Financial Statement Analysis

Kohl's Corporation
Burlington Stores, Inc.

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Introduction:

Kohl’s corporation and Burlington Stores, Inc. are American department store retail chains. Kohl’s is listed on both the S&P 500 and the Fortune 500. As of February 1, 2020, Kohl’s operated 1,159 stores and Burlington operated 727 stores. Burlington employs around 47,000 people while Kohl’s employs around 122,000 people. Kohl’s is the second-largest department store in the U.S in terms of retail sales and Burlington is the third largest off-price retailer in the U.S. All the U.S department stores are in the middle of shakeout due to the increase in popularity of e-commerce companies like Amazon and almost every national brand introducing their e-commerce store. Financial analysis of both companies will be covered in this report.

Accounting policies:

Both Kohl’s and Burlington use the retail inventory method under which the valuation of inventories at cost and the resulting gross margins are calculated by applying a calculated cost to retail ratio to the retail value of inventories. In both Kohl’s and Burlington, depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Burlington adopted a new ASU at the beginning of Fiscal 2019. Both Kohl’s and Burlington estimate the fair value of each stock option using the Black Scholes option pricing model.

Exhibits in this report:

Exhibit 1 - Kohl’s Common-size consolidated income statements.
Exhibit 2 - Kohl’s Common-size consolidated balance sheets.
Exhibit 3 - Burlington Common-size consolidated income statements.
Exhibit 4 - Burlington common-size consolidated balance sheet.
Exhibit 5 - Financial ratios.
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Exhibit 1

Kohl's Common-size consolidated income statements

(Dollars in Millions, Except per Share Data)	2019		2018		2017	
Net sales	18,885		19,167		19,095	
Other revenue	1,089		1,062			
Total revenue	19,974	100%	20,229	100%	19,095	100%
Cost of merchandise sold	12,140	60.7%	12,199	60.3%	12,176	63.7%
Operating expenses:						
Selling, general and administrative	5,705	28.6%	5,601	27.7%	4,512	23.6%
Depreciation and amortization	917	4.6%	964	4.8%	991	5.2%
Impairments, store closing and other costs	113	0.6%	104	0.5%		
Operating income	1,099	5.5%	1,361	6.7%	1,416	7.4%
Interest expense, net	207	1.0%	256	1.3%	299	1.6%
(Gain) loss on extinguishment of debt	(9)	(0.1)%	63	0.3%		
Income before income taxes	901	4.5%	1,042	5.2%	1,117	5.8%
Provision for income taxes	210	1.0%	241	1.2%	258	1.3%
Net Income	691	3.5%	801	4%	859	4.5%

Exhibit 2: Kohl's Common-size consolidated balance sheets

	2019		2018		2017		2016	
(Dollars in Millions)								
Assets								
Current assets:								
Cash and cash equivalents	723	5.0%	934	7.5%	1308	9.8%	1074	7.9%
Merchandise inventories	3537	24.3%	3475	27.9%	3542	26.6%	3795	28.0%
Other	389	2.7%	426	3.4%	481	3.6%	378	2.8%
Total current assets	4649	31.9%	4835	38.8%	5331	40.0%	5247	38.7%
Property and equipment, net	7352	50.5%	7428	59.6%	7773	58.3%	8103	59.7%
Operating leases	2391	16.4%						
Other assets	163	1.1%	206	1.7%	236	1.8%	224	1.7%
Total assets	14555	100%	12469	100%	13340	100%	13574	100%
Liabilities and Shareholders' Equity								
Current liabilities:								
Accounts payable	1206	8.3%	1187	9.5%	1271	9.5%	1507	11.1%
Accrued liabilities	1233	8.5%	1364	10.9%	1155	8.7%	1224	9.0%
Income taxes payable	48	0.3%	64	0.5%	99	0.7%	112	0.8%
Current portion of:								
Finance lease and financing obligations	124	0.9%	115	0.9%	126	0.9%	131	1.0%
Operating leases	158	1.1%						
Total current liabilities	2769	19.0%	2730	21.9%	2651	19.9%	2974	21.9%
Long-term debt	1856	12.8%	1861	14.9%	2797	21.0%	2795	20.6%
Finance lease and financing obligations	1367	9.4%	1523	12.2%	1591	11.9%	1685	12.4%
Operating leases	2619	18.0%						
Deferred income taxes	260	1.8%	184	1.5%	213	1.6%	272	2.0%
Other long-term liabilities	234	1.6%	644	5.2%	662	5.0%	671	4.9%
Shareholders' equity:								
Common stock - 375 and 374 million shares issued	4		4		4		4	
Paid-in capital	3272	22.5%	3204	25.7%	3078	23.1%	3003	22.1%
Treasury stock, at cost, 219 and 211 million shares	-11571	-79.5%	-11076	-88.8%	-10651	-79.8%	-10338	-76.2%
Accumulated other comprehensive loss					-11	-0.1%	-14	-0.1%
Retained earnings	13745	94.4%	13395	107.4%	13006	97.5%	12522	92.2%
Total shareholders' equity	5450	37.4%	5527	44.3%	5426	40.7%	5177	38.1%
Total liabilities and shareholders' equity	14555	100%	12469	100%	13340	100%	13574	100%

Exhibit 3: Burlington Common-size consolidated income statements.

(All amounts in thousands, except share and per share data)

	2019		2018		2017	
REVENUES:						
Net sales	7261243		6643051		6084766	
Other revenue	25,155		25,428		25,277	
Total revenue	7,286,398	100%	6,668,479	100%	6,110,043	100%
COSTS AND EXPENSES:						
Cost of sales	4,228,740	58.0%	3,868,119	58.0%	3,559,158	58.3%
Selling, general and administrative expenses	2,228,178	30.6%	2,018,737	30.3%	1,863,501	30.5%
Costs related to debt amendments	(375)	0.0%	2,496	0.0%	2,262	0.0%
Stock option modification expense	—		-		142	0.0%
Depreciation and amortization	210,720	2.9%	217,884	3.3%	201,103	3.3%
Impairment charges - long-lived assets	4,315	0.1%	6,844	0.1%	2,127	0.0%
Other income - net	(16,531)	-0.2%	(10,998)	-0.2%	(8,888)	-0.1%
Loss on extinguishment of debt	—		1,823	0.0%	2,881	0.0%
Interest expense	50,826	0.7%	55,990	0.8%	58,777	1.0%
Total costs and expenses	6,705,873	92.0%	6,160,895	92.4%	5,681,063	93.0%
Income before income tax expense	580,525	8.0%	507,584	7.6%	428,980	7.0%
Income tax expense	115,409	1.6%	92,839	1.4%	44,128	0.7%
Net income	465,116	6.4%	414,745	6.2%	384,852	6.3%

Exhibit 4:

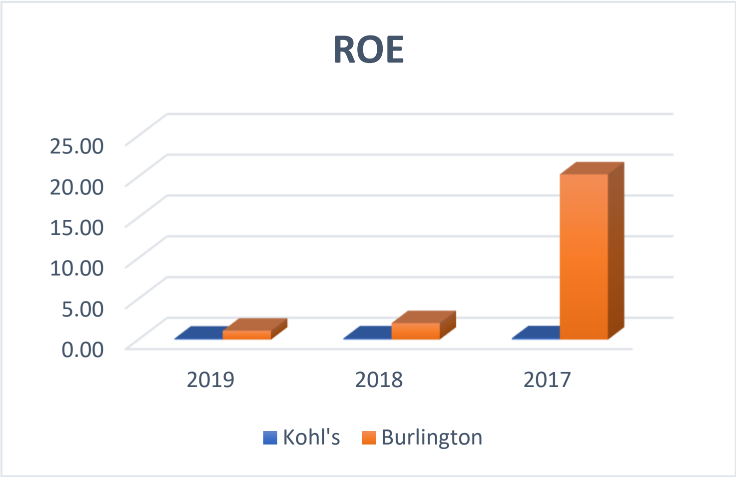
Burlington common-size consolidated balance sheet **(All amounts in thousands)**

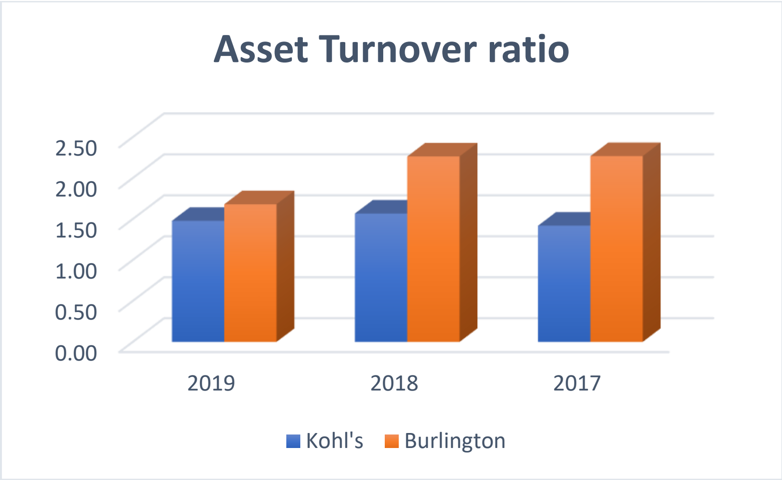
	2019		2018		2017		2016	
ASSETS								
Current assets:								
Cash and cash equivalents	$ 403,074	7.2%	$ 112,274	3.6%	$133,286	4.7%	$81,597	3.2%
Restricted cash and cash equivalents	6,582	0.1%	21,882	0.7%	27,800	1.0%	27,800	1.1%
Accounts receivable	91,508	1.6%	58,752	1.9%	71,649	2.5%	43,252	1.7%
Merchandise inventories	777,248	13.9%	954,183	31.0%	752,562	26.8%	701,891	27.3%
Assets held for disposal	2,261	0.0%	—					
Prepaid and other current assets	136,698	2.4%	124,809	4.1%	115,136	4.1%	73,784	2.9%
Total current assets	1,417,371	25.3%	1,271,900	41.3%	1,100,433	39.1%	928,324	36.1%
Property and equipment—net	1,403,173	25.1%	1,253,705	40.7%	1,134,772	40.3%	1,049,447	40.8%
Operating lease assets	2,397,111	42.9%	—					
Tradenames	238,000	4.3%	238,000	7.7%	238,000	8.5%	238,000	9.2%
Favorable leases—net	731	0.0%	164,324	5.3%	188,947	6.7%	213,180	8.3%
Goodwill	47,064	0.8%	47,064	1.5%	47,064	1.7%	47,064	1.8%
Deferred tax assets	4,678	0.1%	4,361	0.1%	6,952	0.2%	7,973	0.3%
Other assets	85,731	1.5%	99,818	3.2%	96,661	3.4%	90,495	3.5%
Total assets	$ 5,593,859	100%	$ 3,079,172	100%	$2,812,829	100%	$2,574,483	100%
LIABILITIES AND STOCKHOLDERS' EQUITY								
Current liabilities:								
Accounts payable	$ 759,107	13.6%	$ 848,561	27.6%	$736,252	26.2%	$640,326	24.9%
Current operating lease liabilities	302,185	5.4%	—					
Other current liabilities	397,032	7.1%	396,257	12.9%	370,215	13.2%	354,870	13.8%
Current maturities of long-term debt	3,577	0.1%	2,924	0.1%	13,164	0.5%	1,638	0.1%
Total current liabilities	1,461,901	26.1%	1,247,742	40.5%	1,119,631	39.8%	996,834	38.7%
Long term debt	1,001,723	17.9%	983,643	31.9%	1,113,808	39.6%	1,128,843	43.8%
Long term operating lease liabilities	2,322,000	41.5%	—					
Other liabilities	97,798	1.7%	346,298	11.2%	313,130	11.1%	290,683	11.3%
Deferred tax liabilities	182,288	3.3%	178,779	5.8%	179,486	6.4%	207,935	8.1%
Commitments and contingencies (Note 17)								
Stockholders' equity:								
Common Stock	7		7		7		7	
Additional paid-in-capital	1,587,146	28.4%	1,508,996	49.0%	1,457,205	51.8%	1,420,581	55.2%
Accumulated earnings (deficit)	204,797	3.7%	(260,919)	-8.5%	(675,664)	-24.0%	(1,060,099)	-41.2%
Accumulated other comprehensive loss	(18,960)	-0.3%	(3,613)	-0.1%	(1,887)	-0.1%	(7,191)	-0.3%
Treasury stock, at cost	(1,244,841)	-22.3%	(921,761)	-29.9%	(692,887)	-24.6%	(403,110)	-15.7%
Total stockholders' equity	528,149	9.4%	322,710	10.5%	86,774	3.1%	(49,812)	-1.9%
Total liabilities and stockholders' equity	$ 5,593,859	100%	$ 3,079,172	100.0%	$2,812,829	100%	$2,574,483	100%

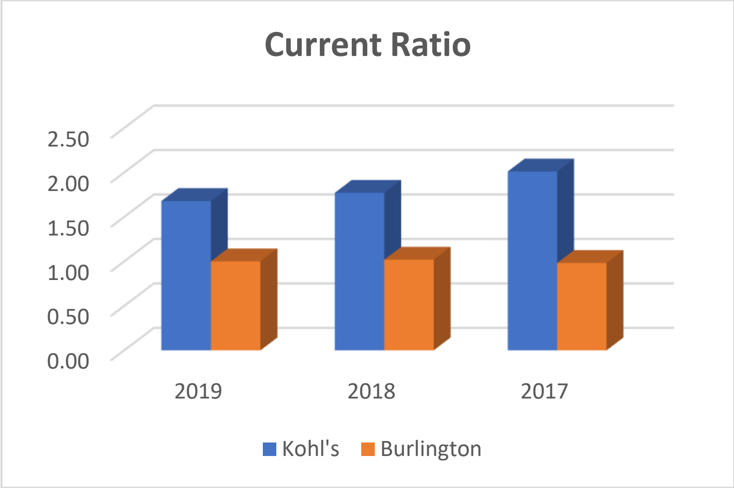
Exhibit 5: Financial ratios

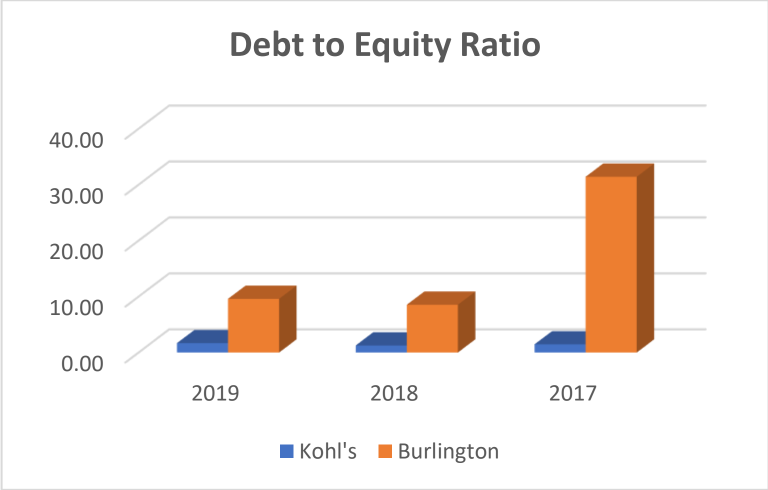
	Kohl's			Burlington		
Profitability	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**
Return on Equity	0.13	0.15	0.16	1.09	2.03	20.28
Profit Margin	0.03	0.04	0.04	0.06	0.06	0.06
Gross Margin	0.39	0.40	0.36	0.42	0.42	0.42
Asset Turnover	1.48	1.57	1.42	1.68	2.26	2.27
Inventory Turnover	3.46	3.48	3.32	4.88	4.53	4.89
A/R Turnover				96.98	102.28	106.35
Short-term Solvency						
Current ratio	1.68	1.77	2.01	1.00	1.02	0.98
Quick ratio	0.26	0.34	0.49	0.35	0.15	0.21
Long-term Solvency						
Debt to Equity	1.67	1.26	1.46	9.59	8.54	31.42
Debt to Asset	0.63	0.56	0.59	0.91	0.90	0.97
Times Interest Earned	5.35	5.07	4.74	12.42	10.07	8.30

Exhibit 6 – Financial Ratios visualizations









Profitability:

The department stores’ median ROE is 0.113, which makes Kohl’s performance above average. The ROE is decreasing from 2017-2019 from 0.16 to 0.13, respectively. A decrease in the profit margin which is consistent with ROE is the reason behind it. Decrease in the operating income from 2017-2019 due to the increase in Selling, general and administrative expenses from 23.6 in 2017 to 28.6% in 2019 and Impairments, store closing and other costs incurred in 2018 and 2019 is the reason for the decrease in profit margin and ROE.

The high ROE ratios of Burlington are due to the low Shareholder’s equity. For the year 2017, a high positive ROE with negative shareholders' equity shows that the company is losing money and has incurred long term debt to finance continuing business operations, which can be seen in a long-term debt which constitutes around 44% of total liabilities in 2016. In terms of profit and gross margin, Burlington is better than Kohl’s, there is a steady increase in the Burlington’s revenue from 2017-2019 with a decrease in depreciation and amortization and interest expenses.

The average accounts receivable turnover in days is around 3.5 for all the years from 2017-19, with 3.3 as the median for department stores. With 5.0 as the median Asset turnover ratio for department stores, both the companies are underperforming. The trend suggests that either their sales are sluggish, or they are holding obsolete inventory. Debt to equity ratio of Kohl’s decreased from 1.46 to 1.26 in 2017-2018 and increased from 1.26 to 1.67 in 2018-2019, if a similar decreasing trend is continued, it would be difficult for Kohl’s to continue business operations.

On the other hand, a high D/E ratio of Burlington in 2017 suggests that the total liabilities are much higher than total equity or total assets. Negative shareholder equity and high long-term debt are the reasons behind the high D/E ratio. Burlington is financing its operations through debts every year, which suggests the decrease in the ability to finance the operations with its funds or inability in generating enough revenue.

To sum up the profitability, the ROE and Debt to Equity ratios suggest that Kohl's is more profitable and less risky than Burlington with Kohl's ROE higher than the industry median. Burlington, on the other hand, is very riskier, and less profitable. It should generate more revenue and decrease liabilities such as long-term debts to increase the shareholder's equity.

Risk based on statement of cash flow and notes:

A time-series trend of short-term solvency of Kohl's shows a declining current ratio from 2.01 to 1.68 from 2017-2019 and the current ratio of Burlington is very close to 1.0. Kohl's has financial resources to remain solvent in the short term while it is difficult for Burlington to stay solvent in the short term. The Quick ratios of Kohl's from 2017-2019 are 0.49, 034, and 0.26, a decline in cash equivalents over the years is the reason for the low quick ratios. This shows that the Kohl's liquid assets are declining against its current liabilities. The same is the case with Burlington, which as Quick ratios of 0.21, 0.15, and 0.35 from 2017-2019.

When the long-term solvency is considered, Kohl's debt to equity ratios are much smaller than Burlington's ratios, low shareholder's equity and high long-term debt of Burlington are the reasons behind the big ratios putting Burlington at a high risk. Times Interest Earned ratio of Burlington is better than that of Kohl's, but it does not help Burlington much with the liabilities it has.

Kohl's:

Kohl's operating activity shows that there is a steady decline in the net income from 2017-2019, there is a decline in the cash provided by operating activities from 2018 to 2019, an increase in non-cash lease expense, operating lease liabilities explains it. There is an increase in cash used for investing activities for the year 2019 due to the property and equipment acquisition. There is a 22.6% and 28.6% decline in cash and cash equivalents from 2018-2019 and 2017-2018. Kohl's should come up with strategies to increase its sales/net income to avoid the problem of cash crunch and to stop cash equivalents declining further.

Burlington:

Burlington's operating activity shows a steady increase in its operating income from 2017-2019. There is a 39.4% increase in the cash provided from cash activities from 2018-2019, an increase in the net income and merchandise inventory are the reasons behind it. Net cash used for investing activities also increased from 2017-2019 due to the increase in property and equipment acquisition. There is a 205% increase in cash and cash equivalents from 2018-2019 and a 16.7% decline in 2017-2018.

From the cash flow statements, both the companies have less cash and cash equivalents than their liabilities for the years 2017-2019, which puts both the companies in a risky position. Both the companies should increase their revenues/net income and sell their obsolete property and equipment/inventory to increase the cash flow.

Notes show that the marketing expenditure is increasing steadily, one of the reasons behind the decrease in the operating income. By the end of February 1, 2020, Kohl's estimated fair value of long-term debt is around $2 billion and $2.6 billion in the form of operating leases, increasing the total liabilities significantly. As of February 1, 2020, assets worth $24 million are held for sale. Burlington entered the sixth amendment in 2017, seventh, and eight in 2018 and 2020, with the maturity date being extended to 2024, Burlington must increase its operating income to pay off its loan. This shows that Burlington is struggling to pay off the debt. Burlington also had expenses related to the hiring of a new CEO in 2019.

Business opportunities and future aspects

Kohl's partnered with Amazon to grow the sales, though the results were not as expected, it might help Kohl's in the long run after the pandemic ends. Burlington is expected to open 54 new stores in 2020 and invest approximately $400 million in capital expenditures, which can help Burlington to boost its sales and increase its operating income.

According to the U.S Census Bureau, the annual sales at U.S department stores fell 20% from 2017-2018 and dropped even further in 2019. Many department stores are filing for bankruptcy, with the current COVID-19 pandemic situation, the sales will be affected, even more, putting both Kohl's and Burlington in risk. In terms of operating income, Burlington is performing well with a steady increase from 2017-2019, but the liabilities, negative shareholder equity puts Burlington at risk. Burlington recently closed its e-commerce platform, given the pandemic condition, it could be a bad move as customers prefer purchasing online. From the financial ratios and analysis, Burlington is better than Kohl's in profitability and Kohl's is better than Burlington in solvency. The trend analysis from 2017-2020 in Figure 1 shows that uncertainty in Kohls(KSS) is higher than in Burlington.

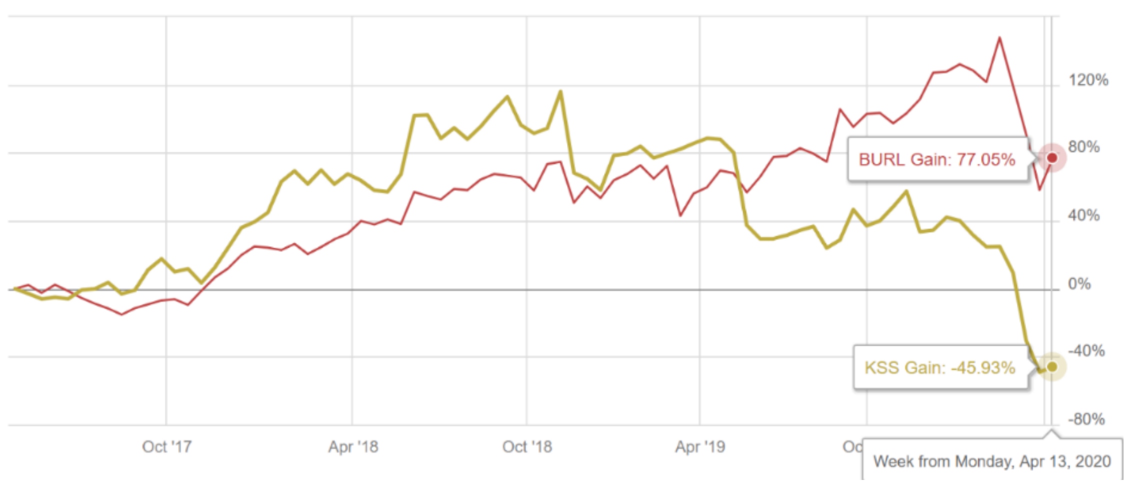


Figure 1 – Performance comparison. (BURL- Burlington, KSS- Kohl's)

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