Fall 2021

Kohl's Corporation Financial Analysis

Samantha Mathews

Samantha Mathews
Kohl's Corporation Financial Analysis
BUS4402W – Fall 2021

History:

Kohl's, a major retailer with 1,162 locations only within the US, 49 states except Hawaii. Employing 110,000, Kohl's delivers fantastic national and exclusive brands, outstanding discounts, and produces an easy shopping experience within all stores, including e-commerce site Kohls.com. In addition, Kohl’s offers a mobile app, with a goal to inspire and empower families with their products offered. In fiscal year 2020, Kohls’ net income was down $-0.16 billion, with earnings of $15.96 billion (about $49 per person in the US) (Morningstar). Kohl’s donated more than $750 million to help communities around the country, with a focus on family health and wellness (Kohls.com). This reveals how dedicated Kohl’s supports their customers around the country.

Seen as a well-known apparel and home fashions off-price department store chain in the United States. Belief in the duality of the brand portfolio, which includes a mix of national names that attract new customers to Kohl's and proprietary brands that are essential to overall business and offer customers a reason to shop at Kohl's for high-quality products available nowhere else. Customers can find bargains on clothing, jewelry, shoes, toys, and household products. Kohl's deals give the opportunity to save money on stylish women's, baby, and men's clothing, along with other items. In addition, home decor and discounted clothing are both on sale at Kohl's.

Kohl's founded its first location in Brookfield, Wisconsin, in 1962. There were 76 Kohl's stores within the Midwest when the industry went public in 1992. Kohls.com debuted in 2001, offering the company an online presence that successfully expanded and increased significantly. For the first time in our history, we launched 28 sites in California in 2003, supplying Kohl's coast-to-coast presence. Experiencing significant growth over the years as the robust e-commerce site Kohls.com. Kohl’s created a way for customers to save with incredible deals. Offering the lowest pricing during the week on items or categories during special hours for night owls and early birds. Customers aged 60 and up receive an added 15% discount on in-store purchases at Kohl's shops nationwide every Wednesday (Kohls.com). Combine Kohl's Card savings with amazing sale pricing and exclusive benefits, such as Kohl's Cash and Kohl's Rewards points (Kohls.com). Overall, Kohl’s shows dedication to keeping their customers happy as a consistent part of business.

Recent News:

Kohl's Corp. was affected due to the Covid-19 epidemic that left $307 million in direct costs (Lesk). These expenditures included $187 million in inventory write downs and $40 million in net salary and benefits charges in the six months ended Aug. 1. Kohl's (NYSE: KSS), situated in Menomonee Falls, reported $53 million in asset write offs and $27 million in other costs during that time (Lesk). Kohl's, like other shops, took a range of steps to combat the pandemic's effects. Starting March 20, 2020, roughly 85,000 employees were put on furlough, and all the company's stores were temporarily closed, with sales limited to digital channels (Lesk). The retailer began restoring stores on May 4, 2020 and had all of them open by August 1, 2020. Kohl's reported a 22.9 percent drop in net sales in the second quarter of 2020, and a 32.8 percent drop year-to-date, due to store closures (Lesk).

Comparative Analysis:

Table 1 – Comparative Analysis: Financial Data (as of 01/2021)

Category	**Kohl's**	**Target**	**Walmart**
Total Revenue (in billions)	15.96	93.56	559.15
Earnings (in billions)	-0.16	4.37	13.51
Market Capitalization (in billions)	8.1665	115.6970	393.9032
Number of Employees	110,000	409,000	2,300,000
Number of Stores	1,162	1,897	11,400+
Price to Earnings Ratio (%)	11.55	18.59	39.53
Current Payout Ratio (%)	10.64	21.67	61.24
Current Dividend Yield (%)	1.38	1.26	1.56

Source: Morningstar

After analyzing the data from Table 1, I decided that Target actively acts as a stronger/larger strategic competitor. Both companies are in the retail industry, however, still comparably different. As for products sold, both Target and Kohl's hold equivalent products with other added items, as an example customers wouldn't find cat food or groceries at a Kohl's department store. The data displays Targets competitive advantage over Kohl's. For example, Targets' total revenue was 93.56 billion, while Kohl's had a revenue of 15.96 billion in 2021. In addition, Target's earnings were 4.37 billion and Kohl's at -0.16 billion. In addition, Target's market capitalization (115.6970 billion) compared to Kohl's (8.1665 billion) shows how Target creates a better candidate for investors, giving an advantage. Target dominates significantly with a higher number of employees, 409,000 compared to Kohl's 110,000 employees. The data shows compared to the number of employees vs number of stores there are more employees working at each of the Target locations vs within Kohl's stores. When we look at the number of stores, Kohls at 1,162 and Target at 1,897, the difference in number stores and people employed in each depicts the idea that Target competitively overpowers.

Table 2- Internal Financial Comparison Strategic Group and Industry Benchmark

Year-to-year amounts for the 2019-2021 period

	2019	2020	2021
Kohl's			
Return on Equity	14.63	12.59	-3.06
Inventory Turnover	3.47	3.46	3.38
A/R Turnover	1.57	1.48	1.07
Debt/Equity Ratio	.61	1.07	1.24
Current Ratio	1.77	1.68	1.93
Target (Strategic Group Company)			
Return on Equity	25.53	28.37	33.25
Inventory Turnover	5.87	5.93	6.74
A/R Turnover	1.88	1.86	1.99
Debt/Equity Ratio	1.08	1.15	.95
Current Ratio	.83	.89	1.03
Walmart (Industry Benchmark)			
Return on Equity	8.87	20.22	17.37
Inventory Turnover	8.75	8.90	9.40
A/R Turnover	2.43	2.30	2.28
Debt/Equity Ratio	.69	.86	.72
Current Ratio	.80	.79	.97

Source: Morningstar

When we look at Walmart as Kohl's benchmark data suggests Walmart as larger and more dominant within the industry. Walmart and Target are remarkably similar businesses. When comparing Walmart to Kohls we see differences between the two, like the differences spotted between Target and Kohl's. Walmart consists of 2,300,000 employees with 11,400 + store locations, extremely larger numbers compared to Kohl's. The data from Table 1 proves the success Walmart holds over Kohl's. Total revenue of Walmart in the year 2021 hit 559.15 billion with 13.51 billion in earnings, significantly larger than Kohl's numbers. Lastly, the market capitalization of Walmart, being 393.9032 billion, shows a 385.7367 difference to Kohl's market capitalization. All the data comparing Walmart and Kohl's proves Walmart a bigger company with more dominance within the retail industry.

Kohl's, Target, and Walmart's dividend yield percentages show similarity. Kohl's at 1.38%, Target at 1.26%, and Walmart at 1.56%. All three companies are in a mature stage of business and hold a low-risk investment. Kohl's dividend yield decreased over the years due to poor earnings in the past year, displaying a negative sign for the company's financial health. However, Kohl's holds a 10.64% payout ratio and pays $0.07 dividend. Although the alarming decreased significantly from 2020 when Kohls held a payout ratio of 60.7% in the year prior. Kohl's holds a safer place status vs Walmart at 61.24% payout ratio, paying $2.16 dividends and Target at 21.67% payout ratio, paying $2.68 in dividends. This gives Kohl's a benefit because a low payout ratio suggests that a firm still secures enough cash to invest or raise dividends in the future. Whereas, Target and Walmart show a high payout, showing that the companies may not occupy enough cash for other uses and may need to decrease the dividend to save money.

In comparison to Walmart and Target, Kohl's shows a significant decrease in growth, more than likely due to the Covid-19 pandemic. Kohl's was put on a halt during Covid affecting their growth. Kohl's return on equity was down -3.06 billion, and for 2021 revenue was $15.955B, a 20.12% decline from 2020. When we look at the price to earnings ratio of all three companies, Target wins most favored by investors, with a P/E of 18.59%, compared to Kohl's at 11.55% and Walmart at 39.53%. Overall, Kohl's strategic group (Target) company and industry benchmark company (Walmart) are undoubtedly stronger/larger companies.

History of Growth:

Maxwell Kohl established Kohl's in 1927 when he launched a grocery store in Wisconsin. Kohl's Department Store debuted in Brookfield, Wisconsin in 1962 (Kohls Corporate Office Headquarters). Kohl's continued to expand through organic growth until the 1990s. By the end of 1993, Kohls reduced processing time and improved overall production.

Allowing the company to add more stores as it reached its 120-store target (Kohl's Corporation). By 2000, there were 298 locations in 25 states. By 2003, it expanded aggressively, holding 542 outlets (Kohl's Corporation). As specialized retailers and department stores enhanced their own efforts, competition inundated the retail market. Kohl's concentrated on internal processes, cutting inventory levels, store design, and marketing.

In 2014, Kohls launched its Kohl’s Cash, a type of coupon that can be earned when spent at Kohl's. As a result, the more spent, the more Kohl's Cash earned, and the more money saved on future purchases. In 2015, all Kohl's shops supplied online, “pick up in stores”, and “ship from store” options for customers. Proving extremely beneficial for Khol's sales because it created an effortless way for customers to buy products. Kohl's and Amazon formed a relationship in 2017 that featured a program where certain locations would accept Amazon returns, which was later expanded nationally in 2019 (Kohl's Corporation).

In 2018, Kohl's launched a trial initiative to lease up to 10 shops each to supermarket Aldi and fitness center Planet Fitness (Kohl's Corporation). In addition, Kohl's and Sephora collaborated in 2020, building Sephora branded beauty boutiques in most of its stores and launched a co-branded online cosmetics selection.

Corporate Strategy:

Kohl's is a major omnichannel retailer with over 1,100 locations across 49 states (Kohl's Corporation). An omnichannel company strategy is an effective way to become more accessible to customers. Customers may shop at Kohl's in-store, online, or over the phone using this business model. The corporation's business strategy is single industry organic growth. Kohl's has engaged into what they think would be a mutually helpful agreement with e-commerce behemoth Amazon. Kohl's predicts an increase in foot traffic from Amazon customers by stocking certain shops with unique Amazon merchandise and offering free Amazon return services. They have also begun a relationship with Aldi and Planet Fitness by leasing space inside certain retail locations to supply a broader range of goods and services to its customers (Kohl's Corporation). This strategy also enables Kohl's to shrink without having to close locations.

Organic growth is when a firm expands by increasing production and boosting revenues organically. This does not include earnings or growth via mergers and acquisitions, but rather a rise in revenue and growth using the company's own assets. Kohl's holds a great position to execute on its stated aim of being the most trusted store of choice for the active and casual lifestyle. To sustain this vision, the company created a strategy to drive top-line growth by becoming an attraction for active, casual, and beauty for everyone, delivering quality; giving rise with loyalty and value through a strong rewards program; and delivering a distinct omnichannel experience that is simple and encouraging, no matter how buyers want to buy (Kohl's Corporation). Kohl's will continue to build a workplace culture of agility, responsibility, and innovation to support the company's strategic initiatives. Kohl's has committed more than $785 million to communities around the country since its start, with an emphasis on family health and wellbeing (Kohl's Corporation).

International Strategy:

Kohl’s holds value-oriented department stores within 49 states. The country's specialty stores are predominantly concentrated in six regions: the Midwest, MidAtlantic, Northeast, South Central, Southeast, and Southwest. Surprisingly, Kohl's does not presently have worldwide operations and has no ambitions to grow internationally soon (Kohl's Corporation). Recently, it has become clear that Kohl's is very vulnerable to U.S. economic factors that reduce retail purchasing, such as rising energy prices, falling property values, and economic downturns. Customers are nevertheless cutting down on items such as clothes and electronics, both of which contribute significantly to Kohl's overall sales. Furthermore, the number of credit card delinquencies (costs which have not been returned) has grown because of the crisis that hit the American economy in 2009, implying that both of Kohl's key income streams have been negatively affected by the faltering American economy (Kohl's Corporation).

Business Strategy and Omnichannel Experience:

According to CEO Michelle Gass, who recently spoke about the company's approach at the National Retail Federation's live virtual event, NRF Retail Converge, Kohl's new strategy survives on what the retailer has recognized as a desire for an "active and casual lifestyle" (Baxter). The pandemic affected the way of life, with more people working from home and spending more time at home. Kohl's pledged to support initiatives underway to help reduce the spread of COVID-19 for the benefit of customers, colleagues, and the communities served throughout the country as 2020 progressed.

Kohl’s two goals to drive decision-making at the start of the pandemic: first, ensuring the health and safety of employees and customers, and second, supporting financial position to guarantee the company's long-term prosperity (Kohl's Corporation). Kohl's, a major omnichannel retailer with over 1,100 locations across 49 states, created a distinctive, straightforward, and convenient shopping experience (Kohl's Corporation). Customers can obtain wonderful products from Kohl's whenever and wherever, due to inspiring in-store experiences and smooth navigation on Kohls.com. Providing clients with the freedom to shop how and when chosen.

Kohl's holds a strong customer base of 65 million people (about twice the population of California). In addition, an unbeatable brand portfolio, industry-leading loyalty and Kohl's card programs, a handy and accessible countrywide retail network, as well as a significant and expanding digital business on Kohls.com and Kohl's mobile app (Kohl's Corporation).

Analysis: Efficiency and Financial Health Year-to-year amounts for the 2019-2021 period

	Kohl’s			**Target (Strategic Group Company)**			**Walmart (Industry Benchmark)**		
	2019	**2020**	**2021**	**2019**	**2020**	**2021**	**2019**	**2020**	**2021**
Return on Equity	14.63	12.59	-3.06	25.53	28.37	33.25	8.87	20.22	17.37
Inventory Turnover	3.47	3.46	3.38	5.87	5.93	6.74	8.75	8.90	9.40
A/R Turnover	1.57	1.48	1.07	1.88	1.86	1.99	2.43	2.30	2.28
Debt/Equity Ratio	.61	1.07	1.24	1.08	1.15	.95	.69	.86	.72
Current Ratio	1.77	1.68	1.93	.83	.89	1.03	.80	.79	.97

When we look at return on equity for the three companies, Kohl’s, Target, and Walmart, we can see that Target holds the best return on equity in 2021 at 33.25% compared to Walmart at 17.37%. Both the strategic group company (Target) and the industry benchmark company (Walmart) shows a significantly higher ROE versus Kohl’s at a -3.06% ROE. When a company's return on equity shows negative, its shareholders are losing value rather than earning it.

Typically, a poor sign for investors, showing how effectively their capital subsists to be reinvested. Clearly shown from the data that Kohl's exists to be weary of when investing in.

In 2021, Kohl's debt to equity ratio was 1.24%, Target at .95%, and Walmart at .72%. Debt to Equity ratios are crucial financial statistics since it signifies a company's stability and ability to raise extra funds to expand. From the data we can see that most Kohl's assets are funded through debt. Whereas Target and Walmart's assets are financed through equity. The lower the debt-to-equity ratio, the company primarily relies on owned fonts to use its finances, creating a safer financial status. Current ratio, a measure of whether the company can pay the bill, both Kohl's and Target show a current ratio higher than $1, meaning enough money to pay their bills. However, Walmart holds a $0.97 current ratio, proving that the company produces a value that's less than 1 to 1, implying a dependency on inventory or other less current assets to liquidate short-term debt.

Analyzing inventory turnover ratios in 2021, Kohl's as a 3.38% ratio, Target at 6.74%, and Walmart at 9.4%. In comparison to Target and Walmart, Kohl's inventory turnover ratio shows much lower. This shows that there are weaker sales and a declining demand for the company's products. Versus, Target and Walmart with a higher inventory turnover, meaning the two companies are selling goods quickly and a considerable demand for their products. Like inventory turnover, accounts receivable turnover ratios are the higher the better. As of 2021, Kohls holds 1.07%, Target at 1.99%, and Walmart at 2.28. The higher the accounts receivable turnover ratio means that customers are paying on time and the company proves good at collecting debts. Compared to Target and Walmart, Kohls shows not collecting their money well, not following good administration processes, and not making good credit decisions on who to sell to.

Assess and Project:

Kohl's predicts an increase in customers from Amazon customers by stocking certain shops with unique Amazon merchandise and offering free Amazon return services. They have also begun a relationship with Aldi and Planet Fitness through renting facilities inside certain retail locations to supply a broader range of goods and services to its customers (Kohl's Corporation). This strategy also enables Kohl's to shrink without having to close locations.

Kohl's devoted customers are aware of the company's strong rewards programs. Previously, shoppers were urged to take part in three programs: Kohl's Charge, Kohl's Cash, and "Yes2You Rewards" (Kohl's Corporation). Kohl's has streamlined the rewards program procedure for customers by combining all three into one program called Kohl's Rewards. To keep competitive pricing methods, Kohl's also supplies a price match assurance in stores or online. In addition, an omnichannel company strategy is an effective way to become more accessible to customers. Customers can shop at Kohl's in-store, online, or over the phone using this business model, increasing profits due to the flexibility of purchasing.

A strength Kohl’s holds are their rewards program; however, this is also a large weakness. Even though they have merged with all three reward systems, this benefit is not currently accessible in all markets. Because the current Kohl's Rewards program has just been implemented in eight geographical locations, the bulk of their customers are still confused about how to manage each program independently. This circumstance is rather unusual in that the Kohl's Rewards program is an advantage since the joint rewards system is now only offered in select regions (Kohl's Corporation). There are still hundreds of locations that use the distinct rewards schemes, which is interfering with a customer's experience.

Recommendations:

Kohl's should keep and expand their omnichannel business approach. Broadening their omnichannel business strategy would be beneficial to incorporate buying through social media sites or voice to cater to the younger population. One criticism is that the layout is busy and overpowering. Kohl's should create a fresh layout for each brick-and-mortar site and combine it with excellent internal marketing to improve organization and the entire consumer experience by directing in-store purchase choices. In addition, they can offer more well-known brands to customers. They could launch other brands that will attract the younger population rather than depending largely on private labels. Promote these additions using means that are appealing to the target demographic (social networking sites) to generate added profits. Also, Kohl’s should continue to strengthen its relationship with Amazon. Their current Amazon collaboration enables Amazon consumers to return their Amazon orders to selected Kohl's locations. Plus, Kohl’s can reduce the complexity of its Store Loyalty Program. It is critical to attract younger generations by making it quicker and easier to earn incentives and discounts.

References

"Amazing Products." Kohl's Illinois, Inc., 29 Sept. 2021, https://corporate.kohls.com/company/about-kohl-s/amazing-product

Baxter, Amy. "Kohl's Used the Pandemic to Lean into Its New Strategy." *Retail Leader*, 25 June 2021, https://retailleader.com/kohls-used-pandemic-lean-its-new-strategy.

David Swartz. "Morningstar, Inc." *Morningstar*, https://www.morningstar.com/stocks/xnys/kss/quote

Erin Lash, CFA. "Morningstar, Inc." *Morningstar*,

https://www.morningstar.com/stocks/xnys/tgt/quote

"Incredible Value." Kohl's Illinois, Inc., 29 Sept. 2021, https://corporate.kohls.com/company/about-kohl-s/incredible-savings

"Kohl's Corporation." Kohl's Illinois, Inc., 9 Nov. 2021, https://corporate.kohls.com/company

"Kohls Corporate Office Headquarters." *Corporate Office Headquarters*, 13 May 2021, https://corporateofficeheadquarters.org/kohls/.

Sari Lesk. "Kohl's feels Covid-19 impact." Milwaukee Business Journal, 29 Sept. 2021, https://www.bizjournals.com/milwaukee/news/2020/09/10/kohl-s-feels-covid-19-impact.html

Zain Akbari, CFA. "Morningstar, Inc." *Morningstar*, https://www.morningstar.com/stocks/xnys/wmt/quote