Kohl's Corporation (KSS)

Baird Facts

Please refer to Appendix - Important Disclosures and Analyst Certification.

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<tr>
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</thead>
<tbody>
<tr>
<td>52WK H-L ($) :</td>
<td>59 - 11</td>
<td>Suitability:</td>
<td>Average Risk</td>
</tr>
<tr>
<td>Market Cap (mil):</td>
<td>3,098</td>
<td>L-Term Rev. Gr Rate Est:</td>
<td>Q1</td>
</tr>
<tr>
<td>Shares Out (mil):</td>
<td>154.0</td>
<td>L-Term EPS Gr Rate Est:</td>
<td>Q2</td>
</tr>
<tr>
<td>Float (mil):</td>
<td>153.7</td>
<td>Debt/Cap:</td>
<td>Q3</td>
</tr>
<tr>
<td>Avg. Daily Vol (mil):</td>
<td>10.60</td>
<td>ROE:</td>
<td>Q4</td>
</tr>
<tr>
<td>Dividend ($) :</td>
<td>0.00</td>
<td>Insider Holdings:</td>
<td>&lt;1%</td>
</tr>
<tr>
<td>Yield (%):</td>
<td>0.0</td>
<td>FY P/E:</td>
<td>4.1x</td>
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</tbody>
</table>

52WK H-L ($) : 59 - 11
Price Target ($) : 27
L-Term Rev. Gr Rate Est: 2%
L-Term EPS Gr Rate Est: 7%
Debt/Cap: 50.7%
ROE: 21.0%
Insider Holdings: <1%

Headquartered
Menomonee Falls, WI
1992/1963

Management
Chief Executive Officer: Michelle Gass
Chief Financial Officer: Jill Timm
Chief Merchandise Officer: Douglas Howe

Company Description
Kohl's Corporation is a value-oriented department store retailer of moderately priced apparel, footwear, accessories, beauty, and home products targeted to middle-income families. The company operates 1,159 Kohl's department stores, 12 FILA outlets, and an e-commerce website (>24% of F2019 sales).

Revenue Profile

<table>
<thead>
<tr>
<th>By Category (F2019)</th>
<th>Comp</th>
</tr>
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<tbody>
<tr>
<td>Children's 43%</td>
<td></td>
</tr>
<tr>
<td>Accessories 9%</td>
<td></td>
</tr>
<tr>
<td>Footwear 10%</td>
<td></td>
</tr>
<tr>
<td>Women's 28%</td>
<td></td>
</tr>
<tr>
<td>Home 19%</td>
<td></td>
</tr>
<tr>
<td>Men's 21%</td>
<td></td>
</tr>
</tbody>
</table>

Digital Penetration

<table>
<thead>
<tr>
<th>Digital Penetration</th>
<th>E-comm $</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$2.1</td>
</tr>
<tr>
<td>2015</td>
<td>$2.7</td>
</tr>
<tr>
<td>2016</td>
<td>$3.0</td>
</tr>
<tr>
<td>2017</td>
<td>$3.6</td>
</tr>
<tr>
<td>2018</td>
<td>$4.0</td>
</tr>
<tr>
<td>2019</td>
<td>$4.5</td>
</tr>
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Source: Company Documents; *comp trends from Q2-21-Q4-21 represent Baird estimates

Comparison

<table>
<thead>
<tr>
<th>Comparable Sales</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>Group Metrics</th>
<th>Sales Growth</th>
<th>EPS Growth</th>
<th>EBIT Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kohl's</td>
<td>Q1</td>
<td>Q2</td>
<td>Q3</td>
<td>Q4</td>
<td>Q1</td>
<td>Q2</td>
<td>Q3</td>
</tr>
<tr>
<td>Dillard's</td>
<td>2%</td>
<td>1%</td>
<td>3%</td>
<td>-1%</td>
<td>-3%</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>JCPenney</td>
<td>0%</td>
<td>0%</td>
<td>-5%</td>
<td>-6%</td>
<td>-6%</td>
<td>-9%</td>
<td>-9%</td>
</tr>
<tr>
<td>Macy's</td>
<td>4%</td>
<td>0%</td>
<td>3%</td>
<td>0%</td>
<td>1%</td>
<td>0%</td>
<td>-4%</td>
</tr>
<tr>
<td>Nordstrom</td>
<td>1%</td>
<td>4%</td>
<td>2%</td>
<td>0%</td>
<td>-4%</td>
<td>-5%</td>
<td>-5%</td>
</tr>
<tr>
<td>Competitor Avg.</td>
<td>2%</td>
<td>1%</td>
<td>1%</td>
<td>-1%</td>
<td>-2%</td>
<td>-4%</td>
<td>-3%</td>
</tr>
</tbody>
</table>

Source: Company Documents; FactSet; Comparable sales represent rounded figures

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Kohl's Corporation  
May 28, 2020

Investment Thesis
Headquartered in Menomonee Falls, WI, Kohl’s Corporation is a value-oriented department store retailer of moderately priced apparel, footwear, accessories, beauty, and home products targeted to middle-income families. The product offering includes a wide variety of private, exclusive, and well-known national brands. Kohl's is implementing a multi-faceted plan with two key priorities: 1) driving traffic to its stores and 2) maintaining operational excellence. Kohl's off-mall footprint, improving product portfolio, and strong loyalty program position the company to be a long-term survivor amid the rapidly-evolving U.S. retail environment--supporting our Outperform rating. Investment highlights include the following.

- **Off-mall footprint.** While the mall's challenges have been well documented, Kohl's off-mall footprint (95% of Kohl's stores in strip/ freestanding locations) has allowed the company to maintain a physical presence in a given market without closing doors.
- **Active momentum.** Kohl's active business is ~20% of total sales and on a positive growth trajectory (led by Nike, Under Armour, Adidas). Kohl's is also rolling out its expanded-active pad into ~160 high-performing active locations (~40% increase in sqft allocation) following a successful test in ~30 locations.
- **Digital growth.** Ecommerce sales have reached ~$4.5B (~24% penetration) and continue to grow supported by strong mobile traffic and enhanced omni-channel capabilities (BOPIS, ship-from-store).
- **Market share opportunities.** Kohl’s is aggressively attacking market share opportunities as competitors close stores/liquidate in its local markets.
- **Traffic-driving strategies.** Kohl’s #1 initiative is to drive traffic with new leadership bringing a growing culture of innovative thinking. Initiatives to drive traffic include new brands (i.e., expanding Nike, Under Armour, Adidas; introducing ELF, Popsugar, Nine West), expanding the Amazon partnership (Amazon returns in all stores beginning in July 2019; shifting from a shop-in-shop to wholesale model in >200 stores), right-sizing stores (with Aldi, Planet Fitness, others), updating the loyalty program (Kohl’s cash + Yes2You + Kohl’s Charge), and improving the women’s apparel business with speed (targeting ~60% of proprietary brand portfolio on the speed model).
- **“Operational excellence” providing some margin visibility.** Kohl’s improved inventory management and speed initiatives should contribute to better merchandise margin trends, helping to offset ongoing shipping cost headwinds. Cost savings plans (reached ~$250 million goal a year ahead of plan) are helping offset natural inflation in the business (labor, technology spend).
- **Valuation.** Our $27 price target reflects ~3.5x EBITDA, below the two-year average of 5.3x given weaker comp/margin trends and below current levels (4.0x our NTM estimate). We think valuation will remain below historical averages given low near-term earnings visibility. Furthermore, we assume a target multiple below current levels to account for the fact that we model an EBITDA recovery in F2021 relative to abnormally depressed F2020 levels (extended store closures).

Risks & Caveats
- **Kohl’s sells apparel, footwear, accessories, beauty, and home products to middle-income consumers in the United States.** Demand for these discretionary categories is sensitive to macroeconomic forces affecting consumer income. Additionally, the mid-tier department store space faces secular challenges, with traffic diverting to online, off-price, and specialty retailers. Key risk factors include:
  - **COVID-19.** The COVID-19 crisis has led to store closures and intense pressure on revenue/cash flow. If store closures persist and/or the economic backdrop continues to deteriorate, earnings would be significantly impaired.
  - **Competition.** KSS competes with a wide range of moderate and traditional department stores (on and off-mall), specialty retailers, off-price retailers, online retailers (Amazon), and general merchandisers. The continued diversion of traffic to other channels or aggressive pricing from competitors could pressure results.
  - **Mature retailer.** As Kohl's unit expansion is mature, success will depend on consistent merchandising and marketing execution to drive solid comps.
  - **Merchandising.** Talented merchants and strong vendor partnerships are required to react to category and product trends.
  - **Economic factors.** Due to the discretionary nature of its products, KSS is affected by consumer spending trends.
  - **Seasonality.** The holiday and back-to-school seasons account for about 30% and 15% of sales, respectively. Unfavorable weather or industry trends during these seasons may impact performance.
Appendix - Important Disclosures and Analyst Certification

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Rating and Price Target History for: Kohl's Corporation (KSS) as of 05-28-2020

1 Robert W. Baird & Co. Incorporated makes a market in the securities of KSS.

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Kohl's Corporation
May 28, 2020

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