Based in Menomonee Falls, Wisconsin, Kohl's Corp. operated 1,170 stores in 49 states at the end of FY23. Sales were $17.2 billion. The company's stores cater to middle-income customers shopping for their families and their homes. KSS had 946 stores in strip centers, 156 freestanding stores, and 63 in community and regional malls at the end of FY22. About 27% of sales are from women's clothing. Menswear contributed about 21%. Products for the home contributed 18%. About 34% of sales are from private and exclusive brands that are tailored specifically for Kohl's. This is up from 25% in FY04, but down from 48% in 2015. The company operates about 82.2 million square feet of selling space.

Analyst's Notes

Analysis by Christopher Graja, CFA, December 13, 2023

ARGUS RATING: HOLD

- Reducing FY25 estimate
- Kohl's reported a fiscal 3Q24 profit of $0.53 per share for the quarter ended on October 28. That was down from $0.82 per share in 3Q23. The result was significantly better than the $0.34 per share profit we expected and the StreetAccount consensus EPS estimate of $0.35.
- CEO Tom Kingsbury said that the better-than-expected earnings reflect strong gross margin and careful expense management. He added that KSS reduced inventory by 13% and that the strategies enacted to improve performance in 2024 are in the early stages but building momentum.
- Cash flow from operations was $379 million in the first three quarters of FY24, compared with a $425 million outflow in the prior-year period. Net income was lower this year, but inventories were a smaller use of cash in the prior-year period.
- We are raising our FY24 EPS estimate to $2.50 from $2.41. The main change is that 3Q earnings were stronger than we expected. We are also reducing our sales forecast for 4Q. We are reducing our FY25 EPS estimate to $2.75 from $3.00. We trimmed our sales forecast. We expect an operating margin of approximately 4.4%, down from 4.5%.

INVESTMENT THESIS

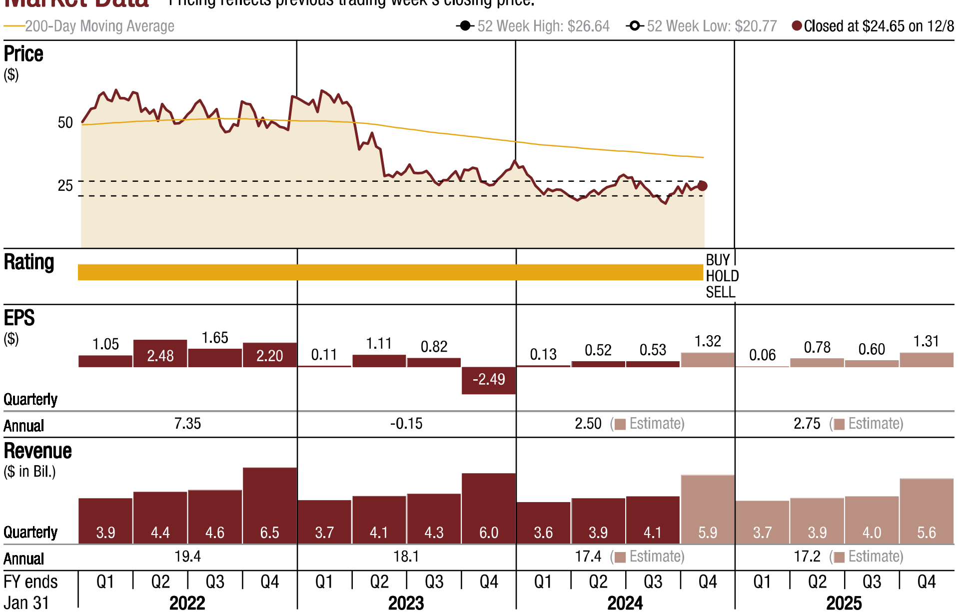
We are maintaining our HOLD rating on Kohl's Corp. (NYSE: KSS). In July 2022, Kohl's concluded its strategic review related to the potential sale of the company. The KSS board determined that in the current financing and retail environment 'it simply was not prudent to continue pursuing a deal.'

Interest in deal making could be reignited by a recent bid for Macy's, although press reports suggest that suitors are more interested in Macy's real estate than its department store operations.

For more than a year, we expressed our belief that CEO Michelle Gass, who left KSS to run Levi Strauss, was injecting energy into the business. New CEO Tom Kingsbury appears

Market Data

Pricing reflects previous trading week's closing price.



Argus Recommendations

Twelve Month Rating	SELL	**HOLD**	BUY
Five Year Rating	SELL	HOLD	**BUY**
Sector Rating	Under Weight	Market Weight	**Over Weight**

Argus assigns a 12-month BUY, HOLD, or SELL rating to each stock under coverage.

- BUY-rated stocks are expected to outperform the market (the benchmark S&P 500 Index) on a risk-adjusted basis over the next year.
- HOLD-rated stocks are expected to perform in line with the market.
- SELL-rated stocks are expected to underperform the market on a risk-adjusted basis.

The distribution of ratings across Argus' entire company universe is: 72% Buy, 28% Hold, 0% Sell.

Key Statistics

Key Statistics pricing data reflects previous trading day's closing price. Other applicable data are trailing 12-months unless otherwise specified

Market Overview

Price	$25.10
Target Price	--
52 Week Price Range	$17.68 to $35.77
Shares Outstanding	110.71 Million
Dividend	$2.00

Sector Overview

Sector	Consumer Discretionary
Sector Rating	OVER WEIGHT
Total % of S&P 500 Market Cap.	10.00%

Financial Strength

Financial Strength Rating	MEDIUM
Debt/Capital Ratio	66.8%
Return on Equity	7.1%
Net Margin	-0.8%
Payout Ratio	0.80
Current Ratio	1.20
Revenue	$17.54 Billion
After-Tax Income	-$142.00 Million

Valuation

Current FY P/E	10.04
Prior FY P/E	--
Price/Sales	0.16
Price/Book	0.74
Book Value/Share	$33.79
Market Capitalization	$2.78 Billion

Forecasted Growth

1 Year EPS Growth Forecast
N/A

5 Year EPS Growth Forecast
6.00%

1 Year Dividend Growth Forecast
0%

Risk

Beta	1.30
Institutional Ownership	106.28%

Please see important information about this report on page 7

Analyst's Notes ...Continued

to be well qualified to fill her shoes, but we remain cautious about the department store space because its share of retail sales has been in a multiyear decline amid competition from Amazon and other online retailers.

Mr. Kingsbury has cited four key priorities for FY24. Enhancing the customer experience, accelerating and simplifying value strategies, managing inventory and expenses, and improving the balance sheet. He believes that successful execution of these priorities will unlock considerable long-term shareholder value. 'I want to be realistic in setting expectations,' Mr. Kingsbury has noted. 'The full impact of our efforts will take some time. It won't happen overnight. And we must acknowledge that we are implementing these actions in a challenging macroeconomic backdrop.'

RECENT DEVELOPMENTS

On November 21, Kohl's reported a fiscal 3Q24 profit of $0.53 per share for the quarter ended on October 28. That was down from $0.82 per share in 3Q23. The result was significantly better than the $0.34 per share profit we expected and the StreetAccount consensus EPS estimate of $0.35.

CEO Tom Kingsbury said that the better-than-expected earnings reflect strong gross margin and careful expense management. He added that KSS reduced inventory by 13% and that the strategies enacted to improve performance in 2024 are in the early stages but building momentum.

Cash flow from operations was $379 million in the first three quarters of FY24, compared with a $425 million outflow in the prior-year period. Net income was lower this year, but inventories were a smaller use of cash in the prior-year period.

KSS raised its FY24 adjusted EPS guidance to $2.30-$2.70 from $2.10-$2.70 in an economic environment that the company described as 'uncertain.' The pre-release consensus was $2.46. Our estimate had been $2.41. The company still expects sales to decrease 2.8%-4%, including a 100-basis-point benefit from an extra week. The previous guidance was for a decrease of 2%-4%. KSS still expects an operating margin of 4%.

Third-quarter sales dropped 5.2% to $3.84 billion, and comparable sales fell 5.5%. Our sales estimate was $3.85 billion. The StreetAccount consensus called for a 3.8% comp decrease.

Digital sales were down 16.5%. One reason is that the company eliminated online-only promotions so that pricing is consistent across channels. Store comps were only down 1% helped by strong growth at Sephora.

The 3Q gross margin increased by 158 basis point to 38.9%, reflecting lower freight expense and lower shipping costs on digital orders for home delivery. This was partially offset by cost inflation and still-elevated inventory shrink. Our gross margin estimate was 38.6%. The StreetAccount consensus was 37.9%.

Selling, general and administrative expenses were 33.5% of sales, up 235 basis points from the prior year. Expense dollars were up 1.9% on store expenses related to Sephora. The expense rate

Growth & Valuation Analysis

GROWTH ANALYSIS

($ in Millions, except per share data)	2019	2020	2021	2022	2023
Revenue	20,229	19,974	15,955	19,433	18,098
COGS	12,199	12,140	10,360	11,437	11,457
Gross Profit	8,030	7,834	5,595	7,996	6,641
SG&A	5,601	5,705	5,021	5,478	5,587
R&D	—	—	—	—	—
Operating Income	1,465	1,212	-300	1,680	246
Interest Expense	256	207	284	260	304
Pretax Income	1,042	901	-546	1,219	-58
Income Taxes	241	210	-383	281	-39
Tax Rate (%)	23	23	—	23	—
Net Income	801	691	-163	938	-19
Diluted Shares Outstanding	165	158	154	148	120
EPS	4.84	4.37	-1.06	6.32	-0.15
Dividend	2.44	2.68	0.70	1.00	2.00
GROWTH RATES (%)					
Revenue	0.7	-1.5	-20.4	22.9	-7.1
Operating Income	3.5	-17.3	—	—	-85.4
Net Income	-6.8	-13.7	—	—	—
EPS	-5.5	-9.7	—	—	—
Dividend	10.9	9.8	-73.7	42.0	100.0
Sustainable Growth Rate	5.1	-8.2	17.8	7.1	7.1
VALUATION ANALYSIS					
Price: High	$75.91	$51.30	$64.80	$64.38	—
Price: Low	$43.33	$10.89	$38.65	$23.38	—
Price/Sales: High-Low	0.6 - 0.4	0.4 - 0.1	0.6 - 0.4	0.5 - 0.2	— - —
P/E: High-Low	15.7 - 9.0	11.7 - 2.5	— - —	10.2 - 3.7	— - —
Price/Cash Flow: High-Low	7.0 - 4.0	5.2 - 1.1	4.5 - 2.7	114.2 - 41.5	— - —

Financial & Risk Analysis

FINANCIAL STRENGTH	2021	2022	2023
Cash ($ in Millions)	2,271	1,587	153
Working Capital ($ in Millions)	2,813	1,737	621
Current Ratio	1.93	1.53	1.20
LT Debt/Equity Ratio (%)	124.4	139.9	186.0
Total Debt/Equity Ratio (%)	129.7	145.6	201.1
RATIOS (%)			
Gross Profit Margin	35.1	41.1	36.7
Operating Margin	-1.9	8.6	1.4
Net Margin	-1.0	4.8	-0.1
Return On Assets	-1.1	6.2	-0.1
Return On Equity	-3.1	19.0	-0.5
RISK ANALYSIS			
Cash Cycle (days)	64.8	43.2	55.3
Cash Flow/Cap Ex	4.0	3.8	0.3
Oper. Income/Int. Exp. (ratio)	-0.9	5.7	0.8
Payout Ratio	9.8	11.7	42.2

Please see important information about this report on page 7

Analyst's Notes ...Continued

was still below our estimate of 33.7%. Depreciation of $188 million was close to the $186 million we expected.

Kohl's had an operating profit of $157 million, down from $200 million in 3Q23. We expected a profit of $134 million. Interest expense of $89 million was up from $81 million last year, but only slightly above our estimate of $85 million.

EARNINGS & GROWTH ANALYSIS

We are raising our FY24 EPS estimate to $2.50 from $2.41. The main change is that 3Q earnings were stronger than we expected. We are also reducing our sales forecast for 4Q.

We are reducing our FY25 EPS estimate to $2.75 from $3.00. We trimmed our sales forecast. We expect an operating margin of approximately 4.4%, down from 4.5%.

Our five-year annual earnings growth rate forecast is 6%. We don't like to tinker with our growth estimates. For now, we will think of this as a normalized post-crisis growth rate. Given the competitive industry environment, we would need to see consistently stronger comp sales to raise our estimate, especially when we don't see much opportunity for retailers to raise product margins and other expenses could be pressured by higher wages and the need to improve online marketing and digital analytics. The company should have an opportunity to improve the merchandise mix with private brands and beauty, but the need for spending on technology, logistics and advertising may continue with Target and Macy's striving to improve their own operations.

FINANCIAL STRENGTH & DIVIDEND

The company must work hard to reduce debt and generate EBITDA. While this will be a challenge in the current environment, the company has been successful in the recent past. At the beginning of the COVID-19 crisis, we reduced our financial strength rating for Kohl's to Medium-Low from Medium. This reflected reduced cash flow from the closed stores, the suspension of the dividend and the buyback plan, the withdrawal of earnings guidance, and the potential for significantly weaker operating income. After the 2Q22 earnings release, we raised our financial strength assessment to Medium from Medium-Low.

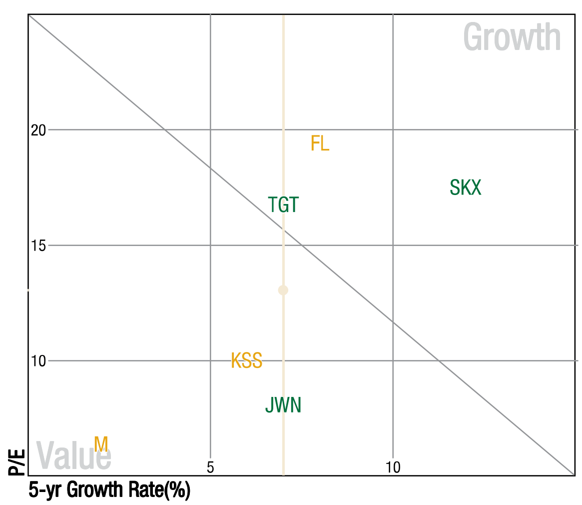
Kohl's reinstated the dividend with a payment on March 31, 2021, repurchased shares, and announced an increase in capital spending in the 2Q22 earnings release. For the year, the company repurchased $1.36 billion of shares and in the 4Q22 earnings release announced a 100% increase in the dividend. The company repurchased $158 million of shares in 1Q23. In the 2Q23 earnings release, the company announced a $500 million accelerated repurchase agreement. This was completed on November 2.

To improve liquidity, the company replaced its revolving credit facility with a new $1.5 billion secured facility and borrowed $600 million in the bond market. The company raised $193 million in a sale-leaseback transaction in 2Q21. In 3Q22, KSS replaced the secured credit facility with a more flexible $1 billion unsecured facility. KSS ended 4Q22 with $1.59 billion of cash and no borrowings on the revolver. Kohl's had $85 million on the revolver

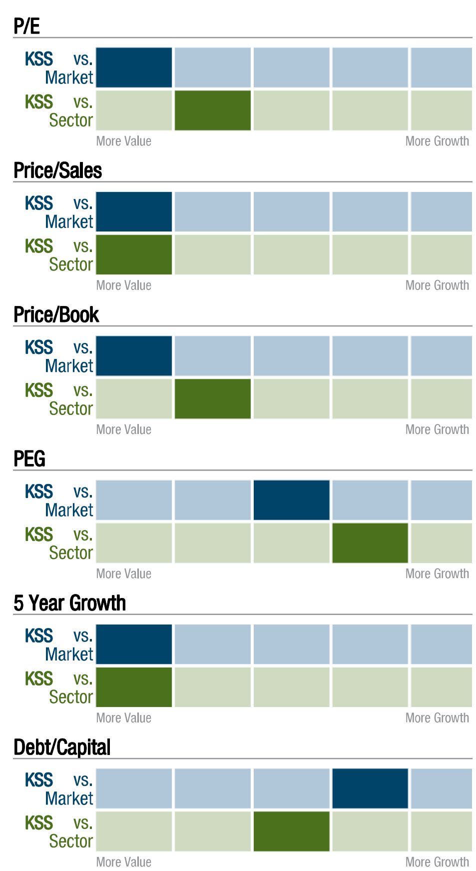
Peer & Industry Analysis

The graphics in this section are designed to allow investors to compare KSS versus its industry peers, the broader sector, and the market as a whole, as defined by the Argus Universe of Coverage.

- **The scatterplot shows how KSS stacks up versus its peers on two key characteristics: long-term growth and value. In general, companies in the lower left-hand corner are more value-oriented, while those in the upper right-hand corner are more growth-oriented.**
- **The table builds on the scatterplot by displaying more financial information.**
- **The bar charts on the right take the analysis two steps further, by broadening the comparison groups into the sector level and the market as a whole. This tool is designed to help investors understand how KSS might fit into or modify a diversified portfolio.**



Ticker	Company	Market Cap ($ in Millions)	5-yr Growth Rate (%)	Current FY P/E	Net Margin (%)	1-yr EPS Growth (%)	Argus Rating
TGT	Target Corp	62,629	7.0	16.8	3.4	11.2	BUY
SKX	Skechers U S A, Inc.	8,104	12.0	17.5	6.7	15.3	BUY
M	Macy's Inc	5,221	2.0	6.4	2.8	-3.4	HOLD
KSS	Kohl's Corp.	2,779	6.0	10.0	-.8	10.0	HOLD
JWN	Nordstrom, Inc.	2,709	7.0	8.1	.8	2.9	BUY
FL	Foot Locker Inc	2,581	8.0	19.4	1.0	68.8	HOLD
Peer Average		**14,004**	**7.0**	**13.0**	**2.3**	**17.5**	



Analyst's Notes ...Continued

at the end of 4Q23. In January 2023, the company went back to a secured credit facility, but raised the borrowing capacity back to $1.5 billion, which will help in retiring some maturing debt. There was $650 million of borrowing on the revolver at the end of 3Q24.

Total debt was about 53% of capital at the end of FY20. This rose to 62% at the end of 2Q21. Debt declined sequentially to 58% in 3Q21 and 56% in 4Q21. Debt was 59% of capital at the end of 4Q22 and 67% at the end of 4Q23. Debt was 68% of capital at the end of fiscal 3Q24.

The company owns the land and buildings at approximately 35% of its stores. In the remaining locations, the company leases the land and/or the building. This level of ownership doesn't rank in the top tier of retailers we follow, but it represents a significant asset. The company's 3Q balance sheet lists the net value of property and equipment at about $7.9 billion, down from $8.1 billion a year earlier. We believe that about 60% of this value is in land and buildings. It is also encouraging that the company's book value is tangible. This is largely because the company has mostly grown by opening its own stores rather than through acquisitions, which would put goodwill on the asset side of the balance sheet.

We estimate that the company's lease-adjusted debt was approximately 2-times EBIT plus rental expense and depreciation (lower is better) at the end of FY12 and FY13, and approximately 2.4-times at the end of FY14 and 2.45-times at the end of FY15. The ratio was approximately 2.5-times at the end of FY16. Adjusted debt rose to 2.6-times in FY17 when we use adjusted EBITDAR, which excludes impairments and store closings. The ratio declined to 2.54-times at the end of FY18 and 2.16-times at the end of FY19. The ratio was slightly weaker at 2.5-times for FY20. We believe this ratio is consistent with credit ratings at the bottom of the investment-grade range and our assessment of Medium financial strength. Before the COVID-19 outbreak, management was targeting a ratio of approximately 2.25-times EBITDAR. The ratio rose to 7.59-times in FY21, mostly because adjusted EBITDAR dropped to $888 million from $2.44 billion in FY20. Rent expense was $314 million in both FY21 and FY20. We would estimate that debt was about 3-times EBITDAR at the end of FY22 and 5.5-times EBITDAR for FY23. At the end of 3Q24 debt was 5.6 times FY24 consensus EBITDA. With debt at this level, we would rather see the company reducing debt than repurchasing shares. We would consider lowering our financial strength assessment if the company does not improve this ratio.

In dollars, long-term debt (excluding leases) was $1.86 billion at the end of 4Q20, about the same as a year earlier. Long-term debt was $3.45 billion at the end of 2Q21 and declined to $2.45 billion at the end of 3Q21 and 4Q21, $1.9 billion at the end of 3Q22, and $1.7 billion at the end of 3Q23. Debt was $1.76 billion at the end of 2Q23. The company's debt is pretty well laddered. When the 10-Q was issued, the company still had $111 million maturing in December 2023, and $466 billion maturing in 2025, with the remainder due from 2029 through 2045. There are no debt maturities in 2024. The company used the new revolving credit facility to retire $165 million of bonds in February.

S&P lowered its rating on the company's debt to BBB from BBB+ in November 2014 based on its assessment of the company's weaker competitive position and the expectation that sales trends were unlikely to improve meaningfully in the near term. S&P dropped the rating to BBB-, the lowest investment-grade rating, in January of 2017, then raised it back to BBB in April of 2019. On September 16, 2022, S&P reduced its rating from BBB- to BB+, which was below investment grade. On April 7, 2023, S&P further reduced its rating to BB. The outlook is negative. The Moody's rating was Ba3 with a Negative outlook when the 10-Q was issued for the third quarter.

FY19 dividend payments totaled $2.44. In March of 2019, KSS raised its quarterly payout for FY20 by 10%, from $0.61 to $0.67. FY20 dividends totaled $2.68, about 55% of our FY20 adjusted earnings. The payout was 43% of adjusted earnings in FY19, 53% in FY18, 53% in FY17 and 45% in FY16. The dividend is currently 80% of our FY23 EPS estimate, which is much higher than we would like to see. It is 67% of our FY24 estimate.

On February 26, 2020, KSS raised the quarterly dividend by 5% to $0.704. The company paid a dividend on April 1. On April 15, 2020, the company suspended the regular quarterly dividend beginning in the second quarter. The company said that it was committed to paying a dividend over the long term and that it would resume payments when the environment stabilized. The 8-K announcing the new credit agreement says that the company was restricted from paying a dividend in calendar 2020 if outstanding borrowings on the credit agreement exceeded $1 billion. With the balance on the revolver repaid, KSS announced its intention to resume dividend payments in the first half of FY22. FY21 dividends totaled $0.704. The company resumed the dividend beginning with a quarterly payment of $0.25 on March 31. FY22 dividends totaled $1.00. In the 4Q22 earnings release, the company raised the payout by 100% to $2.00. FY23 dividends totaled $2.00. Our FY24 dividend estimate is $2.00. Our FY25 estimate is also $2.00. The company has expressed its commitment to the dividend, but our bias is for reducing our estimates if earnings falter. The dividend yield is currently about 8%, but the FY24 dividend is unsustainable at 80% of our FY24 EPS estimate. By unsustainable we mean that earnings will either need to grow or the company will need to reduce the dividend. The dividend is 73% of our FY25 estimate.

At the time of the fiscal 2Q14 earnings release, KSS raised the authorization under its existing stock buyback plan by $3.2 billion to $3.5 billion. Kohl's repurchased $350 million of its stock in FY18. The company repurchased $396 million in FY19 and $470 million through 4Q20. The repurchase authorization was $726 million at the end of FY20. The company temporarily suspended share repurchases as a result of disruptions from COVID-19. The company plans to repurchase $200-$300 million of its stock in FY22. On April 14, Kohl's announced that it was raising its buyback authorization to $2 billion. Kohl's repurchased more than $250 million of its stock in 2Q, $506 million in 3Q, and $548 million in 4Q to take the FY22 total to $1.355 billion. KSS repurchased $176 million of stock in 1Q23 and completed its $500 million accelerated repurchase program in November 2022. The company is not planning additional share repurchases until it reduces debt/EBITDA towards about 2.5 times. We don't want to see KSS repurchasing shares until it has investment grade ratings. .

MANAGEMENT & RISKS

Right now we see inflation, tight monetary policy, and constrained discretionary spending as the biggest risks for Kohl's. With earnings depressed, we are pleased to see that the company is focused on financial strength rather than on repurchasing shares. That said, FY24 and FY25 are poised to be critical years where the company must continue to improve its financial strength. The

Please see important information about this report on page 7

Analyst's Notes ...Continued

company's dividend is a high percentage of EPS. It has debt to repay in December of calendar 2023 and in calendar 2025. Management needs to be very focused on improving financial strength and generating enough EBITDA to restore its debt ratios to investment grade levels.

On July 1, 2022, Kohl's announced that it had concluded its strategic review. The KSS board determined that in the current financing and retail environment 'it simply was not prudent to continue pursuing a deal.' Kohl's said that there were significant obstacles to reaching a fully executable deal. The board concluded unanimously that it was in the best interest of shareholders to execute the company's strategic plan on a standalone basis. At the same time, it remains open to any opportunities to maximize shareholder value.

In August 2008, Kevin Mansell replaced Lawrence Montgomery as CEO. He joined the company as a divisional merchandise manager in 1982, and worked in the retail industry for about 40 years.

Michelle Gass, the company's chief merchant, succeeded Mr. Mansell when he retired in May of calendar 2018. Ms. Gass joined Kohl's in 2013 and previously served as a regional President for Starbucks for Europe, the Middle East, Russia and Africa. In early November 2022, the Wall Street Journal reported that Ms. Gass would leave the company to become the president of Levi Strauss. Tom Kingsbury served as interim CEO in December 2022 and January 2023. He was appointed as CEO on February 2, 2023.

In calendar 2017, the company hired Bruce Besanko as CFO to replace Wesley McDonald. Mr. Besanko has been CFO of Supervalu and OfficeMax. We met with him on a number of occasions pre-Kohl's, and we have been impressed with his insights and candor. He is a 26-year veteran of the U.S. Air Force. In October, Mr. Besanko announced his retirement from the company, effective at the end of FY20. The company's VP of Finance, Jill Timm, became CFO in November 2020.

In our view, the greatest risk for Kohl's is maintaining its niche in selling quality merchandise to value-conscious shoppers. The middle market, for apparel in particular, is a highly competitive business. The company must strike the right balance between exclusive brands and national brands, and make sure that it doesn't abandon its core shoppers (women with household income of about $60,000 who shop for themselves and their families) as it attempts to add new and stylish merchandise. Historically the company has done a good job of giving core shoppers the merchandise they need with just enough sizzle to win additional business. Comps were disappointing for a few years, FY17 comparable sales were down 2.4%, FY16 comps were up 0.7%, FY15 comps were down 0.3% and FY14 comps were down 1.2% and FY13 comps were up 0.3%. FY18 appeared to be an inflection point. FY18 comps were up 1.5% and FY19 comps continued, up 1.7%. Unfortunately, FY20 comps were down 1.3%. Total sales were down 20.4% in FY21 and up 22.9% in FY22. Sales rose 23% in FY22, but did not return to pre-pandemic levels before declining 7% in FY23. The company expects FY24 sales to be down 3%-5% on a 52-week basis.

Kohl's faces pressure from full-line department stores (like Macy's) and specialty retailers (including Dick's Sporting Goods for the important categories of athletic apparel and the broad category of sneakers) on the high end, J.C. Penney in the middle, and the discounters (Wal-Mart and Target) on the low end. Target is a particularly good competitor for kids, home, seasonal items and we also believe that off-price retailers, such as T.J. Maxx, are a source of competition (although that tends to be a slightly more affluent shopper.) With almost 20% of Kohl's sales coming from products for the home, the company also faces competition from Target, as well as from Wayfair, JCP, TJX's Home Goods, and Pottery Barn. Amazon is an emerging risk for Kohl's, as it is significantly expanding its offering of clothing, from basic slacks to designer purses and exercise gear. Amazon already has a big offering of toys, small appliances and home goods.

Management also faces execution risk with e-commerce investments and the need to make the right fashion choices. This is increasingly important with retail industry brick-and-mortar traffic under pressure. Sales per square foot declined to $224 in FY17 from $231 in FY13 and from $262 back in FY07. Kohl's delivered small improvements to $229 in FY18 and $231 in FY19, but dipped back to $229 in FY20. In pandemic-affected FY21, sales fell to $183 per square foot. We estimate that sales were approximately $225 per square foot in FY22 and approximately $210 in FY23.

Another risk is one that every retailer faces: the health of the overall economy and the strength of discretionary consumer spending. In 2006, the company sold its private-label credit accounts to JPMorgan Chase for about $1.6 billion. This probably slightly reduced the company's overall risk. In August 2010, the company announced a new agreement with Capital One that became effective in 1Q12. In the 1Q15 release, management announced an extension to 2023. In March 2022, the agreement with Capital One was extended to 2030.

We believe that the budgets of less affluent customers are being squeezed by higher energy and food prices. This is a challenge for Kohl's, which serves a less affluent customer than Macy's. Restricted access to credit, which has been an issue in the past, is not currently a major issue, but it could become one if the economy deteriorates. The business is also somewhat seasonal; about 15% of sales come during the back-to-school season and 30% during the Christmas holiday season. Its monthly sales can also be hurt by the weather. Kohl's has about half of its stores in the Mid-Atlantic, upper Midwest and Northeast, where year-over-year weather differences be an issue, particularly in the spring and fall. This can create some short-term sales volatility.

The company was not involved in any material legal proceedings when it filed the Annual Report. There is some regulatory risk as described in the annual report.

Protection of customer data and credit card numbers is a growing challenge. A data breach could hurt sales if it occurred during a busy shopping period.

Ernst & Young has been the company's auditor since 1986.

COMPANY DESCRIPTION

Based in Menomonee Falls, Wisconsin, Kohl's Corp. operated 1,170 stores in 49 states at the end of FY23. Sales were $17.2 billion. The company's stores cater to middle-income customers shopping for their families and their homes. KSS had 946 stores in strip centers, 156 freestanding stores, and 63 in community and regional malls at the end of FY22. About 27% of sales are from women's clothing. Menswear contributed about 21%. Products for the home contributed 18%. About 34% of sales are from private and exclusive brands that are tailored specifically for Kohl's. This is up from 25% in FY04, but down from 48% in 2015. The company operates about 82.2 million square feet of selling space.

Please see important information about this report on page 7

Analyst's Notes ...Continued

The company's fiscal year ends on the Saturday closest to January 31. FY24 is a 53 week fiscal year.

VALUATION

KSS shares have dropped 8% over the last 12 months.

While valuing the shares is very difficult, we are using our new FY24 EPS estimate of $2.50 and assuming that the company will generate EPS of $2.75 in FY25. We then assume that earnings will grow at 6% for three years. That would take EPS to almost $3.30. We are using a terminal multiple of 10-times earnings. This puts the value of the shares at $33 in about four years. Discounting to the present at 9%, we arrive at a value of approximately $23 per KSS share. We have also analyzed the shares with a dividend discount model. The current dividend yield is almost 8%, but it is very high at 80% of our FY24 EPS estimate; earnings must rise for the company to support the dividend while also investing in the business and strengthening its financial position.

We believe that Kohl's needs to focus on maintaining financial flexibility and reducing debt/EBITDA, and that this is more important than maintaining the dividend. We are reiterating our HOLD recommendation.

On December 13 at midday, HOLD-rated KSS traded at $25.20, up $0.10.

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About Argus

Argus Research, founded by Economist Harold Dorsey in 1934, has built a top-down, fundamental system that is used by Argus analysts. This six-point system includes Industry Analysis, Growth Analysis, Financial Strength Analysis, Management Assessment, Risk Analysis and Valuation Analysis.

Utilizing forecasts from Argus' Economist, the Industry Analysis identifies industries expected to perform well over the next one-to-two years.

The Growth Analysis generates proprietary estimates for companies under coverage.

In the Financial Strength Analysis, analysts study ratios to understand profitability, liquidity and capital structure.

During the Management Assessment, analysts meet with and familiarize themselves with the processes of corporate management teams.

Quantitative trends and qualitative threats are assessed under the Risk Analysis.

And finally, Argus' Valuation Analysis model integrates a historical ratio matrix, discounted cash flow modeling, and peer comparison.

THE ARGUS RESEARCH RATING SYSTEM

Argus uses three ratings for stocks: BUY, HOLD, and SELL. Stocks are rated relative to a benchmark, the S&P 500.

- A BUY-rated stock is expected to outperform the S&P 500 on a risk-adjusted basis over a 12-month period. To make this determination, Argus Analysts set target prices, use beta as the measure of risk, and compare expected risk-adjusted stock returns to the S&P 500 forecasts set by the Argus Market Strategist.
- A HOLD-rated stock is expected to perform in line with the S&P 500.
- A SELL-rated stock is expected to underperform the S&P 500.

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