

# Financial Analysis Project

**Kohl’s Corporation**

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**Kohl**'**s Corporation**

Kohl's is a retail department store chain that operates in the United States and offers products across various categories, including clothing, footwear, accessories, beauty products, electronics, home decor, kitchen, and dining products. The company sources its products from a variety of suppliers both domestically and internationally, primarily from Asia. It operates in the highly competitive retail industry, with style, quality, price, and convenience as the most significant competitive factors.

Kohl's has over 1,170 stores across 49 states and an e-commerce website allowing customers to shop for products online. The company is headquartered in Menomonee Falls, Wisconsin, a suburb of Milwaukee. As of 2022, Kohl's employed approximately 97,000 associates, which includes around 36,000 full-time and 61,000 part-time associates.

Kohl's earns its money primarily through the sale of merchandise in its stores and online. The company also generates revenue through its loyalty program, Kohl's Cash, which allows customers to earn and redeem store credit for future purchases, and its credit card program, Kohl's Charge. In addition, Kohl's earns income by renting space within its stores to other retailers and businesses.

Kohl's business is seasonal, with sales and income higher during the back-to-school and holiday seasons. To stay in business, the company employs several strategies to attract and retain customers, including offering a wide selection of products at competitive prices, investing in digital capabilities to enhance the shopping experience, and creating a loyalty program that incentivizes repeat purchases. The company also focuses on operational efficiency and cost control to maintain profitability.

However, Kohl's faces various macroeconomic, industry, operational, capital, legal, and regulatory risks. These risks include changes in policies and regulations, disruptions due to outbreaks of COVID-19 or future pandemics, and concerns about the safety of products sold. The company may also face challenges in sourcing merchandise, maintaining and updating its information systems, and attracting quality associates while controlling costs.

Kohl's is known for its commitment to community involvement and social responsibility, with initiatives like Kohl's Cares supporting various causes and charities. Additionally, Kohl's has embraced digital technology and omnichannel strategies to enhance the customer shopping experience, such as its Buy Online, Pick Up in Store (BOPUS) service and investment in artificial intelligence and machine learning. Overall, Kohl's is a retail department store chain committed to staying relevant by continually evolving its product offerings, expanding into new markets, and exploring new revenue streams.

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### RATIO ANALYSIS

Kohl’s fiscal year ends on the Saturday closest to January 31st each year. i.e., Fiscal year 2022 ended on January 28, 2023

References to years in 10-K relate to fiscal years rather than to calendar years.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **RATIO** | **Formula** | **2022** | **2021** | **2020** | **Evaluation** |
| Return on Equity | Net Income/Shareholder’s Equity | -19/3763 =  -0.5 % | 938/4661 =  20.12 % | -163/5196 =  -3.14 % | Deteriorating |
| Return on Asset | Net Income/Average Total Assets | - 19/((14345+15054)  /2) =  -0.13 % | 938/((15054+15  337)/2) =  6.17 % | - 163/((15337+1455  5)/2) =  -1.09 % | Deteriorating |
| Gross Profit Margin | Gross Profit/Net Sales | 6641/18098 =  36.69 % | 7996/19433 =  41.15 % | 5595/15955 =  35.07 % | Erratic |
| Operating Expense Margin | Operating Expense/Net Sales | 6395/18098 =  35.34 % | 6316/19433 =  32.5 % | 5857/15955 =  36.71 % | Erratic |
| Profit Margin | Net Income/Net Sales | -19/18098 =  -0.1 % | 938/19433 =  4.83 % | -163/15955 =  -1.02 % | Deteriorating |
| Accounts Receivable Turnover | Net Sales/Average Accounts Receivable | 18098/((210+190)/  2) =  90.49 | 19433/((190+78  9)/2) =  39.7 | 15955/((789+15)/2  ) = 39.69 | Improving |
| Inventory Turnover | COGS/Average Inventories | 11457/((3189+306  7)/2) =  3.66 | 11437/((3067+2  590)/2) =  4.04 | 10360/((2590+353  7)/2) =  3.38 | Erratic |
| Accounts Payable Turnover | COGS/Average Accounts Payable | 11457/((1330+168  3)/2) =  7.61 | 11437/((1683+1  476)/2) =  7.24 | 10360/((1476+120  6)/2) =  7.73 | Stable |
| Cash Conversion Cycle | DSO + DIO - DPO | (365/90.49)+(365/3  .66)-(365/7.61) = 55.8 | (365/39.7)+(365  /4.04)- (365/7.24) = 49.13 | (365/39.69)+(365/3  .38)-(365/7.73) = 69.97 | Erratic |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| PPE  Turnover | Net Sales/Average Net PPE | 18098/((7926+730  4)/2) =  2.38 | 19433/((7304+6  689)/2) =  2.78 | 15955/((6689+735  2)/2) =  2.27 | Stable |
| Total Liabilities to Equity | Total Liabilities/Total Equity | 10582/3763 =  2.81 | 10393/4661 =  2.23 | 10141/5196 =  1.95 | Deteriorating |
| Times Interest Earned | EBIT/Interest Expense | 246/304 =  0.81 | 1680/260 =  6.46 | -262/284 =  -0.92 | Deteriorating |
| Asset Turnover | Net Sales/Average Total Assets | 18098/((14345+15  054)/2) =  1.23 | 19433/((15054+  15337)/2) =  1.28 | 15955/((15337+14  555)/2) =  1.07 | Improving |
| Current Ratio | Current Assets/Current Liabilities | 3736/3115 =  1.2 | 5023/3286 =  1.53 | 5835/3022 =  1.93 | Deteriorating |
| Quick Ratio | (Current Assets – Inventory)/Current Liabilities | (3736-3189)/3115  = 0.18 | (5023- 3067)/3286 =  0.6 | (5835-2590)/3022  = 1.07 | Deteriorating |
| Book value per share | (Stockholder’s Equity  – Preferred Stocks)/No. of common shares outstanding | 3763/111 =  33.9 | 4661/131 =  35.58 | 5196/158 =  32.89 | Erratic |
| Dividend payout | Common stock dividends per share/Basic Earnings per share | 2/-0.15 =  -13.33 | 1/6.41 =  0.16 | 0.704/-1.06 =  -0.66 | Worse |
| Operating cash flow to current liabilities | Operating Cash Flow/Average Current Liabilities | 282/((3115+3286)  /2) =  0.09 | 2271/((3286+3022)/2) =  0.72 | 1338/((3022+2769)  /2) =  0.46 | Deteriorating |
| Free cash flow | Operating Cash Flow- Investing Cash Flow | 282-783 =  -501 | 2271-570 =  1701 | 1338-137 =  1201 | Deteriorating |

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### MEMORANDUM ON LENDING

TO: Chief Loan Officer of Trusty Bank

FM: Market Manipulators, Assistant Loan Officer RE: Loan Application by Kohl's Corporation

The applicant firm requests a loan of 10% of its total assets, or $1434.5 million, repaid at the end of 8 years. Based on my analysis of the applicant firm's financial health, I recommend to REJECT the loan application.

1. CHARACTER:

|  |  |  |
| --- | --- | --- |
| Accounts Payable Ratio | | |
| 2022 | 2021 | 2020 |
| 7.61 | 7.24 | 7.73 |

The accounts payable turnover ratio has been stable over the last three years, indicating the firm's ability to pay off its short-term obligations in a timely manner. This trend suggests that the company has been more effective in managing its payment cycles and meeting its short- term obligations to suppliers and vendors. A higher accounts payable turnover ratio can indicate that the company is making payments promptly, maintaining good relationships with its creditors, and potentially taking advantage of any available discounts or favorable credit terms.

1. CAPACITY:

|  |  |  |
| --- | --- | --- |
| Operating cash flow to current liabilities | | |
| 2022 | 2021 | 2020 |
| 0.09 | 0.72 | 0.46 |

Looking at the cash flow from operating activities for the past three years, there is an inconsistent pattern.

In 2020, the cash flow from operating activities to current liabilities ratio was 0.46, which increased significantly to 0.72 in 2021. However, in 2022, there was a substantial decline to 0.09. This inconsistency in cash flow from operating activities can raise concerns about the company's ability to generate consistent and sustainable cash flow. A significant decline in 2022 suggests a potential deterioration in the company's operating performance or cash flow management.

1. CAPITAL:

|  |  |  |
| --- | --- | --- |
| Debt-to-Equity Ratio | | |
| 2022 | 2021 | 2020 |
| 2.81 | 2.23 | 1.95 |

The firm's financial leverage has increased, with its bonds recently falling below investment grade, increasing its interest payments. As the company takes on more debt, it incurs additional interest expenses that need to be serviced. An increasing debt-to-equity ratio can also indicate that the company may be more vulnerable to economic downturns or changes in interest rates. Higher debt levels can increase financial risk and limit the company's financial flexibility to invest in growth opportunities or withstand unexpected challenges.

1. CONDITIONS:

|  |  |  |  |
| --- | --- | --- | --- |
| Income Statement Ratios | | | |
| Ratio | 2022 | 2021 | 2020 |
| Gross Profit Margin | 36.69% | 41.15% | 35.07% |
| Operating Profit Margin | 1.36% | 8.65% | -1.64% |
| Net Profit Margin | -0.1% | 4.83% | -1.02% |
| Operating Expense Margin | 35.34% | 32.5% | 36.71% |

The firm's gross profit margin, operating profit margin, net profit margin, and operating expense margin have shown fluctuations over the years, indicating an unstable financial performance. It suggests that the company may face challenges in maintaining consistent profitability, controlling costs, and managing its overall financial health.

To address these issues, the company should consider strategies such as improving operational efficiency, optimizing cost structures, and implementing effective financial management practices to achieve more stable and sustainable profitability.

Considering the above factors, particularly the firm's inconsistent operating cash flow, high debt-to-equity ratio, and the recent increase in interest payments due to the corporate bond falling below investment grade, I recommend to reject the loan application. The risk of loan default is high, and the bank may not be able to recover the loan amount in case of default.

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### COMPANY ANALYSIS RECOMMENDATIONS

TO: CEO of Kohl’s Corporation

FM: Market Manipulators, Accounting Manager

### RE: Proposals for the next year

Based on my financial analysis, I propose the following changes:

### Increase Gross Profit Margin by 5%

* 1. Streamline inventory management to reduce excess inventory and markdowns

Implement inventory optimization techniques to accurately forecast demand, reduce stockouts, and minimize holding costs.

* 1. Implement cost-saving measures in the supply chain and logistics processes

Identify areas of inefficiency in the supply chain, negotiate favorable terms with suppliers, and explore opportunities for automation and process optimization.

* 1. Explore new revenue streams and product categories to diversify the business

Conduct market research to identify emerging trends and customer preferences, and strategically expand product offerings to capitalize on new opportunities.

### Reduce Operating Expense Margin by 3%

1. Conduct a comprehensive review of expenses and identify areas where costs can be reduced without sacrificing quality

Analyze all expense categories and implement cost control measures, such as renegotiating contracts, optimizing staffing levels, and reducing discretionary spending.

1. Optimize the use of technology to automate and streamline processes

Identify areas where technology can improve efficiency and reduce manual work, such as implementing enterprise resource planning (ERP) systems, inventory management software, and automated reporting tools.

1. Negotiate better deals with suppliers and vendors to lower costs while maintaining quality standards

Leverage the company's purchasing power and establish long-term relationships with key suppliers to negotiate favorable pricing, volume discounts, and improved payment terms.

### Reduce Total Liabilities-to-Equity Ratio by 0.9

* 1. Increase profitability through cost-saving measures and revenue growth

Implement the aforementioned strategies to increase gross profit margin and reduce operating expenses, resulting in higher net income.

* 1. Negotiate better terms with lenders to refinance existing debt

Engage in discussions with lenders to renegotiate interest rates, extend repayment terms, or explore debt consolidation options that can reduce interest expenses.

* 1. Explore alternative sources of funding, such as equity financing or asset sales

Evaluate the feasibility of issuing new equity shares or selling non-core assets to raise capital and improve the company's debt-to-equity ratio.