

Will pressure on Kohl's management **drive** **share price?**

CASE  STUDY
VALUATION MASTER CLASS
by
A. Stoltz INVESTMENT
RESEARCH



Valuation Master Class

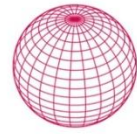


This video is for
learning purposes only.

***This is not
investment advice or a
recommendation.***



Ask
Ajarn
Andrew



KOHL'S

*A leading US retailer with 1,162 stores
and 12 outlets in 49 states*

Our estimate:

US\$59
(Upside 20%)

BUY



3 things to know about this company

- ★ Strategic partnerships to escape growth stagnation
- ★ Activist investors increase pressure after poor performance
- ★ Ramp-up of share repurchases spices up returns

Key statistics

Analyst consensus (22)

US\$67
(Upside 40%)

BUY

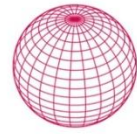
PE ratio

6x

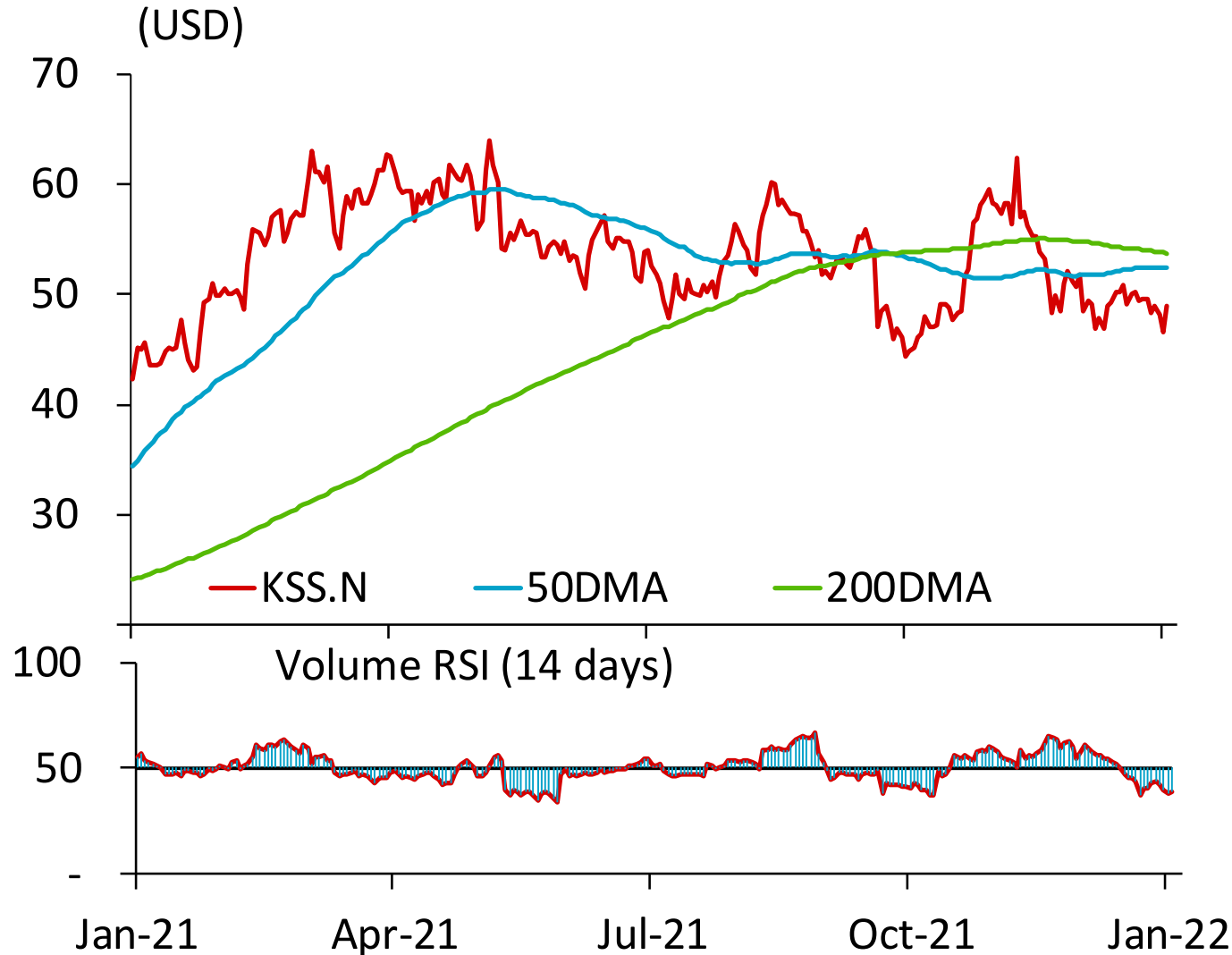
Dividend yield

2.5%

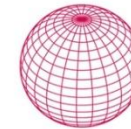
Price signal unclear, volume is bearish



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- ★ Share price has been flat for years
- ★ Recently, the 50 DMA has fallen below the 200 DMA
 - Both lines converged leaving an unclear signal
- ★ The RSI-Volume stayed below the 50%-line which suggest a bearish signal



Sales

Story

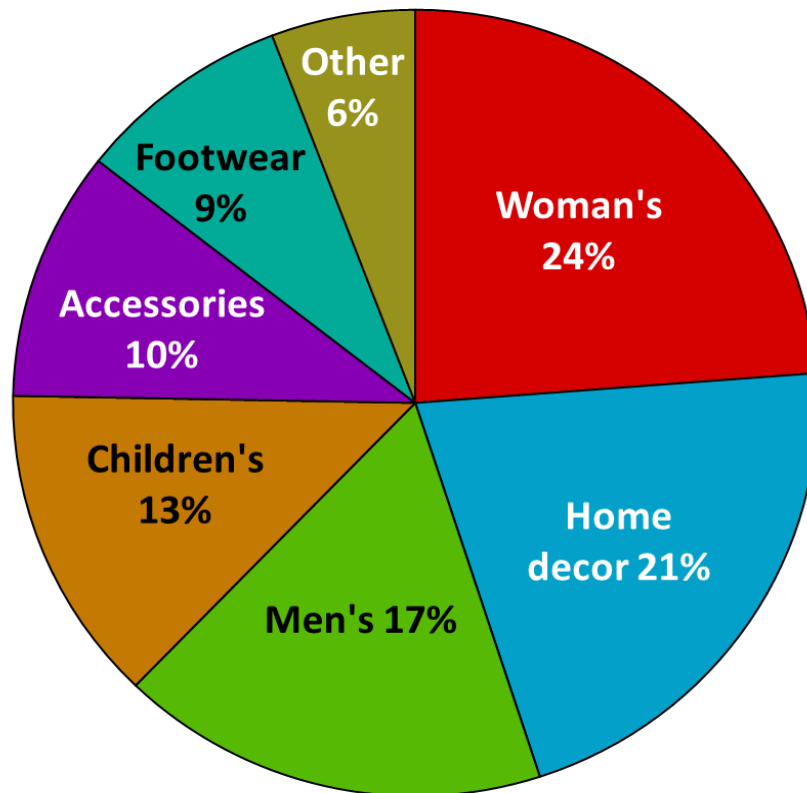
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Value

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Risks

Revenue breakdown by product line



It operates 1,162 stores and 12 outlets across the Unites States

Breakdown by brand type

Well-known 66%

KOHL'S + SEPHORA



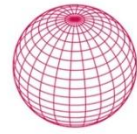
Eddie Bauer

Calvin Klein

Exclusive partners 34%

jumping beans®

CROFT & BARROW



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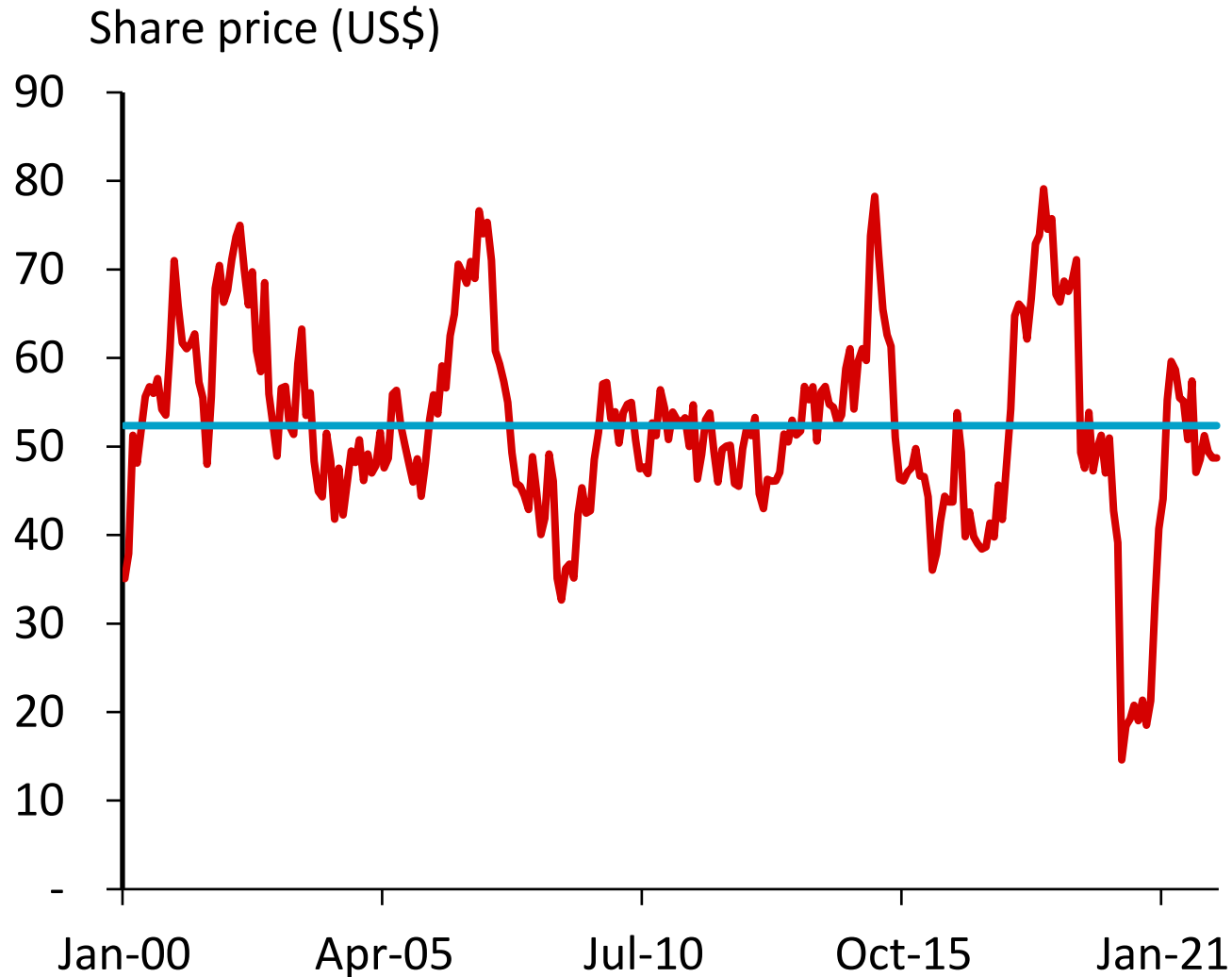
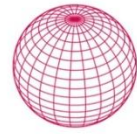
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Risks

- ★ Kohl's entered a partnership with largest US specialty beauty retailer, Sephora
- ★ The agreement moves Sephora's shops to Kohl's locations
 - With a 25m customer base, Sephora could bring more traffic into Kohl's stores
 - 200 Sephora stores already opened with an additional 400 planned by 1H22
- ★ The partnership could bring Kohl's revenue back to over US\$20bn



2 Activist investors increase pressure after poor performance



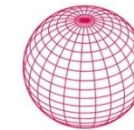
- ★ In Dec 2021, an activist hedge fund called for a split-off of Kohl's e-commerce business making up around 29% of revenue
 - The hedge fund values the e-commerce business as a stand-alone business more than the total market cap of Kohl's
- ★ It also suggested another way to unlock value by delisting Kohl's and selling it to private investors
 - Although unlikely to be successful, it increases pressure on management to improve the business to increase share price performance

What is an activist investor?

- Activist investors are an individual or group of investors with a significant stake in a company, who aim to influence or make material changes to how the business is run. Changes like:
 - Board composition
 - Share repurchases and dividends
 - Advancing ESG issues
 - Privatization of the business
 - Spin-off of business segments
 - Divestitures of inefficient segments



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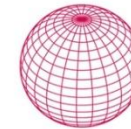
- ★ In early 2021, activist investors with around 9% share aimed to take control of the company's board
 - **Kohl's share price has chronically underperformed the market**
 - **As a compromise, Kohl's extended its board to include two directors nominated by the investor group**
- ★ This investor activism appears to be a good wake-up call for Kohl's management to reengineer its flat business

Top 10 shareholders

The Vanguard Group, Inc.	10.1
BlackRock Fund Advisors	8.5
Macellum Capital Management	5.3
T. Rowe Price Associates, Inc.	5.0
JPMorgan Investment Management	4.5
Fidelity Management & Research	4.3
SSgA Funds Management	3.5
Dimensional Fund Advisors LP	3.1
Arrowstreet Capital LP	3.1
Ancora Advisors LLC	2.6
Top 10 Ownership	49.9

2 out of 4 activist investors are in top 10 shareholders

3 Ramp-up of share repurchases spices up returns



Sales

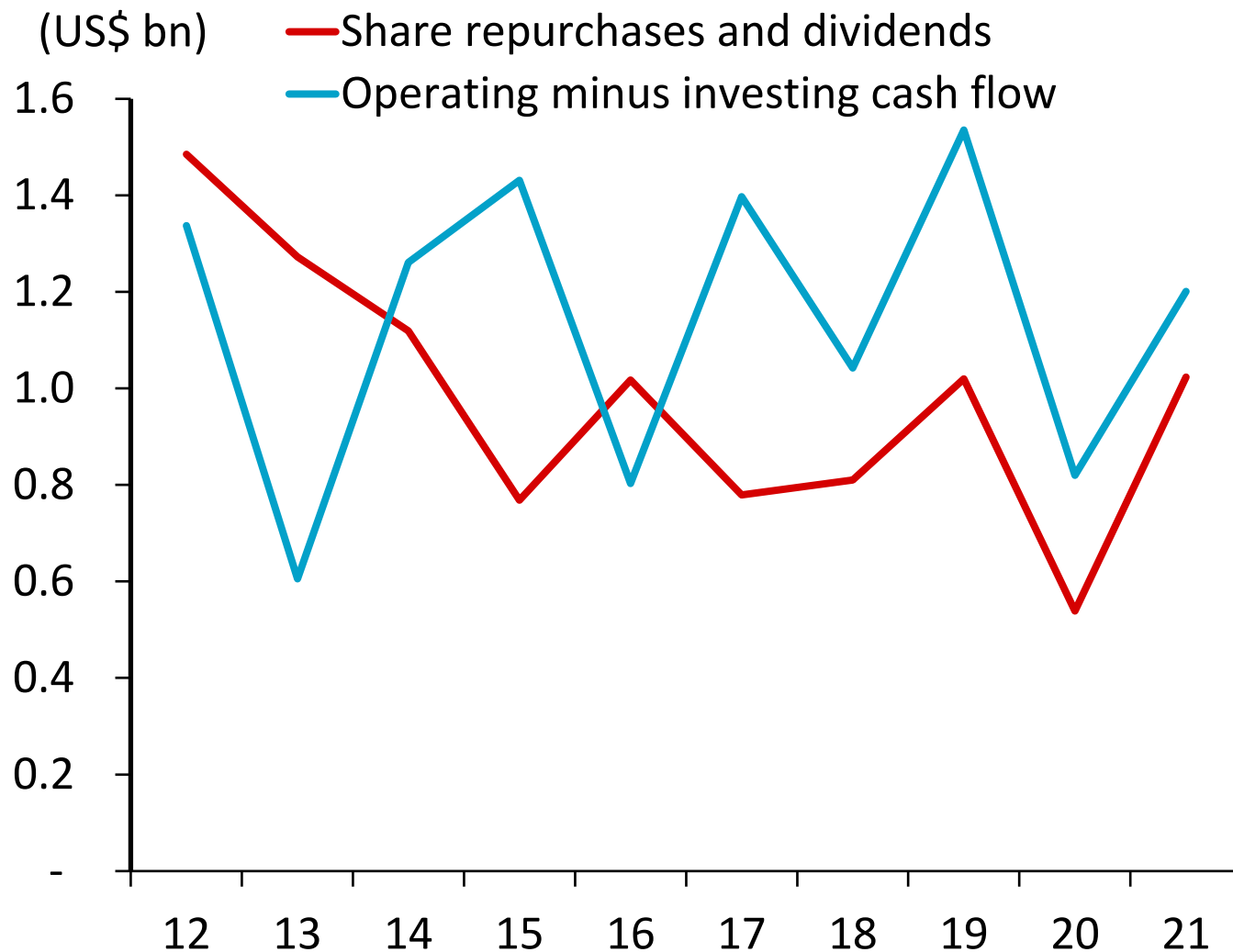
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Risks



- ★ Kohl's has a strong commitment to return as much cash as possible to its shareholders
 - **The dividend yield could return to 5% in 2022**
- ★ In addition, activist shareholders pressed to get a commitment to a new share repurchase program worth US\$2bn
 - **Even if the share price were to stay flat, investors could still enjoy attractive returns**



What Is Going to Happen with Inflation?



What Is Going to Happen with Inflation?

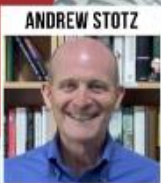
By Valuation Master Class Student

Many forces at work impact inflation. There are current trends that cause both inflationary and deflationary measures. Whether we'll see inflation or deflation in the future depends on which of these forces dominate.

[Read More](#)

HOW TO VALUE A STARTUP

ANDREW STOTZ



How to Value a Startup

By Andrew Stotz

This story started when Dan, a podcast listener, replied to my recent weekly email with this question, "How do you value a startup, especially if there is no revenue?"

[Read More](#)



How to Fight Back When Your Dreams Are Crushed

By Andrew Stotz

The trouble you face is not your fault, and I'm gonna show you how you can fight back. I challenge you to recommit to your dreams today!

[Read More](#)

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What Does It Mean to Be Financially World Class?



What Does It Mean to Be Financially World Class?

Liabilities To Assets Ratio



What Is Liabilities To Assets Ratio?

Growth Year Over Year



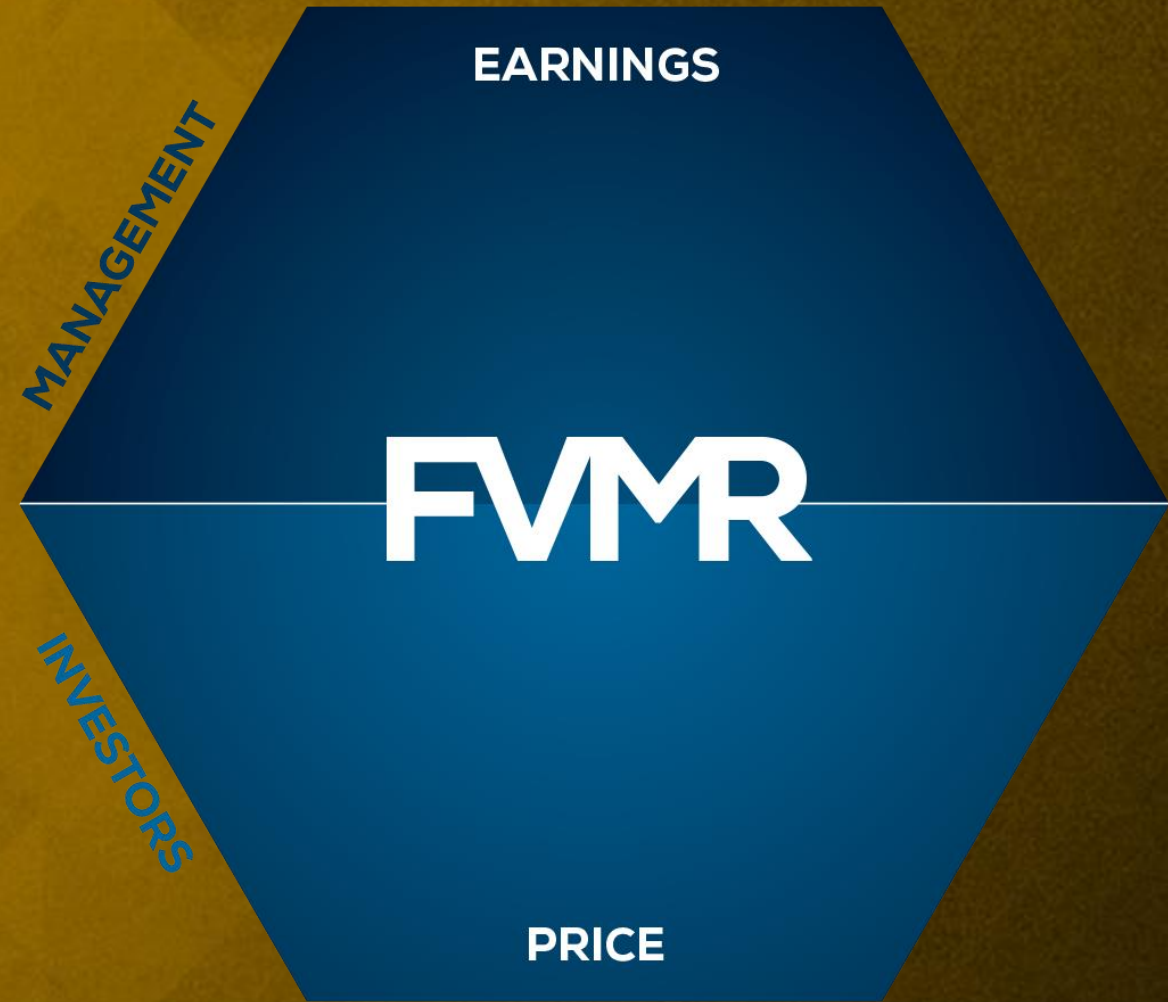
What Is Growth Year Over Year?

We will upload the slides on our blog afterward

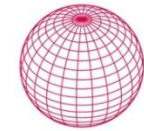


FVMR Scorecard

- ★ Measures a stock's attractiveness relative to all other companies
- ★ Attractiveness is based on four elements
 - Fundamentals, Valuation, Momentum, and Risk
- ★ Scale from 1 (Best) to 10 (Worst)



Strong fundamentals for a cheap price



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Risks

Worst Neutral Best

Rank relative to all other companies*



Fundamentals



Valuation



(%)	Feb-18	Feb-19	Feb-20	Jan-21	PTM**
Operating profit margin	7.1	7.2	6.1	0.1	8.3
Recurring net margin	3.9	4.6	3.9	0.7	6.3
Asset turnover	149.0	156.5	147.8	106.8	121.5
Return on assets	5.8	7.2	5.7	0.8	7.6
Recurring return on equity	14.7	17.0	14.0	2.1	24.5

(x)	Feb-18	Feb-19	Feb-20	Jan-21	PTM**
Price-to-sales	0.5	0.6	0.1	0.6	0.4
Price-to-earnings	14.2	12.2	3.0	80.5	6
Price-to-book	2.0	2.0	0.4	1.8	1.4
PE-to-EPS growth (PEG)	0.6	0.6	nm	nm	0.0
EV/EBIT	10.0	9.4	4.0	740.0	4.4

Momentum



Risk



(%)	Feb-18	Feb-19	Feb-20	Jan-21	PTM**
Revenue growth	7.5	0.7	(1.3)	(20.1)	14.6
Recurring EPS growth	22.9	21.7	(13.4)	(84.8)	2,063.0
Operating profit margin chg. (bps)	(28)	19	(117)	(597)	756
	6mth	3mth	1mth	3wk	1wk
Price change	(9.3)	(13.1)	(14.8)	(15.5)	(10.1)

(x)	Feb-18	Feb-19	Feb-20	Jan-21	PTM**
Current ratio	2.0	1.8	1.7	1.9	1.5
Net debt-to-equity (%)	59.2	46.4	48.1	32.4	3.1
Times-interest-earned	nm	nm	9.0	0.1	nm
	5yr	3yr	1yr	6mth	3mth
Beta	2.0	2.2	2.1	2.8	1.9

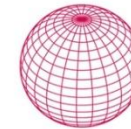
Note: Benchmarking against 2,170 non-financial companies in USA.

Recently, I created a short
online course explaining my
FVMR investing approach

Get \$97 value
for FREE
(limited offer)



Consensus remains cautious but sees upside



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Analyst consensus valuation

Recommendation	Oct-21	Nov-21	Dec-21	Current
Strong buy	5	5	5	5
Buy	2	2	3	3
Hold	7	7	7	6
Sell	2	2	2	3
Strong sell	-	-	-	-
Average score	2.4	2.4	2.4	2.4

Price target	Oct-21	Nov-21	Dec-21	Current
Median	66	67	73	72
Mean	65	65	71	67

#17
analysts

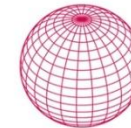


Upside: 40%

Analyst consensus 3-year forecast

(%)	19	20	21	22E	23E	24E
Revenue growth	2.5	(1.3)	(20.1)	18.0	2.2	1.7
Gross margin	34.9	34.6	30.8	39.1	38.1	36.5
EBIT margin	7.2	6.1	0.1	9.0	7.5	7.3
Net margin	4.0	3.5	(1.0)	5.8	4.6	4.6

- ★ Most analysts still have HOLD recommendations
 - The poor share price performance over the past two decades has made analysts skeptical
- ★ They forecast that the increased profit margin is likely to fade over the next two years



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(YE Jan, US\$ m)	2020A	2021A	2022E	2023E
Revenue	19,974	15,955	18,348	19,174
Cost of goods & services	(13,057)	(11,047)	(11,284)	(12,080)
Gross profit	6,917	4,908	7,064	7,094
SG&A	(5,705)	(4,893)	(5,321)	(5,656)
Other operating (exp)/inc	-	-	-	-
EBIT	1,212	15	1,743	1,438
Interest expense (net)	(207)	(284)	(240)	(243)
Other non-operating inc/(exp)	-	127	-	-
Earnings before taxes (EBT)	1,005	(142)	1,504	1,195
Income tax	(210)	383	(361)	(287)
Earnings after taxes (EAT)	795	241	1,143	908
Equity income/Minority interest	-	-	-	-
Earnings from cont. operations	795	241	1,143	908
Forex/Exceptionals before tax	(104)	(404)	-	-
Net profit	691	(163)	1,143	908

- ★ Net profit has a strong rebound and exceeds its pre-pandemic level
 - The strong bottom-line is mainly driven by the margin expansion



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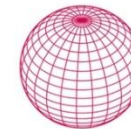
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(YE Jan, US\$ m)	2020A	2021A	2022E	2023E
Cash & short-term investments	723	2,271	1,959	1,905
Accounts receivable	15	802	204	213
Inventories	3,537	2,590	3,291	3,188
Other current assets	374	172	367	383
Total current assets	4,649	5,835	5,821	5,689
Long-term investments	-	-	-	-
Net fixed assets	9,743	9,087	9,307	9,542
Intangible assets	-	-	-	-
Goodwill	-	-	-	-
Other long-term assets	163	415	423	432
Total assets	14,555	15,337	15,551	15,664

- ★ As of 2021, the company holds a record US\$2bn in cash which it will distribute to its shareholders over time



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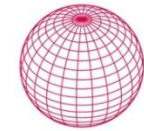
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Risks

(YE Jan, US\$ m)	2020A	2021A	2022E	2023E
Overdrafts & short-term loans	124	115	121	122
Accounts payable	2,105	2,407	3,134	3,188
Other current liabilities	540	500	183	192
Total current liabilities	2,769	3,022	3,439	3,502
Long-term debt	3,223	3,838	3,911	3,950
Other long-term liabilities	3,113	3,281	3,314	3,347
Total liabilities	9,105	10,141	10,664	10,799
Minority interest	-	-	-	-
Paid-up capital - Common shares	3,276	3,323	3,323	3,323
Paid-up capital - Preferred shares	-	-	-	-
Retained earnings	13,745	13,468	14,211	14,756
Revaluation/Forex/Others	(11,571)	(11,595)	(12,646)	(13,214)
Total equity	5,450	5,196	4,888	4,865
Total liab & shareholders' equity	14,555	15,337	15,551	15,664

- ★ The company continues its massive share repurchase program which is the main driver of increasing EPS over time

Cash flow statement



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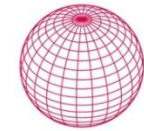
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Risks

(YE Jan, US\$ m)	2020A	2021A	2022E	2023E
Net income	691	(163)	1,143	908
Depreciation & amortization	917	874	941	1,006
Calculated chg in net working capital	5	624	113	139
Other non-cash & balancing items	44	3	-	-
Operating cash flow	1,657	1,338	2,196	2,054
Capital expenditures	(855)	(137)	(1,161)	(1,242)
(Inc)/dec in other investments	18	-	(8)	(8)
Investing cash flow	(837)	(137)	(1,169)	(1,250)
Increase/(dec) in debt	(108)	504	79	40
Dividend paid	(423)	(108)	(400)	(363)
Change in equity	(469)	(8)	(1,051)	(568)
Others	(31)	(41)	33	33
Financing cash flow	(1,031)	347	(1,339)	(857)
Net inc/(dec) in cash & cash equi	(211)	1,548	(312)	(54)
Beginning cash	934	723	2,271	1,959
Adjustment for historic data	-	-	-	0
Ending cash	723	2,271	1,959	1,905

★ Strong operating cash flow allows the company to pay out dividends which are in line with its pre-pandemic policy

- We expect that the dividend yield over the near-term to range between 5-6% like in 2019 and 2020



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(YE Jan)	2020A	2021A	2022E	2023E
General growth (YoY, %)				
Revenue	(1.3)	(20.1)	15.0	4.5
Assets	16.7	5.4	1.4	0.7
Gross profit	(2.1)	(29.0)	43.9	0.4
Operating profit	(17.3)	(98.8)	nm	(17.5)
Attributable profit	(13.7)	(123.6)	801.0	(20.5)
EPS	(10.5)	(124.0)	837.5	(12.6)
Recurring EPS	(13.4)	(67.9)	389.3	(12.6)
Du Pont analysis (%)				
Net profit margin	3.5	(1.0)	6.2	4.7
Revenue per US\$100 of assets	147.8	106.8	118.8	122.9
Assets/equity (x)	2.5	2.8	3.1	3.2
Return on equity	12.6	(3.1)	22.7	18.6

- ★ After the revenue rebound in 22E, we assume revenue growth to normalize
 - Going forward, we see poor revenue growth potential between 2-3%



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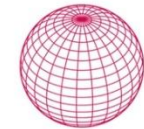
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(YE Jan)	2020A	2021A	2022E	2023E
Internal liquidity (x)				
Current ratio	1.7	1.9	1.7	1.6
Quick, or acid test ratio	0.4	1.1	0.7	0.7
Working cap. mgmt (Days)				
Inventory conversion period	97	100	94	97
Receivables collection period	0	9	10	4
Days from raw mat to coll	97	109	104	100
Payables deferral period	60	74	88	94
Cash conversion cycle	37	36	15	6
Profitability ratios (%)				
Gross profit margin	34.6	30.8	38.5	37.0
EBIT margin	6.1	0.1	9.5	7.5
EBIT return on avg assets	9.0	0.1	11.3	9.2
Return on average assets	5.1	(1.1)	7.4	5.8
Financial risk (x)				
Liabilities-to-assets (%)	62.6	66.1	68.6	68.9
Debt-to-equity	0.6	0.8	0.8	0.8
Net debt-to-equity	0.5	0.3	0.4	0.4
Times-interest-earned	10.3	3.1	11.2	10.1
Effective interest rate (%)	6.0	7.8	6.0	6.0

- ★ EBIT margin expansion in 22E probably only short-lived
 - Going forward, we see the EBIT margin to range between 7-8%



Good / Moderate / Weak

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Ratios

Value

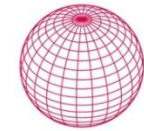
Risks

Earnings

Driver	Potential	Our thoughts
Price	Weak	Retail price assumed to stay flattish
Quantity	Weak	No massive store expansion planned
COGS	Weak	Margin beyond 36% difficult to achieve
Opex	Moderate	Technology could lead to slight improvements
EPS growth only driven by share repurchases		

Price

Driver	Potential	Our thoughts
PE	Good	Cheap vs. US Cons. Disc. at 5.9x
PB	Good	Cheap vs. US Cons. Disc. at 1.4x, but lower ROE
Discount to sector is huge; might move a bit closer to average		



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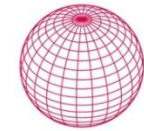
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Risks

(YE Jan, US\$ m)	2019A	2020A	2021A	2022E	2023E
EBIT	1,465.0	1,212.0	15.0	1,743.1	1,438.0
Est tax rate (%)	23.1	23.3	-	24.0	24.0
NOPAT	1,126.2	929.5	15.0	1,324.7	1,092.9
Add: Depre & amort	964.0	917.0	874.0	940.5	1,006.4
Less: CAPEX	(572.0)	(855.0)	(137.0)	(1,160.6)	(1,241.6)
Chg in A/R	33.0	14.0	(787.0)	598.1	(9.2)
Chg in inventory	67.0	(62.0)	947.0	(701.2)	103.6
Chg in oth curr assets	71.0	23.0	202.0	(195.0)	(16.5)
Chg in A/P	67.0	(116.0)	302.0	727.5	53.2
Chg in oth curr liabs	(35.0)	146.0	(40.0)	(316.5)	8.3
Less: Chg in working cap	203.0	5.0	624.0	112.9	139.3
Less: Chg in invest cap					
Free cash flow to firm	1,721.2	996.5	1,376.0	1,217.6	997.0
FCF per share (US\$)	10.4	6.3	8.9	8.2	7.3
NOPAT growth (%)	16.0	(17.5)	(98.4)	8,731.6	(17.5)
FCF growth (%)	49.2	(42.1)	38.1	(11.5)	(18.1)

- ★ Strong cash flow generation is crucial for returning cash to shareholders



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Risks

Forecast assumptions

3-year average	Consensus	My assumptions
Revenue growth (CAGR)	7.9	7.5
Gross margin	37.9	37.2
EBIT margin	8.0	8.0
Net margin	5.0	5.1

My valuation method

Market: United States of America

Market risk-free rate	2.0
Market equity risk premium	9.0
Market return	11.0
Company beta (x)	1.3
COE	13.3

WACC	9.9
Terminal growth rate	2.0

Valuation Method:
FCFF

- ★ Like consensus, we expect a slightly stronger margin compared to the past
- ★ The revenue growth CAGR is distorted by growth rebound in 2022
 - Expect lower growth 23E onward



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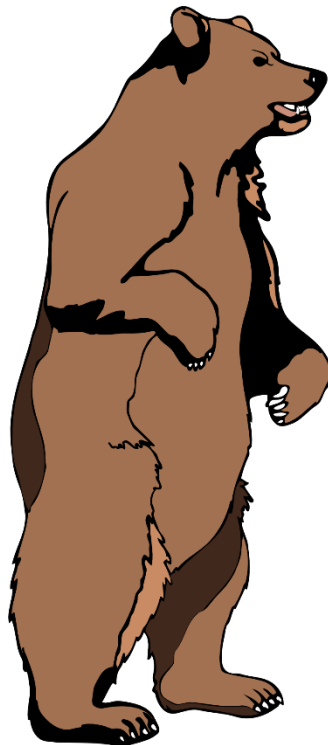
Value

Risks

Bear

US\$55

(Upside 12.2%)



Base

US\$59

(Upside 20%)



Bull

US\$64

(Upside 30.6%)

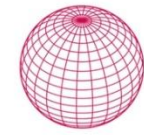


World Class Benchmarking Scorecard

- ★ Identifies a company's competitive position relative to global peers
- ★ Uses a composite rank of profitability and growth, called "Profitable Growth"
- ★ Scale from 1 (Best) to 10 (Worst)



Rank might be a bit distorted by growth rebound effect



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Story

FVMR

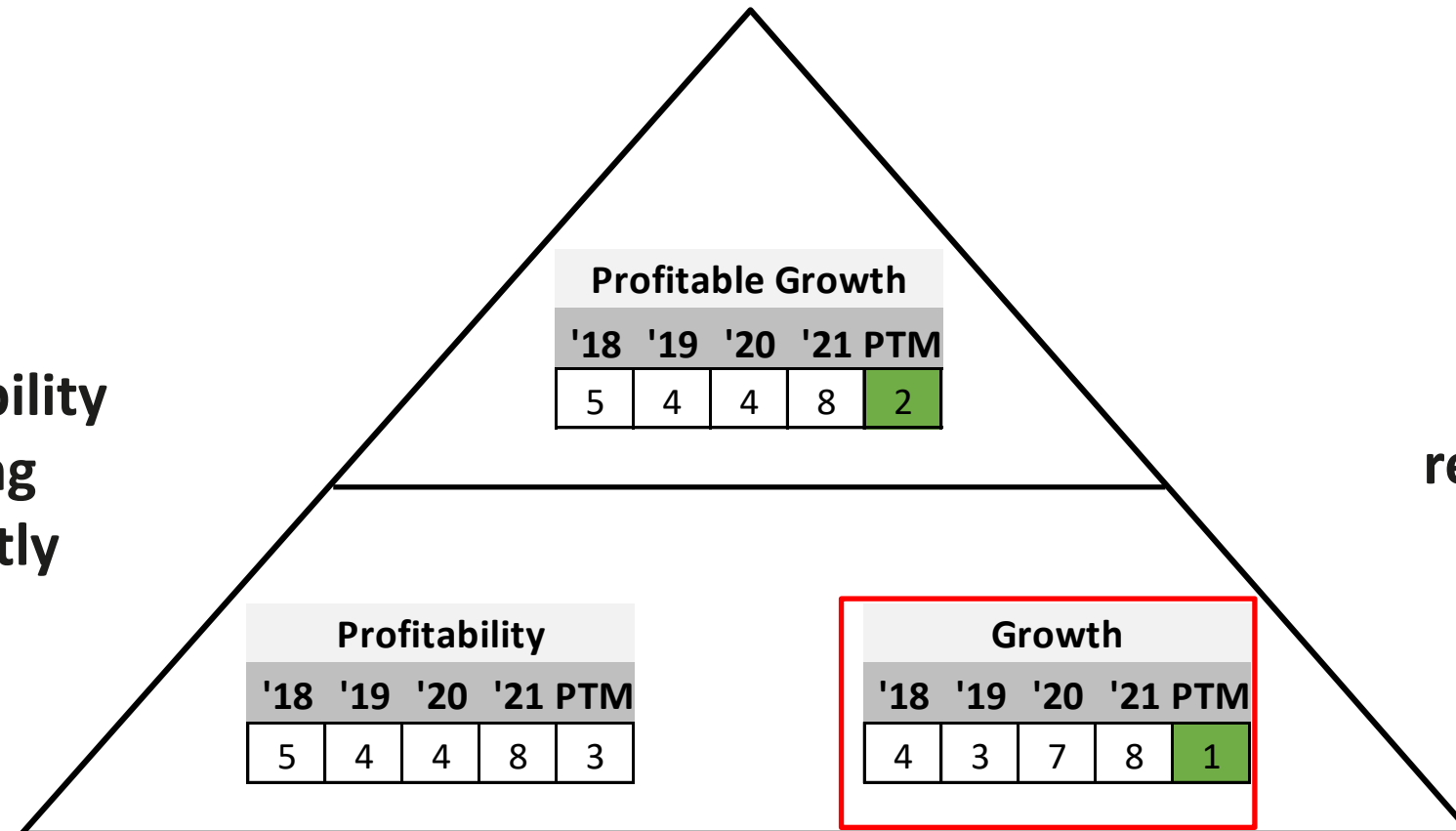
Value

WCB

Risks

Profitability
strong
recently

Massive
rebound in
Growth



Benchmarked against 1,040 large Cons. Disc. companies worldwide.



Sales

Story

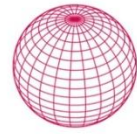
FVMR

Value

WCB

Risks

- ★ Activist investors might not decide in favor of the long-term future
- ★ Increased transportation costs and worsening of inventory management
- ★ Failure to keep up with e-commerce could lead to lost of market share



KOHL'S

Our estimate:

US\$59

(Upside 20%)

BUY



3 things to know about this company

- ★ Strategic partnerships to escape growth stagnation
- ★ Activist investors increase pressure after poor performance
- ★ Ramp-up of share repurchases spices up returns

Key statistics

Analyst consensus (22)

US\$67

(Upside 40%)

BUY

PE ratio

6x

Dividend yield

2.5%

CONCLUSION

- Don't expect high growth, but price discount offers upside
- Intervention of activist investors could be accretive
- Attractive dividend yield and share repurchase program can be satisfying enough

