	-\$3.20 A	-\$0.25 A	-\$0.41 E	\$0.69 E	-\$3.20 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 08/20/2020. The reports text is as of 08/21/2020.

## Overview

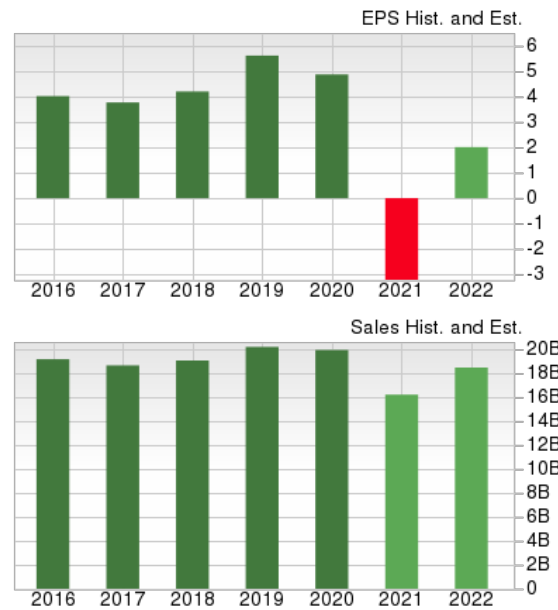
Headquartered in Menomonee Falls, WI, Kohl's Corp. is a U.S. based department store chain that operates specialty department stores and an e-commerce site in the U.S. As of Nov 19, 2019, Kohl's operated more than 1,100 stores across 49 states.

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.



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## Reasons To Buy:

▲ **Store Reopening & Efforts to Solidify Financial Position Amid Pandemic:** The company reopened all its stores, following the relaxation of the coronavirus outbreak-induced lockdown restrictions. While reopening stores, management undertook all health and safety measures. Moreover, Kohl's store drive-ups as well as customer pick up plans amid the pandemic are yielding. Also, the company implemented Amazon return program as the stores reopened. In fact, Kohl's witnessed increased traffic as customers were able to place returns for items bought over the last several months.

Kohl's initiatives to drive traffic amid COVID-19 are encouraging. The company also has a strong brand portfolio and a solid e-commerce business.

The company has taken every step to safeguard its financial position amid the crisis that helped generate positive operating cash flow in the fiscal second quarter. To address challenges related to the pandemic, Kohl's focused on lowering expenses, managing inventory receipts and curbing capital expenditure. The company also secured an additionally \$500 million under its revolver credit facility. Management also informed its intentions to remain in the investment grade rating category for the long term. Markedly, Kohl's ended the second quarter with cash and cash equivalents of \$2,428 million. This is sufficient to meet the company's current leases and financial obligations of \$126 million as of Aug 1, 2020. Its long-term debt (including leases and finance obligations) inched up on a sequential basis to \$7,443 million as of Aug 1.

▲ **Digital Business:** The company has been benefiting from its growing digital business for a while now. The company remains focused on making investments in this business, which has seen its sales more than double since 2014. Markedly, digital sales witnessed a 58% jump during second-quarter fiscal 2020, given customers' increased shift to online shopping amid the coronavirus outbreak. Given the need of the hour, management speeded up its digital marketing and enhanced its website to cater to customers' needs. Further, the company generated online sales growth across several categories. Notably, digital revenues in the Home and Active business surged more than 90% and 70%, respectively, in the second quarter.

A large percentage of digital orders was accomplished by Kohl's stores, which also helped lower in-store inventory. In fact, roughly 50% of digital orders were fulfilled by stores. Also, 15% of the digital revenues were attributed to customer pickups in the quarter. Certainly, the company's investments toward boosting online capabilities and improving consumer engagement are yielding well. Management expects to leverage its strong online presence during the upcoming holiday season.

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 or 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.

▲ **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 brand portfolio in March 2020. 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 and Rock & Republic 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.

▲ **Partnerships Boost performance:** Kohl's has been strengthening its ties with retail giant Amazon to drive traffic. Incidentally, the company has been benefiting from the rollout of its Amazon returns program nationwide. According to this program, Kohl's stores accept free, unpackaged and easy returns for customers of Amazon. The company is witnessing improved store traffic from the Amazon returns program since its stores reopened. 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 Hurts Q2 Results:** The coronavirus outbreak, which led to the closure of stores, impacted Kohl's second-quarter fiscal 2020 results. The company's total revenues were \$3,407 million, down 23.1% year over year. Net sales plunged 22.9% to \$3,213 million due to nearly 25% less operating days compared with the prior-year figure along with reduced working hours amid the pandemic. Also, other revenues declined 25.7% to \$194 million. Further, Kohl's posted adjusted loss of 25 cents per share, which compares unfavorably with adjusted earnings of \$1.55 per share reported in the year-ago quarter. In fact, management expects the overall retail industry and its business to be affected by the impact of coronavirus in 2020. Also, on the fiscal second-quarter earnings call, the company highlighted some concerns regarding a sluggish back-to-school selling season in the wake of the pandemic. Shares of Kohl's have gained 8.7% in the past three months compared with the industry's growth of 14%.
- ▼ **Rising Costs:** Kohl's has been seeing rising selling, general and administrative (SG&A) expenses for a while now. In the fiscal second quarter, as a percentage of total revenues, SG&A expenses increased to 30.8% from 28.6% in the prior-year quarter. Prior to this, the metric came in at 43.9% in the fiscal first quarter from 31.2% in the prior-year period. We believe that the persistence of the trend may continue to exert pressure on the company's performance in the future.
- ▼ **Margin Concerns:** During the second quarter of fiscal 2020, Kohl's gross margin contracted to 33.1% from 38.8% in the year-ago quarter. Gross margin was largely affected by the pandemic. Gross margin contraction can be mainly accountable to escalated shipping costs, owing to higher digital sales penetration as well as promotional activities and mix impacts as Home was the outperforming category. Moreover, management expects gross margin to remain pressurized, owing to higher shipping costs as it anticipates digital penetration to remain high along with an intense promotional environment.
- ▼ **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.
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The company is grappling with soft margins. Also, coronavirus-led impact is concerning.

## Last Earnings Report

### Kohl's Q2 Loss Narrower-Than-Expected, Sales Fall

Kohl's posted second-quarter fiscal 2020 results, with narrower-than-expected loss. Moreover, the company's top line surpassed the Zacks Consensus Estimate. However, the metric declined from the year-ago period.

To address challenges tied to the pandemic, Kohl's focused on lowering expenses, managing inventory receipts and augmenting its online business. The company took every initiative to safeguard its financial position amid the crisis that helped generate positive operating cash flow. Also, management informed that it has reopened all stores as coronavirus-induced restrictions are being lifted.

#### Q2 in Details

Kohl's posted adjusted loss of 25 cents per share, which is narrower than the Zacks Consensus Estimate of a loss of 92 cents. However, the figure was wider than adjusted earnings of \$1.55 per share reported in the year-ago quarter. The deterioration was caused by lower net sales and increased interest expenses.

Total revenues came in at \$3,407 million, down 23.1% from the prior-year quarter's levels. Nevertheless, the metric surpassed the Zacks Consensus Estimate of \$3,172.5 million. Net sales have plunged 22.9% to \$3,213 million and other revenues declined 25.7% to \$194 million in the quarter.

Gross margin contracted to 33.1% in the quarter under review from 38.8% in the year-ago quarter. Notably, SG&A expenses declined 17.3% year over year to \$1,050 million. However, as a percentage of total revenues, SG&A expenses increased to 30.8% in the quarter from 28.6% in the prior-year quarter. The company reported operating income of \$118 million compared with \$376 million posted in the prior-year quarter.

#### Other Financial Details

Kohl's ended the quarter with cash and cash equivalents of \$2,428 million, long-term debt of \$3,450 million and shareholders' equity of \$4,837 million. The company generated net cash from operating activities of \$304 million during six months ended Aug 1.

Quarter Ending **07/2020**

Report Date	Aug 18, 2020
Sales Surprise	7.39%
EPS Surprise	72.83%
Quarterly EPS	-0.25
Annual EPS (TTM)	-0.72

## Recent News

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

Kohl's 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.

## Valuation

Kohl's shares are down 61.2% in the year-to-date period and 57.1% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 60.6%, whereas stocks in the Zacks Retail – Wholesale sector gained 32.1% in the year-to-date period. Over the past year, the Zacks sub-industry declined 55.2% while and the sector gained 41.2%.

The S&P 500 index is up 5.9% in the year-to-date period and 17.8% in the past year.

The stock is currently trading at 0.18X forward 12-month sales, which compares to 0.16X for the Zacks sub-industry, 1.27X for the Zacks sector and 3.7X for the S&P 500 index.

Over the past five years, the stock has traded as high as 0.68X and as low as 0.09X, with a 5-year median of 0.42X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$20 price target reflects 0.19X 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	0.18	0.16	1.27	3.7
	5-Year High	0.68	0.67	1.27	3.7
	5-Year Low	0.09	0.11	0.82	2.53
	5-Year Median	0.42	0.44	0.97	3.05
P/B TTM	Current	0.63	0.87	9.63	4.53
	5-Year High	2.51	3.02	9.68	4.56
	5-Year Low	0.33	0.34	3.69	2.83
	5-Year Median	1.54	1.99	5.02	3.75
EV/EBITDA TTM	Current	5.68	8.76	20.55	12.76
	5-Year High	7	9.21	20.64	12.85
	5-Year Low	2.73	3.37	11.14	8.25
	5-Year Median	4.9	5.39	12.95	10.91

As of 08/20/2020

## Industry Analysis Zacks Industry Rank: Bottom 19% (205 out of 252)



## Top Peers

Company (Ticker)	Rec	Rank
Dollar General Corporation (DG)	Outperform	2
Target Corporation (TGT)	Outperform	1
Companhia Brasileira de Distribuicao (CBD)	Neutral	3
Costco Wholesale Corporation (COST)	Neutral	3
Dillards, Inc. (DDS)	Neutral	3
Dollar Tree, Inc. (DLTR)	Neutral	3
Macys, Inc. (M)	Neutral	4
Walmart Inc. (WMT)	Neutral	3

Industry Comparison Industry: Retail - Regional Department Stores				Industry Peers		
	KSS	X Industry	S&P 500	CBD	DDS	M
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	4
VGM Score	D	-	-	A	C	D
Market Cap	3.00 B	1.95 B	23.46 B	3.08 B	603.26 M	1.95 B
# of Analysts	9	7	14	1	5	7
Dividend Yield	0.00%	0.00%	1.65%	0.98%	2.31%	0.00%
Value Score	C	-	-	A	C	D
Cash/Price	0.55	0.62	0.07	0.45	0.10	0.68
EV/EBITDA	4.15	3.43	13.34	6.65	2.72	4.31
PEG Ratio	NA	NA	3.00	0.76	NA	NA
Price/Book (P/B)	0.62	0.62	3.12	1.06	0.46	0.72
Price/Cash Flow (P/CF)	1.76	1.76	12.60	6.02	1.94	1.03
P/E (F1)	NA	NA	21.61	16.25	NA	NA
Price/Sales (P/S)	0.17	0.11	2.44	0.19	0.12	0.09
Earnings Yield	-16.84%	-48.99%	4.43%	6.15%	-25.53%	-72.45%
Debt/Equity	1.54	2.22	0.76	1.47	0.41	2.91
Cash Flow (\$/share)	10.77	6.12	6.93	1.92	13.37	6.12
Growth Score	F	-	-	A	D	D
Hist. EPS Growth (3-5 yrs)	-1.12%	-6.35%	10.44%	NA	-6.35%	-11.95%
Proj. EPS Growth (F1/F0)	-165.93%	-215.02%	-5.53%	61.36%	-259.04%	-256.51%
Curr. Cash Flow Growth	-10.84%	-10.84%	5.20%	-12.81%	-16.01%	-15.88%
Hist. Cash Flow Growth (3-5 yrs)	-0.78%	-3.55%	8.52%	-13.56%	-10.66%	-6.32%
Current Ratio	2.22	1.45	1.33	0.98	1.66	1.24
Debt/Capital	60.61%	67.51%	44.50%	59.44%	28.85%	74.41%
Net Margin	-0.61%	-4.33%	10.13%	0.51%	-1.92%	-14.28%
Return on Equity	-2.15%	-4.23%	14.67%	2.88%	-6.30%	2.61%
Sales/Assets	1.13	1.15	0.51	1.26	1.44	1.06
Proj. Sales Growth (F1/F0)	-18.70%	-18.70%	-1.54%	0.00%	-24.15%	-30.96%
Momentum Score	A	-	-	A	B	A
Daily Price Chg	-2.96%	-3.05%	-0.59%	0.00%	-3.39%	-3.68%
1 Week Price Chg	6.27%	5.93%	1.09%	-3.35%	5.60%	8.61%
4 Week Price Chg	-13.87%	-1.17%	1.91%	-18.45%	3.51%	-5.85%
12 Week Price Chg	-5.57%	-4.84%	6.82%	1.76%	-14.43%	-8.05%
52 Week Price Chg	-59.86%	-47.76%	1.47%	-46.62%	-53.79%	-59.64%
20 Day Average Volume	10,234,462	3,865,823	1,873,576	430,514	598,164	24,651,180
(F1) EPS Est 1 week change	13.68%	6.84%	0.00%	0.00%	38.48%	0.00%
(F1) EPS Est 4 week change	10.93%	6.02%	1.79%	7.58%	35.36%	1.12%
(F1) EPS Est 12 week change	14.06%	-9.31%	3.35%	7.58%	35.36%	-42.39%
(Q1) EPS Est Mthly Chg	-4.24%	-4.24%	0.42%	NA	-84.81%	-1.94%

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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	C
Growth Score	F
Momentum Score	A
VGM Score	D

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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