

# KOHL'S

DISCUSSION MATERIALS

Colin Gutzmer

## Company Overview

Amidst a shrinking retail industry, Kohl's has delivered low-digit revenue growth by catering to value shoppers seeking popular brands while facing pressure on the bottom line from rising operating expenses.

### Business Overview

- Kohl's, Inc. is the second largest department store in the United States, selling a mix of national and proprietary brands through 1,159 stores
  - Kohl's operates its stores within strip centers or as standalones
- Kohl's also operates a retail website in the United States, an area management continues to drive growth in with additions like nationwide availability BOPIS and the addition of a new fulfillment center
  - The company's app bolsters eCommerce efforts while also offering omnichannel access to Kohl's products
- Via competitive pricing, promotions and loyalty initiatives, Kohl's aims to remain a leader in value

### Key People



Michelle Gass, CEO

- Assumed CEO role in May 2018
- Established key active and wellness partnerships
- Previously spearheaded key millennial engagement efforts at Starbuck's as a SVP and EMEA President



Sona Chawla, President

- Assumed President role in May 2018
- Leading towards a better omnichannel experience
- Previously spent seven years at Walgreens in roles such as president of eCommerce

Source: Company Filings

Note: Market data herein as of November 6, 2019.

### Pro Forma Summary Financials

	Fiscal Year Ended January 31,				'16-'19 CAGR
	2016	2017	2018	2019	
<b>Revenue</b>	<b>\$19,204</b>	<b>19,681</b>	<b>20,084</b>	<b>20,229</b>	2%
<i>% Growth</i>	1.0	2.5	2.0	0.7	
<b>Gross Profit</b>	<b>\$6,939</b>	<b>7,737</b>	<b>7,908</b>	<b>8,030</b>	5%
<i>% Margin</i>	36.1	39.3	39.4	39.7	
<b>EBITDA</b>	<b>\$2,487</b>	<b>2,214</b>	<b>2,407</b>	<b>2,429</b>	(1%)
<i>% Margin</i>	13.0	11.2	12.0	12.0	
<b>Net Income</b>	<b>\$781</b>	<b>616</b>	<b>703</b>	<b>927</b>	6%
<i>% Margin</i>	4.1	3.1	3.5	4.6	
<b>Op. Cash</b>	<b>\$1,484</b>	<b>2,153</b>	<b>1,691</b>	<b>2,107</b>	
<b>CapEx</b>	<b>(\$690)</b>	<b>(768)</b>	<b>(672)</b>	<b>(578)</b>	
<b>FCF</b>	<b>\$794</b>	<b>1,385</b>	<b>1,019</b>	<b>1,529</b>	

Share Price \$54.39

FDSO 159.13

**Market Capitalization \$8,654**

- Cash & Equivalents 625

+ Total Debt 6,049

**Enterprise Value 14,078**











































**EV/2020E EBITDA 6.4x**

**P/2020E Earnings 11.0x**

Dividend \$2.44

# Kohl's Main Brands

With a 60-40 sales mix of national and proprietary brands, Kohl's seeks to capitalize on active brands, which currently accounts for about 20 percent of company revenues.

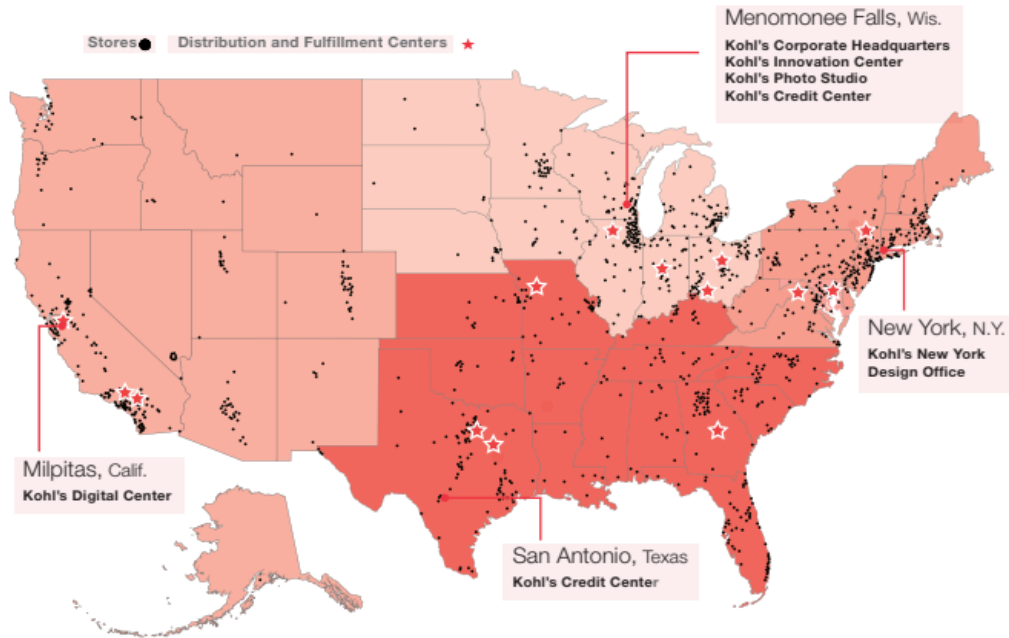
	Selected Commentary	Selected Brands	Growth Driver: Active
<b>Women's</b>	Revenue: ~\$5.33B Percent of Revenue: 28% 2 Year Change: (2%)	     	    
<b>Men's</b>	Revenue: ~\$4.03B Percent of Revenue: 21% 2 Year Change: 1%	   	    
<b>Home</b>	Revenue: ~\$3.64B Percent of Revenue: 19% 2 Year Change: 0%	     	
<b>Children's</b>	Revenue: ~\$2.50B Percent of Revenue: 13% 2 Year Change: 0%	   	
<b>Footwear</b>	Revenue: ~\$1.92B Percent of Revenue: 10% 2 Year Change: 1%	    	
<b>Accessories</b>	Revenue: ~1.73B Percent of Revenue: 9% 2 Year Change: 0%	   	

Source: Company Filings

# Store Profile

While sales per square foot metrics have not materially improved, management is prioritizing this metric going forward by driving traffic and rightsizing certain stores.

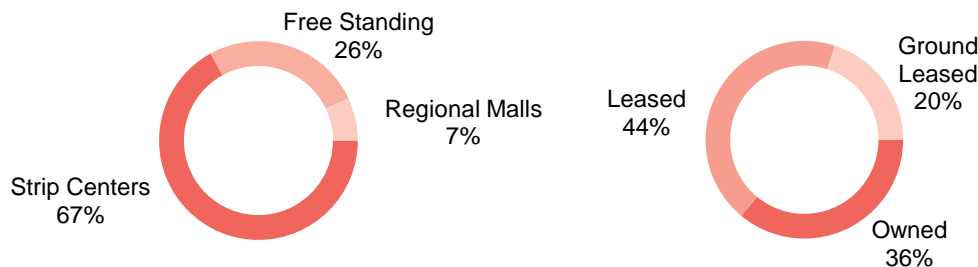
## Company Map



## Store Count Metrics

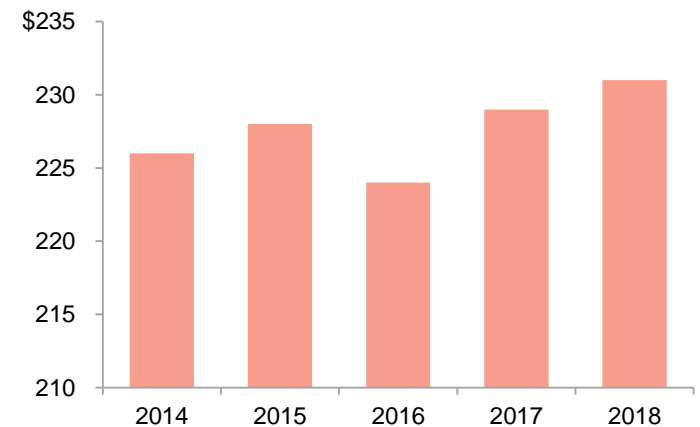
<b>Store Count:</b>	
Mid-Atlantic	116
Northeast	158
South Central	150
Midwest	312
Southeast	186
West	237
<b>Total</b>	<b>1,159</b>
Total Owned	412
Total Leased	747
Rent Expense	\$301MM
Average Rent	\$402,945

## Location and Ownership of Stores



Source: Company Filings  
 Note: Market data herein as of November 6, 2019

## Annual Sales Per Selling Square Foot



# Situation Update

(\$ in millions, except per share data)

While performance has decelerated as of late, Kohl's is in the middle-innings of a strategy pivot, during which its journey may not be linear, and there could be meaningful value created should management's long-term plan materialize.

## Recent Share Performance



## Recent Developments

- Earnings misses and weak comp sales numbers have sent valuations plummeting for Kohl's
  - Those bullish on the stock have relied heavily on information regarding store visits attributable to the recent partnership with Amazon
- Expansion efforts into activewear have been especially successful, the segment boasts mid-high single digit comp growth.
- Recent efforts to enhance the omnichannel seem justified, as digital sales continue to rapidly grow

## Catalysts

### Amazon Partnership

- Management hopes to generate increased store traffic with introduction of the partnership

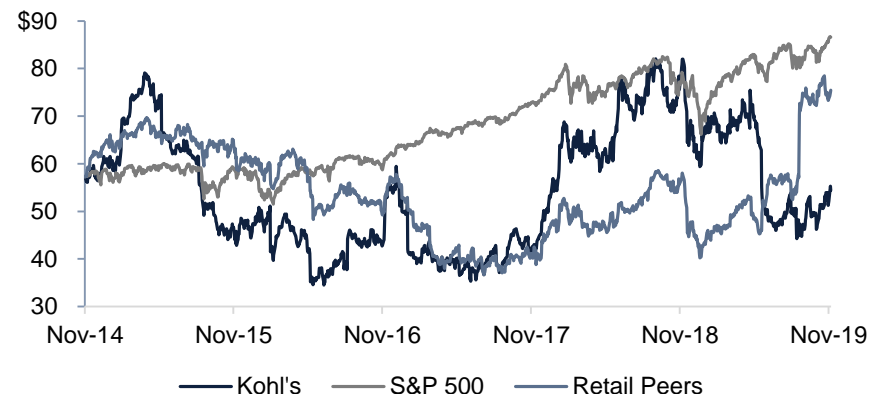
### Activewear

- Exciting brands like Fitbit and apparel lines like Golf embrace the consumer's preferences

### Second Half Promos

- A stronger than usual Q3 and Q4 may be on track due to management's pivotal investments in the Company

## Broader Performance



Sources: Company filings, Wall Street research and Bloomberg

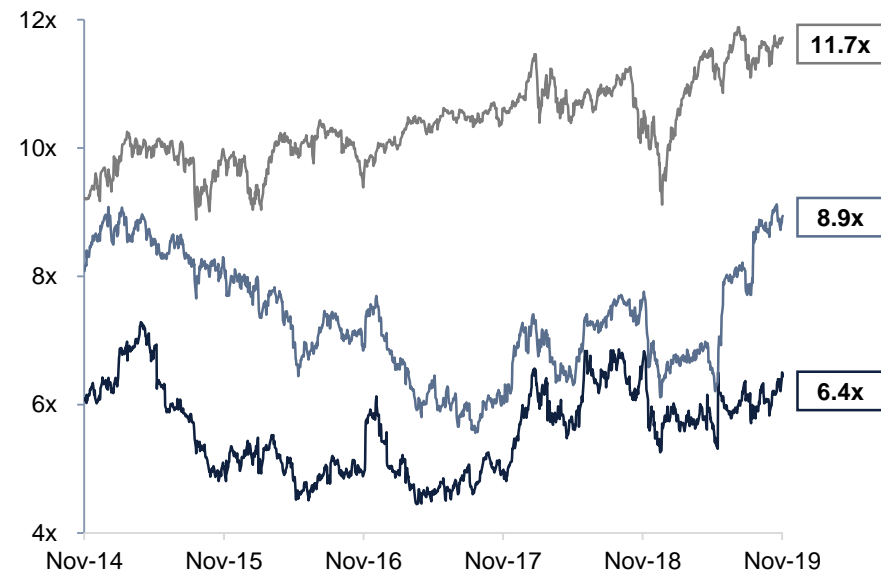
Note: Market data herein as of November 6, 2019.

"Retail Peers" includes Bed, Bath & Beyond, The Gap, L Brands, Macy's, Nordstrom, Ross Stores, Target and The TJX Companies.

# Five-Year Multiple Evolution

Though Kohl's historically trades significantly below its peers, the current spread between multiple valuations is unprecedented and suggests that Kohl's is undervalued.

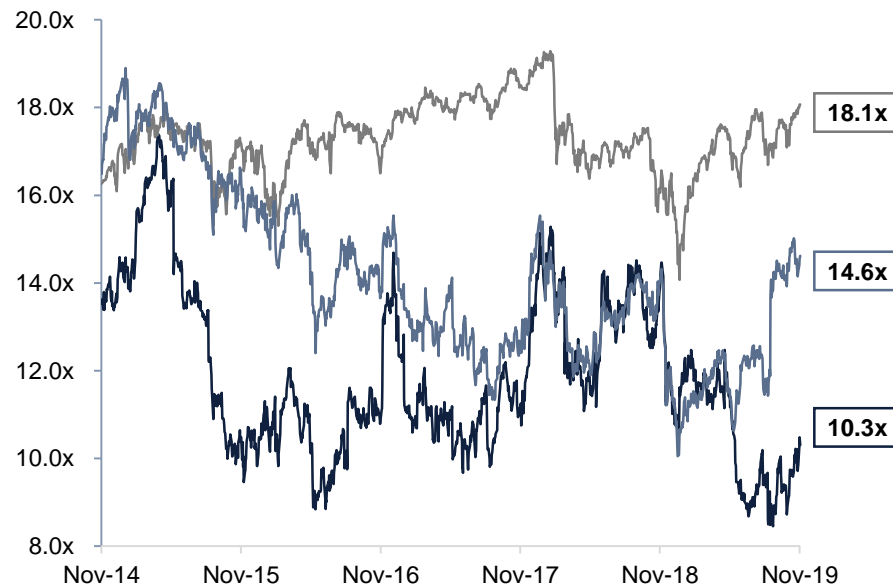
**NTM EV/EBITDA Evolution**



**Mean NTM EV/EBITDA**

	LTM	3-Year	5-Year
"Retail" Peers	7.5x	6.9x	7.3x
S&P 500	11.0x	10.7x	10.4x
<b>Kohl's</b>	<b>5.9x</b>	<b>5.7x</b>	<b>5.6x</b>

**NTM Price/EPS Evolution**



**Mean NTM Price/EPS**

	LTM	3-Year	5-Year
"Retail" Peers	12.3x	13.0x	14.1x
S&P 500	16.9x	17.5x	17.2x
<b>Kohl's</b>	<b>10.6x</b>	<b>11.8x</b>	<b>12.1x</b>

**Kohl's**

**"Retail" Peers<sup>1</sup>**

**S&P 500**

Source: S&P Capital IQ

Note: NTM multiples reflect mean estimates across the entire broker universe. Peer sets weighted at rolling market capitalizations.

<sup>1</sup> "Retail Peers" includes Bed, Bath & Beyond, The Gap, L Brands, Macy's, Nordstrom, Ross Stores, Target and The TJX Companies. Graphs exclude Ross and TJX.

# Growth Story

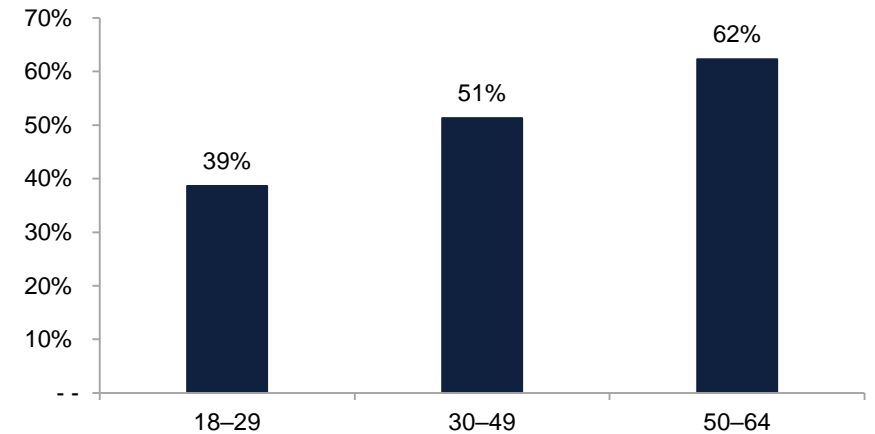
(\$ per user, unless specified otherwise)

Seeking to drive traffic and increase operational excellence, management aims to tackle the millennial market it misses out on while also cutting non-value-added costs and reinvesting in the company

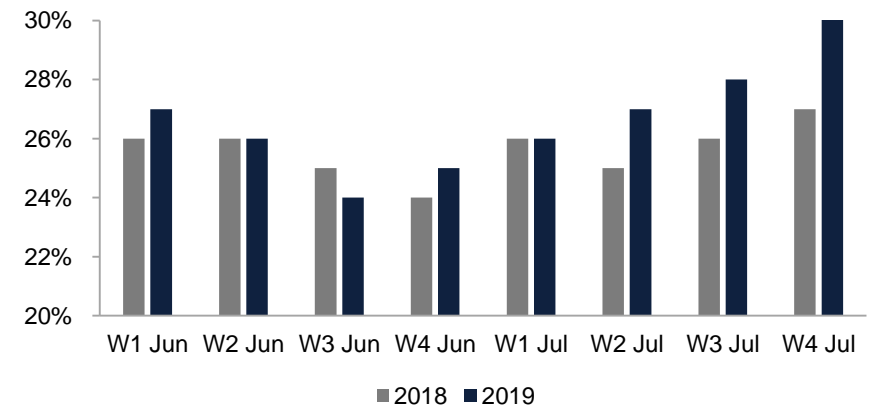
## Gass's "Greatness Agenda"

- 1 Kohl's unique partnership with Amazon encourages millennial introduction and retention**
  - Kohl's currently lacks a heavy presence in the younger consumer groups compared to its peers
- 2 Recent expansion efforts into activewear will resonate with Q3 and Q4 shoppers**
  - With the trend towards athleisure accelerating, certain Kohl's offerings are poised for impressive performance during back-to-school sales and holiday shopping
- 3 Omnichannel offerings and improvements are in line with Kohl's expansion efforts and rival those of major competitors**
  - With investment towards eCommerce fulfillment centers, BOPIS and digital offerings, Kohl's provides popular brands quickly and at value pricing
- 4 Other strategic partnerships address Kohl's goals to cut costs and attract new consumers**
  - Recent partnerships with Aldi, Weight Watchers, and Planet Fitness capitalize on millennials' shift towards wellness and focus on value
- 5 "Rightsizing" stores, IT investments and early hiring aims to expand Kohl's operating efficiency**
  - IT investments mainly concern intelligently shrinking inventory levels to avoid markdowns, while "rightsizing" may involve converting stores or leasing extra space

## Kohl's 2018 Capture of Consumers Shopping In Department Stores



## Third Quarter Web Interest in Kohl's Scaled to 2018 Peak Holiday



Source: Company filings, Statista, Wall Street Research, Google Trends  
 Note: Google Trend data represents search interest relative to the highest point on the chart for the given region and time.

# Pro Forma Summary Financial Projections

(\$ in millions, unless specified otherwise)

While partnership innovation and continued eCommerce strength spur robust revenue growth, management's goals of operation excellence bode well for the bottom line.

## Weight Watchers Summary Financials

Fiscal Year Ended January 31,	Base Operating Case				
	2020E	2021E	2022E	2023E	2024E
Sales	\$19,362	\$19,556	\$19,751	\$19,899	\$19,999
Other Revenue	1073	1084	1095	1103	1108
<b>Total Revenue</b>	<b>\$20,435</b>	<b>\$20,639</b>	<b>\$20,846</b>	<b>\$21,002</b>	<b>\$21,107</b>
% Growth	1.0%	1.0%	1.0%	0.8%	0.5%
Cost of merchandise sold	12327	12464	12595	12689	12753
<b>Total Gross Profit</b>	<b>\$8,108</b>	<b>\$8,176</b>	<b>\$8,251</b>	<b>\$8,313</b>	<b>\$8,354</b>
% Margin	39.7%	39.6%	39.6%	39.6%	39.6%
<b>EBITDA</b>	<b>\$2,012</b>	<b>\$2,093</b>	<b>\$2,126</b>	<b>\$2,159</b>	<b>\$2,170</b>
% Margin	9.8%	10.1%	10.2%	10.3%	10.3%
<b>EBIT</b>	<b>\$1,087</b>	<b>\$1,216</b>	<b>\$1,240</b>	<b>\$1,277</b>	<b>\$1,294</b>
% Margin	5.3%	5.9%	6.0%	6.1%	6.1%
<b>Net Income</b>	<b>\$747</b>	<b>\$819</b>	<b>\$838</b>	<b>\$866</b>	<b>\$880</b>
% Margin	3.7%	4.0%	4.0%	4.1%	4.2%
<b>Cash Flow Profile</b>					
Tax-Effectuated EBIT	826	924	943	971	983
Non-Cash D&A	925	877	886	882	876
Capital Expenditures	(817)	(826)	(834)	(840)	(844)
<b>Unlevered Free Cash Flow</b>	<b>\$934</b>	<b>\$976</b>	<b>\$995</b>	<b>\$1,013</b>	<b>\$1,015</b>

## Selected Commentary

- 1** Comp sales are forecasted to rebound from a weak Q1 showing with catalysts being the Amazon partnership and successful website growth
  - While Q2 results were unimpressive, a fully deployed Amazon partnership and buzz surrounding the back-to-school sales bode well for the second half
- 2** Labor markets, tariff uncertainties and pricing competition from peers leaves little room for concrete margin expansion
- 3** Reflects contraction due to increased SG&A concerning the Amazon rollout followed by normalization of SG&A as a percent of revenue driven by eCommerce growth, Amazon cost normalizations and IT cost normalizations
- 4** Reflects the maturity of the store portfolio, recent up-front investments in eCommerce and Gass's plan to rightsize stores

Source: Company filings and estimates



# Assumptions and Illustrative Returns Sensitivity Analysis


While the bull and base case generate adequate returns, a key factor that will influence returns resonates in the eCommerce segment of Kohl's and its ability to combat web-shifting consumer preferences and stabilize zero or positive growth in perpetuity.

Comp Sales	Q3 2020	Q4 2020	Revenue Growth	Annual	2020E	2021E	2022E	2023E	2024E
Bull	5.00%	5.00%				2.00%	1.50%	1.50%	1.50%
Base	3.00%	3.00%				1.00%	1.00%	0.75%	0.50%
Bear	(1.00%)	0.00%				(1.00%)	(1.00%)	(1.00%)	(1.00%)
Zero-Growth	0.00%	0.00%				0.00%	0.00%	0.00%	0.00%
SG&A % Revenue Increase	Q3 2020	Q4 2020	SG&A % Revenue	Annual	2020E	2021E	2022E	2023E	2024E
Bull	0.35%	0.35%			29.17%	29.08%	29.00%	28.50%	28.00%
Base	0.35%	0.35%			29.33%	29.17%	29.08%	29.00%	29.00%
Bear	0.63%	0.63%			29.55%	29.65%	29.75%	29.85%	30.00%
Zero-Growth	0.35%	0.35%			29.00%	29.17%	29.17%	29.17%	29.17%
Gross Margin Increase	Q3 2020	Q4 2020	Gross Margin Increase	Annual	2020E	2021E	2022E	2023E	2024E
Bull	0.00%	0.00%			(0.05%)	(0.03%)	0.00%	0.10%	0.10%
Base	0.00%	(0.02%)			(0.13%)	(0.07%)	(0.03%)	0.00%	0.00%
Bear	(0.10%)	(0.10%)			(0.25%)	(0.25%)	(0.25%)	(0.20%)	(0.20%)
Zero-Growth	0.00%	0.00%			(0.05%)	0.00%	0.00%	0.00%	0.00%
Closure % Revenue	Q3 2020	Q4 2020	Closure % of Revenue	Annual	2020E	2021E	2022E	2023E	2024E
Bull	0.20%	0.20%			0.20%	0.20%	0.20%	0.20%	0.20%
Base	0.30%	0.30%			0.30%	0.30%	0.30%	0.30%	0.30%
Bear	0.40%	0.40%			0.40%	0.40%	0.40%	0.40%	0.40%
Zero-Growth	0.30%	0.30%			0.30%	0.30%	0.30%	0.30%	0.30%

	WACC @ 0% Perpetuity Growth				
	6.0%	6.3%	6.5%	6.8%	7.0%
Bull	67%	58%	49%	41%	33%
Base	26%	18%	11%	4%	(2%)
Zero-Growth	17%	10%	3%	(3%)	(9%)
Bear	(37%)	(42%)	(47%)	(51%)	(55%)

	Perpetuity Growth-Rate @ 6.5% WACC				
	(1.00%)	(0.50%)	0.00%	0.50%	1.00%
Bull	30%	40%	51%	65%	81%
Base	(6%)	2%	11%	22%	35%
Zero-Growth	(13%)	(5%)	3%	14%	26%
Bear	(57%)	(52%)	(46%)	(39%)	(31%)

	EBITDA Exit @ 6.5% WACC				
	6.0x	6.5x	7.0x	7.5x	8.0x
Bull	13%	23%	34%	44%	55%
Base	(10%)	(1%)	8%	17%	26%
Zero-Growth	(17%)	(9%)	(0%)	8%	17%
Bear	(48%)	(42%)	(35%)	(28%)	(22%)

 > 18% Implied Upside

Source: Company filings

## Selected Comparable Companies

(\$ in millions, except per share data)

While Kohl's deserves a lower valuation than its peers, the current gap in trading multiples discounts Kohl's too drastically, suggesting a near term reversion to the mean may be imminent in addition to the possibility of long-term multiple evolution.

"Retail" Peers	Share Price	% of 52-Week High	Mkt Cap (USD)	NTM P/E	NTM EV/EBITDA	NTM EV/EBIT	Sales/Sq. FT
Bed Bath & Beyond	\$14.38	73%	\$1,769	7.5x	6.8x	12.9x	\$277.1
Gap	\$17.73	56%	\$6,663	8.5x	7.9x	11.9x	NM
L Brands	\$17.95	47%	\$4,961	7.4x	7.2x	10.4x	\$1,056.8
Macy's	\$15.97	42%	\$4,933	5.9x	5.7x	8.8x	\$203.0
Nordstrom	\$36.73	55%	\$5,690	11.1x	6.4x	11.6x	NM
Ross Stores	\$112.26	98%	\$40,608	23.6x	16.2x	19.2x	\$422.1
Target	\$110.51	96%	\$56,463	17.3x	9.8x	14.8x	\$314.7
TJX Cos.	\$58.83	97%	\$71,122	21.7x	15.0x	18.1x	\$436.4

<b>Kohl's</b>	<b>\$54.39</b>	<b>65%</b>	<b>\$8,655</b>	<b>10.3x</b>	<b>6.4x</b>	<b>11.0x</b>	<b>\$436.4</b>
			Mean	<b>12.9x</b>	<b>9.4x</b>	<b>13.5x</b>	
			25th Percentile	<b>7.5x</b>	<b>6.7x</b>	<b>11.3x</b>	
			75th Percentile	<b>18.4x</b>	<b>11.1x</b>	<b>15.6x</b>	

"Retail" Peers	% COMP Growth	% EBITDA Growth	EBITDA Margin	EBIT Margin	% Earnings Growth	CapEx/Sales	ROIC
Bed Bath & Beyond	-7%	(45%)	6%	4%	NM	3%	(5%)
Gap	-4%	2%	12%	8%	8%	(4%)	13%
L Brands	-1%	(10%)	15%	11%	(34%)	5%	(0%)
Macy's	0%	(15%)	9%	6%	(40%)	3%	6%
Nordstrom	0%	(11%)	10%	6%	0%	4%	9%
Ross Stores	3%	(1%)	16%	14%	8%	3%	35%
Target	3%	2%	9%	6%	6%	5%	6%
TJX Cos.	2%	2%	13%	11%	6%	3%	28%

<b>Kohl's</b>	<b>(3%)</b>	<b>(9%)</b>	<b>12%</b>	<b>7%</b>	<b>(21%)</b>	<b>3%</b>	<b>4%</b>
Mean	<b>(0%)</b>	<b>(9%)</b>	<b>11%</b>				
25th Percentile	<b>(2%)</b>	<b>(12%)</b>	<b>9%</b>				
75th Percentile	<b>2%</b>	<b>2%</b>	<b>14%</b>				

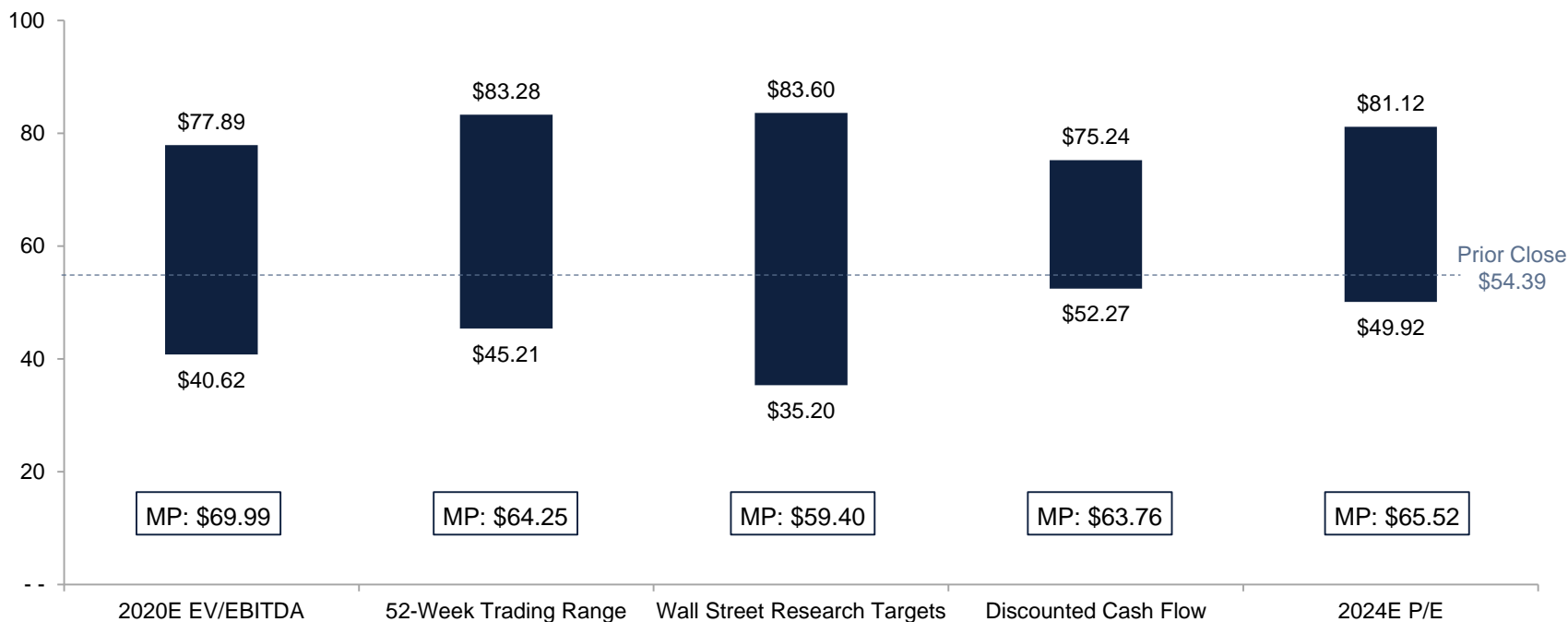
Source: Company filings, S&amp;P Capital IQ, Bloomberg and Edge Estimates

Note: Trading multiples for calendar year estimates. Peer estimates reflect mean figures. Market data herein as of November 6, 2019.

# Summary Valuation—Base Operating Case

(\$ per share, unless specified otherwise)

With analysis across the board suggesting meaningful upside, investors seem to be pricing in additional risk surrounding the uncertainty of the Amazon partnership and earnings inflection timing.



<b>Assumptions</b>	6.0x – 9.0x EBITDA of ~2.0B in 2020	52-week high and low through Nov. 6, 2019	Analyst 12-month price targets discounted at 12.0%	6.0% – 7.0% WACC range -0.5% – +0.5% perpetuity growth rate range	8.0x – 13.0x earnings per share of ~\$6.25 in 2024
<b>EV/2020E EBITDA</b>	6.0x – 9.0x	6.4x – 9.4x	5.6x – 9.5x	6.9x – 8.8x	6.7x – 9.3x

Source: Company filings, Wall Street research, S&P Capital IQ and Edge estimate

Note: Valuation as of November 6, 2019. Assumes net debt of ~\$5.4 billion. Fully diluted shares calculated via the treasury stock method.

# What you need to believe...

Any investment in Kohl's must come with comfort that bottom-line impact from the Amazon partnership might be negative or nonexistent, while the core business shows individual merits that suggest potential upside might still exist.

Industry Headwinds	Strategic Advantage	Untapped Potential	Misunderstood Asset	Competent Management
<ul style="list-style-type: none"> <li>The retail industry faces uncertainty as eCommerce rapidly expands, with many big names closing stores</li> <li>Kohl's must be a leader amongst low single-digit industry growth</li> </ul>	<ul style="list-style-type: none"> <li>The partnership with Amazon may prove to be a differentiator among Kohl's peers and generate sticky customer relationships</li> <li>Kohl's consistently ranks towards the top of its peer set in customer satisfaction<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>With Kohl's severely lacking in the millennial space, Amazon has potential to develop long-term customer relationships</li> <li>Expansion efforts into activewear and digital seek to engage younger consumers as well</li> </ul>	<ul style="list-style-type: none"> <li>Inefficiencies can be found when pricing Kohl's deeply discounted relative to its peers</li> <li>Analysts have become jaded by recent misses resulting in suppressed sentiment</li> </ul>	<ul style="list-style-type: none"> <li>Michelle Gass delivered growth through millennials when Starbucks struggled in 2008</li> <li>With movement towards sizing down stores and sales per square feet increasing, delivering bottom line growth is achievable</li> </ul>

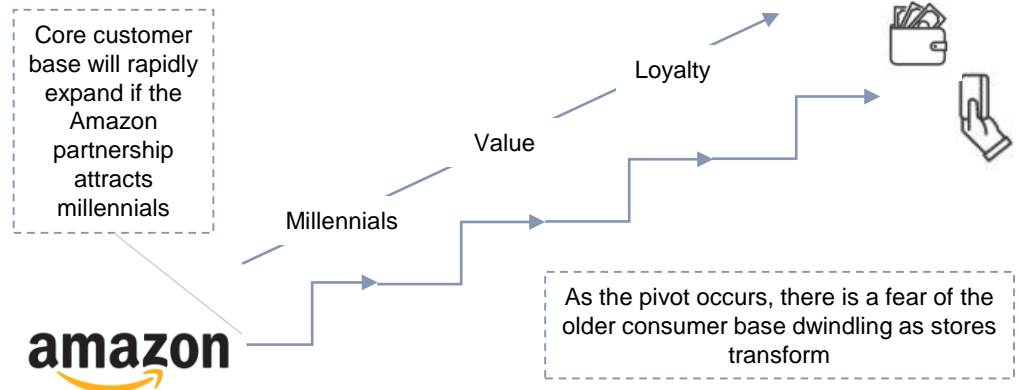
## Selected Risk Commentary

“Amazon’s return policy with Kohl’s is very appreciated. Heck, they even almost got me to buy with 25% off in the store.”  
 – @T\_RAVE, TWITTER  
 JULY 31, 2019

“Kohl’s Among Retail Stock Declines After Trump Announces Tariffs”

– MARKET WATCH, DOW JONES  
 JULY 31, 2019

## Is Expansion Damaging?



Source: Company filings, Wall Street research and Statista

1. Per Statista’s research from 2016-2018, Kohl’s has ranked among the top three of its peer group herein on customer satisfaction metrics.