

Kohls Corporation (KSS)

\$17.96 (As of 03/26/20)

Price Target (6-12 Months): **\$15.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 03/25/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: D

Summary

Shares of Kohl's have lagged the industry in the past three months. The stock came under further pressure after it withdrew its guidance in the wake of the novel coronavirus, which has derailed economic activities worldwide. Incidentally, Kohl's has shut down all stores until at least Apr 1. Also, management suspended share buybacks and is evaluating its dividend program as part of capital allocation alteration. These factors are likely to affect performance in the first quarter of fiscal 2020. Also, the company continued to witness escalated costs and strained margins in fourth-quarter fiscal 2019, wherein the bottom line dropped year over year. Nonetheless, revenues were backed by solid digital sales, thanks to app and mobile sales. Also, nationwide rollout of the Amazon returns program has been boosting traffic.

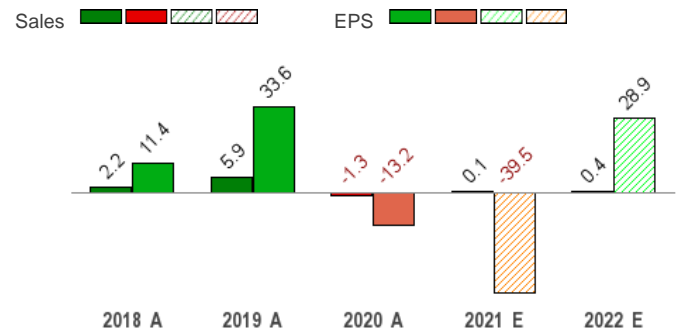
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$75.91 - \$12.85
20 Day Average Volume (sh)	8,327,905
Market Cap	\$2.8 B
YTD Price Change	-64.8%
Beta	0.93
Dividend / Div Yld	\$2.82 / 15.7%
Industry	Retail - Regional Department Stores
Zacks Industry Rank	Bottom 4% (243 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	-35.8%
Expected Report Date	05/19/2020
Earnings ESP	0.0%
P/E TTM	3.7
P/E F1	6.1
PEG F1	0.6
P/S TTM	0.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					20,089 E
2021	4,094 E	4,436 E	4,629 E	6,843 E	20,002 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	\$0.39 E	\$1.56 E	\$0.64 E	\$1.96 E	\$3.79 E
2021	-\$0.47 E	\$1.14 E	\$0.55 E	\$1.86 E	\$2.94 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 03/26/2020. The reports text is as of 03/27/2020.

Overview

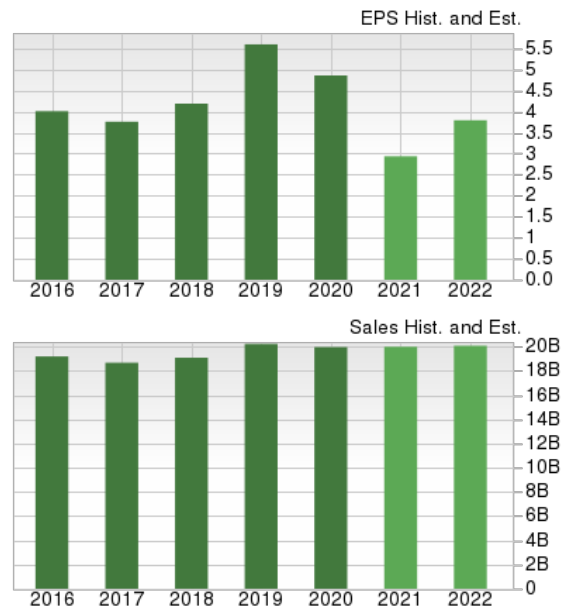
Headquartered in Menomonee Falls, WI, Kohl's Corp. is a U.S. based department store chain that operates specialty department stores and an e-commerce site in the U.S. As of Nov 19, 2019, Kohl's operated more than 1,100 stores across 49 states.

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:

▼ **Coronavirus-Led Hurdles, Stock Underperforms:** Kohl's shares have plummeted 64.5% in the past three months compared with the industry's decline of 60.4%. The stock came under further pressure after it provided an update on coronavirus, which 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. To this end, Kohl's has shut down all stores — roughly more than 1,100 — effective Mar 19 till at least Apr 1.

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.

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 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 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. Such upsides combined with prudent moves to strengthen inventory position, gains from the Amazon returns program and new product launches bode well.

- **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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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 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.

Kohl's Adds Lands' End Products to National Brands Portfolio – March 16, 2020

Kohl's announced partnership with Lands' End. Per the deal, Kohl's will offer Lands' End's complete collection of women's, men's, kids as well as home solutions on Kohls.com. The collection, directly fulfilled and dispatched by Lands' End, is expected to be available on the website starting fall 2020.

Apart from this, the company will also display Lands' End assortments in 150 stores. Notably, Lands' End outerwear collection including jackets, vests and cold weather accessories will be available in stores by this fall. This will be followed by Lands' End swimwear assortments in the beginning of 2021. Additionally, few company stores will display Lands' End shop-in-shop experience, which will offer shoppers products for the entire family throughout the year.

Lands' End is a well-known retailer of classic and casual lifestyle products, which will strengthen Kohl's national brands portfolio. Notably, its portfolio includes superior quality products that are available in a wide range of sizes for all categories.

Valuation

Kohl's shares are down 64.7% in the year-to-date period and 73.9% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 60.7%, whereas stocks in the Zacks Retail – Wholesale sector declined 14.7% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector declined 71.3% and 6%, respectively.

The S&P 500 index is down 23.1% in the year-to-date period and 12.8% in the past year.

The stock is currently trading at 4.08X forward 12-month earnings, which compares to 8.59X for the Zacks sub-industry, 22.09X for the Zacks sector and 14.92X for the S&P 500 index.

Over the past five years, the stock has traded as high as 17.09X and as low as 3.54X, with a 5-year median of 11.09X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$15 price target reflects 3.41X 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	4.08	8.59	22.09	14.92
	5-Year High	17.09	18.34	26.19	19.34
	5-Year Low	3.54	8.59	19.06	14.92
	5-Year Median	11.09	11.23	23	17.42
P/S F12M	Current	0.14	0.12	0.88	2.68
	5-Year High	0.82	0.74	1.11	3.43
	5-Year Low	0.12	0.12	0.8	2.54
	5-Year Median	0.45	0.41	0.92	3
EV/EBITDA TTM	Current	3.21	4.71	13.35	9.16
	5-Year High	7.28	9.34	16.22	12.88
	5-Year Low	2.85	4.4	10.88	8.27
	5-Year Median	4.97	6.23	12.51	10.78

As of 03/26/2020

Industry Analysis Zacks Industry Rank: Bottom 4% (243 out of 253)



Top Peers

Macys, Inc. (M)	Outperform
Costco Wholesale Corporation (COST)	Neutral
Dillards, Inc. (DDS)	Neutral
Dollar General Corporation (DG)	Neutral
Dollar Tree, Inc. (DLTR)	Neutral
J. C. Penney Company, Inc. (JCP)	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 Neutral	JCP Neutral	M Outperform
VGM Score	A	-	-	A	A	A
Market Cap	2.79 B	1.84 B	18.50 B	1.03 B	128.39 M	1.84 B
# of Analysts	9	6	13	5	6	7
Dividend Yield	15.68%	0.72%	2.35%	1.43%	0.00%	0.00%
Value Score	A	-	-	A	A	A
Cash/Price	0.29	0.33	0.07	0.27	2.69	0.37
EV/EBITDA	3.90	3.98	11.16	3.36	7.73	4.05
PEG Ratio	0.60	0.56	1.74	NA	NA	0.36
Price/Book (P/B)	0.52	0.52	2.44	0.64	0.15	0.29
Price/Cash Flow (P/CF)	1.67	1.67	9.87	3.13	0.45	0.97
P/E (F1)	5.97	6.11	15.29	44.10	NA	4.28
Price/Sales (P/S)	0.14	0.11	1.93	0.16	0.01	0.07
Earnings Yield	16.37%	9.32%	6.47%	2.27%	-280.00%	23.40%
Debt/Equity	1.07	1.05	0.70	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	B	B
Hist. EPS Growth (3-5 yrs)	7.34%	-1.84%	10.85%	-8.57%	NA	-1.84%
Proj. EPS Growth (F1/F0)	-39.55%	-43.72%	2.89%	-77.22%	-39.38%	-52.28%
Curr. Cash Flow Growth	-10.84%	-10.84%	5.93%	-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	1.23	1.99	1.41	1.18
Debt/Capital	51.74%	51.18%	42.57%	26.96%	84.96%	50.63%
Net Margin	3.46%	2.04%	11.64%	1.77%	-2.40%	2.30%
Return on Equity	14.17%	10.16%	16.74%	6.15%	-27.83%	14.47%
Sales/Assets	1.35	1.34	0.54	1.73	1.34	1.15
Proj. Sales Growth (F1/F0)	0.14%	-3.50%	2.37%	-3.50%	-5.67%	-7.31%
Momentum Score	D	-	-	F	D	D
Daily Price Chg	1.47%	-1.85%	6.21%	-6.43%	-3.61%	-10.14%
1 Week Price Chg	-36.06%	-14.59%	-16.96%	-4.14%	-25.13%	-25.03%
4 Week Price Chg	-53.85%	-32.14%	-15.70%	-22.03%	-42.26%	-53.95%
12 Week Price Chg	-63.43%	-51.81%	-23.67%	-40.19%	-64.29%	-64.04%
52 Week Price Chg	-73.99%	-68.54%	-13.99%	-41.80%	-72.79%	-75.44%
20 Day Average Volume	8,327,905	4,425,732	4,286,768	523,559	8,983,297	27,533,482
(F1) EPS Est 1 week change	-27.44%	-25.30%	-0.15%	-47.28%	-17.78%	-23.16%
(F1) EPS Est 4 week change	-35.84%	-39.98%	-2.28%	-73.45%	-27.57%	-44.12%
(F1) EPS Est 12 week change	-40.56%	-39.96%	-3.22%	-74.57%	-29.35%	-39.36%
(Q1) EPS Est Mthly Chg	-196.60%	-135.42%	-1.60%	-74.25%	-68.42%	-312.92%

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	D
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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