

KOHLS Corp  
Form 10-Q  
December 07, 2018  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended November 3, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-11084

KOHL'S CORPORATION

(Exact name of registrant as specified in its charter)

Wisconsin  
(State or other jurisdiction of incorporation or organization)

39-1630919  
(I.R.S. Employer Identification No.)

N56 W17000 Ridgewood Drive,

Menomonee Falls, Wisconsin  
(Address of principal executive offices)

53051  
(Zip Code)

Registrant's telephone number, including area code (262) 703-7000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

Edgar Filing: KOHLS Corp - Form 10-Q

required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards pursuant to Section 13(a) of the Exchange Act.

Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: December 1, 2018 Common Stock, Par Value \$0.01 per Share, 165,129,371 shares outstanding.

---

Table of Contents

KOHL'S CORPORATION

INDEX

PART I FINANCIAL INFORMATION

Item 1. <u>Financial Statements:</u>	
<u>Consolidated Balance Sheets</u>	3
<u>Consolidated Statements of Income</u>	4
<u>Consolidated Statements of Changes in Shareholders' Equity</u>	5
<u>Consolidated Statements of Cash Flows</u>	7
<u>Notes to Consolidated Financial Statements</u>	8
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	19
Item 4. <u>Controls and Procedures</u>	19

PART II OTHER INFORMATION

Item 1A. <u>Risk Factors</u>	20
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	20
Item 6. <u>Exhibits</u>	22
<u>Signatures</u>	23

---

Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## KOHL'S CORPORATION

## CONSOLIDATED BALANCE SHEETS

(Unaudited)

	November 3, 2018	February 3, 2018	October 28, 2017
(Dollars in Millions)	2018	2018	2017
Assets		As Adjusted (a)	As Adjusted (a)
Current assets:			
Cash and cash equivalents	\$ 1,047	\$ 1,308	\$ 736
Merchandise inventories	4,844	3,542	4,632
Other	446	530	379
Total current assets	6,337	5,380	5,747
Property and equipment, net	7,538	7,773	7,974
Other assets	243	236	226
Total assets	\$ 14,118	\$ 13,389	\$ 13,947
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable	\$ 2,583	\$ 1,271	\$ 2,113
Accrued liabilities	1,289	1,213	1,294
Income taxes payable	14	99	24
Current portion of capital lease and financing obligations	121	126	131
Total current liabilities	4,007	2,709	3,562
Long-term debt	2,272	2,797	2,796
Capital lease and financing obligations	1,528	1,591	1,622
Deferred income taxes	201	211	272
Other long-term liabilities	657	662	673
Shareholders' equity:			
Common stock	4	4	4
Paid-in capital	3,185	3,078	3,039
Treasury stock, at cost	(10,952)	(10,651)	(10,633)
Accumulated other comprehensive loss	(8 )	(11 )	(12 )
Retained earnings	13,224	12,999	12,624
Total shareholders' equity	5,453	5,419	5,022
Total liabilities and shareholders' equity	\$ 14,118	\$ 13,389	\$ 13,947

(a) Refer to Note 2 for details on the adoption of the new revenue recognition accounting standard and the impact on previously reported results.

See accompanying Notes to Consolidated Financial Statements

3

---

Table of Contents

## KOHL'S CORPORATION

## CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended		Nine Months Ended	
	November 3, 2018	October 28, 2017	November 3, 2018	October 28, 2017
(Dollars in Millions, Except per Share Data)	2018	2017	2018	2017
		As Adjusted (a)		As Adjusted (a)
Net sales	\$ 4,369	\$ 4,312	\$ 12,632	\$ 12,274
Other revenue	259	255	774	753
Total revenue	4,628	4,567	13,406	13,027
Cost of merchandise sold	2,752	2,727	7,854	7,680
Operating expenses:				
Selling, general, and administrative	1,375	1,340	3,907	3,774
Depreciation and amortization	243	243	725	724
Operating income	258	257	920	849
Interest expense, net	63	74	197	225
Loss on extinguishment of debt	—	—	42	—
Income before income taxes	195	183	681	624
Provision for income taxes	34	66	152	233
Net income	\$ 161	\$ 117	\$ 529	\$ 391
Net income per share:				
Basic	\$ 0.98	\$ 0.70	\$ 3.21	\$ 2.33
Diluted	\$ 0.98	\$ 0.70	\$ 3.19	\$ 2.32

(a) Refer to Note 2 for details on the adoption of the new revenue recognition accounting standard and the impact on previously reported results.

See accompanying Notes to Consolidated Financial Statements

Table of Contents

## KOHL'S CORPORATION

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

(Dollars in Millions, Except per Share Data)	Three Months Ended November 3, 2018							
	Common Stock	Paid-In		Treasury Stock	Accumulated Other Comprehensive		Retained	
	Shares	Amount	Capital	Shares	Amount	Loss	Earnings	Total
Balance at August 4, 2018	374	\$ 4	\$ 3,163	(207)	\$ (10,835)	\$ (8 )	\$ 13,163	\$ 5,487
Comprehensive income	—	—	—	—	—	—	161	161
Stock options and awards, net of tax	—	—	22	—	(8 )	—	—	14
Dividends paid	—	—	—	—	1	—	(100 )	(99 )
(\$0.61 per common share)								
Treasury stock purchases	—	—	—	(2 )	(110 )	—	—	(110 )
Balance at November 3, 2018	374	\$ 4	\$ 3,185	(209)	\$ (10,952)	\$ (8 )	\$ 13,224	\$ 5,453

(Dollars in Millions, Except per Share Data)	Three Months Ended October 28, 2017							
	Common Stock	Paid-In		Treasury Stock	Accumulated Other Comprehensive		Retained	
	Shares	Amount	Capital	Shares	Amount	Loss	Earnings	Total
Balance at July 29, 2017	372	\$ 4	\$ 3,026	(203)	\$ (10,596)	\$ (12 )	\$ 12,606	\$ 5,028
(previously reported)								
Change in accounting standard (a)	—	—	—	—	—	—	(7 )	(7 )
Balance at July 29, 2017	372	\$ 4	\$ 3,026	(203)	\$ (10,596)	\$ (12 )	\$ 12,599	\$ 5,021
(as adjusted)								
Comprehensive income	—	—	—	—	—	—	117	117
Stock options and awards, net of tax	1	—	13	—	—	—	—	13

Edgar Filing: KOHLS Corp - Form 10-Q

Dividends paid	—	—	—	—	1	—	(92 )	(91 )
(\$0.55 per common share)								
Treasury stock purchases	—	—	—	(2 )	(38 )	—	—	(38 )
Balance at October 28, 2017	373 \$	4 \$	3,039	(205)\$	(10,633)\$	(12 )	\$ 12,624	\$ 5,022

(a) Refer to Note 2 for details on the adoption of the new revenue recognition accounting standard and the impact on previously reported results.  
See accompanying Notes to Consolidated Financial Statements



Table of Contents

## KOHL'S CORPORATION

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY - (Continued)

(Unaudited)

(Dollars in Millions, Except per Share Data)	Nine Months Ended November 3, 2018							
	Common Stock		Paid-In Treasury Stock		Accumulated Other Comprehensive Loss		Retained Earnings Total	
	Shares	Amount	Capital	Shares	Amount	Loss	Earnings	Total
Balance at February 3, 2018	373	\$ 4	\$ 3,078	(205)	\$ (10,651)	\$ (11 )	\$ 13,006	\$ 5,426
(previously reported)								
Change in accounting standard (a)	—	—	—	—	—	—	(7 )	(7 )
Balance at February 3, 2018	373	\$ 4	\$ 3,078	(205)	\$ (10,651)	\$ (11 )	\$ 12,999	\$ 5,419
(as adjusted)								
Comprehensive income	—	—	—	—	—	3	529	532
Stock options and awards, net of tax	1	—	107	—	(29 )	—	—	78
Dividends paid	—	—	—	—	3	—	(304 )	(301 )
(\$1.83 per common share)								
Treasury stock purchases	—	—	—	(4 )	(275 )	—	—	(275 )
Balance at November 3, 2018	374	\$ 4	\$ 3,185	(209)	\$ (10,952)	\$ (8 )	\$ 13,224	\$ 5,453

(Dollars in Millions, Except per Share Data)	Nine Months Ended October 28, 2017							
	Common Stock		Paid-In Treasury Stock		Accumulated Other Comprehensive Loss		Retained Earnings Total	
	Shares	Amount	Capital	Shares	Amount	Loss	Earnings	Total
Balance at January 28, 2017	371	\$ 4	\$ 3,003	(197)	\$ (10,338)	\$ (14 )	\$ 12,522	\$ 5,177
(previously reported)								
Change in accounting standard (a)	—	—	—	—	—	—	(7 )	(7 )
Balance at January 28, 2017	371	\$ 4	\$ 3,003	(197)	\$ (10,338)	\$ (14 )	\$ 12,515	\$ 5,170
(as adjusted)								

Edgar Filing: KOHLS Corp - Form 10-Q

Comprehensive income	—	—	—	—	—	2	391	393
Stock options and awards, net of tax	2	—	36	—	(12 )	—	—	24
Dividends paid	—	—	—	—	5	—	(282 )	(277 )

(\$1.65 per common share)

Treasury stock purchases	—	—	—	(8 )	(288 )	—	—	(288 )
Balance at October 28, 2017	373 \$	4 \$	3,039	(205)\$	(10,633)\$	(12 )	\$ 12,624	\$ 5,022

(a) Refer to Note 2 for details on the adoption of the new revenue recognition accounting standard and the impact on previously reported results.

See accompanying Notes to Consolidated Financial Statements

Table of Contents

## KOHL'S CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended	
	November 3,	October 28,
(Dollars in Millions)	2018	2017
Operating activities		As Adjusted (a)
Net income	\$ 529	\$ 391
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	725	724
Share-based compensation	71	34
Deferred income taxes	(13 )	2
Loss on extinguishment of debt	42	—
Other non-cash revenues and expenses	15	(4 )
Changes in operating assets and liabilities:		
Merchandise inventories	(1,293)	(829 )
Accrued and other long-term liabilities	38	(14 )
Accounts payable	1,312	606
Other current and long-term assets	70	50
Income taxes	(73 )	(91 )
Net cash provided by operating activities	1,423	869
Investing activities		
Acquisition of property and equipment	(458 )	(547 )
Other	6	18
Net cash used in investing activities	(452 )	(529 )
Financing activities		
Treasury stock purchases	(275 )	(288 )
Shares withheld for taxes on vested restricted shares	(29 )	(12 )
Dividends paid	(301 )	(277 )
Reduction of long-term borrowings	(530 )	—
Premium paid on redemption of debt	(35 )	—
Capital lease and financing obligation activity	(95 )	(101 )
Proceeds from stock option exercises	33	—
Net cash used in financing activities	(1,232)	(678 )
Net decrease in cash and cash equivalents	(261 )	(338 )
Cash at beginning of period	1,308	1,074
Cash at end of period	\$ 1,047	\$ 736

Edgar Filing: KOHLS Corp - Form 10-Q

Supplemental information

Interest paid, net of capitalized interest	\$ 192	\$ 192
Income taxes paid	266	322
Non-cash investing and financing activities		
Property and equipment acquired through additional liabilities	\$ 20	\$ 42

(a) Refer to Note 2 for details on the adoption of the new revenue recognition accounting standard and the impact on previously reported results.

See accompanying Notes to Consolidated Financial Statements

Table of Contents

## KOHL'S CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for fiscal year end consolidated financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. For further information, refer to the consolidated financial statements and related footnotes included in our Annual Report on Form 10-K for the fiscal year ended February 3, 2018 (Commission File No. 1-11084) as filed with the Securities and Exchange Commission.

Due to the seasonality of our business, results for any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year.

We operate as a single business unit.

The following table provides a brief description of issued, but not yet effective, accounting standards:

Standard	Description	Effect on our Financial Statements
Leases (ASC Topic 842)  Issued February 2016  Effective Q1 2019	Among other things, the new standard requires us to recognize a right-of-use asset and a lease liability on our balance sheet for each lease. It also changes the presentation and timing of lease-related expenses.	Approximately 5% of our store leases and all of our land leases are not currently recorded on our balance sheet. Recording right-of-use assets and lease liabilities for these and other non-store leases is expected to have a material impact on our balance sheet. We are also evaluating the impact that recording right-of-use assets and lease liabilities will have on our income statement and the financial statement impact that the standard will have on leases which are currently recorded on our balance sheet.
Cloud Computing (ASU 2018-15)	Under the new standard, implementation costs related to a cloud computing arrangement will be deferred or expensed as incurred, in accordance with the existing internal-use software guidance for similar costs.	We are evaluating the impact of the new standard, but believe it is generally consistent with our current accounting for cloud computing arrangements and will not have a material impact on our financials.

Issued

August 2018

The new standard also prescribes  
the balance sheet, income statement,  
and cash flow classification of the

Effective Q1 capitalized implementation costs  
2020 and related amortization expense.

In 2017, we recorded provisional amounts for certain income tax effects of the Tax Cuts & Jobs Act (the "Act"), as addressed in Staff Accounting Bulletin No. 118 ("SAB 118"). During the nine months ended November 3, 2018, we made immaterial adjustments to the previously recorded provisional amounts related to the Act. Any additional adjustments related to the Act, while not expected to be material, will be recorded as income tax expense during the period in which the adjustment is finalized.

8

---

Table of Contents

## KOHL'S CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

## 2. Revenue Recognition

Effective February 4, 2018, we adopted Revenue from Contracts with Customers (ASC Topic 606) as required. We adopted the new standard using the full retrospective method. The standard eliminated the transaction and industry specific revenue recognition guidance under prior U.S. GAAP and replaced it with a principles-based approach for revenue recognition and disclosures. Under the standard, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services.

## Net Sales

Net sales includes revenue from the sale of merchandise and shipping revenues. Net sales are recognized when merchandise is received by the customer and we have fulfilled all performance obligations. We do not have any sales that are recorded as commissions.

The following table summarizes net sales by line of business for the periods ended November 3, 2018 and October 28, 2017:

	Three Months Ended		Nine Months Ended	
(Dollars in Millions)	November 3, 2018	October 28, 2017	November 3, 2018	October 28, 2017
Women's	\$ 1,287	\$ 1,276	\$ 3,982	\$ 3,883
Men's	925	890	2,668	2,550
Home	719	713	2,090	2,035
Children's	650	640	1,569	1,534
Footwear	465	473	1,334	1,288
Accessories	323	320	989	984
Net Sales	\$ 4,369	\$ 4,312	\$ 12,632	\$ 12,274

We maintain various rewards programs whereby customers earn rewards based on their spending and other promotional activities. The rewards are typically in the form of dollar off discounts which can be used on future purchases. These programs create performance obligations which require us to defer a portion of the original sale until the rewards are redeemed. Sales are recorded net of returns. At the end of each reporting period, we record a reserve based on historical return rates and patterns which reverses sales that we expect to be returned in the following period. Revenue from the sale of Kohl's gift cards is recognized when the gift card is redeemed. Liabilities for performance obligations resulting from our rewards programs, return reserves, and unredeemed gift cards and merchandise return cards totaled \$337 million as of November 3, 2018, \$422 million as of February 3, 2018 and \$335 million as of October 28, 2017.

Net sales do not include sales tax as we are considered a pass-through conduit for collecting and remitting sales taxes.

Other Revenue

Other revenue consists primarily of revenue from our credit card operations, unredeemed gift and merchandise return cards (breakage), and other non-merchandise revenues.

Revenue from credit card operations includes our share of the finance charges and interest fees, less charge-offs of the Kohl's credit card pursuant to the Private Label Credit Card Program Agreement. Expenses related to our credit card operations are reported in SG&A.

Income from unredeemed gift cards and merchandise return cards (breakage) is recorded in proportion and over the time period the cards are actually redeemed.



Table of Contents

## KOHL'S CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following tables summarize the impact of adoption of the new standard by financial statement line item:

Three Months Ended October 28, 2017	As Previously Reported	New Standard Adjustment	Adjusted
(Dollars in Millions, Except per Share Data)			
Net sales	\$ 4,332	\$ (20 )	\$ 4,312
Other revenue		255	255
Total revenue		235	4,567
Cost of merchandise sold	2,737	(10 )	2,727
Gross margin	1,595		
Operating expenses:			
Selling, general and administrative	1,095	245	1,340
Depreciation and amortization	243	-	243
Operating income	257	-	257
Interest expense, net	74	-	74
Income before income taxes	183	-	183
Provision for income taxes	66	-	66
Net income	\$ 117	\$ -	\$ 117
Net income per share:			
Basic	\$ 0.70	\$ -	\$ 0.70
Diluted	\$ 0.70	\$ -	\$ 0.70

Nine Months Ended October 28, 2017	As Previously Reported	New Standard Adjustment	Adjusted
(Dollars in Millions, Except per Share Data)			
Net sales	\$ 12,319	\$ (45 )	\$ 12,274
Other revenue		753	753
Total revenue		708	13,027
Cost of merchandise sold	7,693	(13 )	7,680
Gross margin	4,626		
Operating expenses:			
Selling, general and administrative	3,053	721	3,774
Depreciation and amortization	724	-	724
Operating income	849	-	849
Interest expense, net	225	-	225
Income before income taxes	624	-	624
Provision for income taxes	233	-	233
Net income	\$ 391	\$ -	\$ 391
Net income per share:			
Basic	\$ 2.33	\$ -	\$ 2.33

Diluted	\$ 2.32	\$ -	\$ 2.32
---------	---------	------	---------

Table of Contents

## KOHL'S CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

October 28, 2017 (Dollars in Millions)	As Previously Reported	New Standard Adjustment	Adjusted
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 736	\$ -	\$ 736
Merchandise inventories	4,632	-	4,632
Other	332	47	379
Total current assets	5,700	47	5,747
Property and equipment, net	7,974	-	7,974
Other assets	226	-	226
Total assets	\$ 13,900	\$ 47	\$ 13,947
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities:			
Accounts payable	\$ 2,113	\$ -	\$ 2,113
Accrued liabilities	1,237	57	1,294
Income taxes payable	24	-	24
Current portion of capital lease and financing obligations	131	-	131
Total current liabilities	3,505	57	3,562
Long-term debt	2,796	-	2,796
Capital lease and financing obligations	1,622	-	1,622
Deferred income taxes	275	(3 )	272
Other long-term liabilities	673	-	673
Total shareholders' equity	5,029	(7 )	5,022
Total liabilities and shareholders' equity	\$ 13,900	\$ 47	\$ 13,947

Table of Contents

## KOHL'S CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

February 3, 2018 (Dollars in Millions)	As Previously Reported	New Standard Adjustment	Adjusted
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents	\$ 1,308	\$ -	\$ 1,308
Merchandise inventories	3,542	-	3,542
Other	481	49	530
Total current assets	5,331	49	5,380
Property and equipment, net	7,773	-	7,773
Other assets	236	-	236
Total assets	\$ 13,340	\$ 49	\$ 13,389
<b>Liabilities and Shareholders' Equity</b>			
<b>Current liabilities:</b>			
Accounts payable	\$ 1,271	\$ -	\$ 1,271
Accrued liabilities	1,155	58	1,213
Income taxes payable	99	-	99
Current portion of capital lease and financing obligations	126	-	126
Total current liabilities	2,651	58	2,709
Long-term debt	2,797	-	2,797
Capital lease and financing obligations	1,591	-	1,591
Deferred income taxes	213	(2 )	211
Other long-term liabilities	662	-	662
Total shareholders' equity	5,426	(7 )	5,419
Total liabilities and shareholders' equity	\$ 13,340	\$ 49	\$ 13,389

The adoption of the new standard had no impact on our basic or diluted earnings per share or our net cash provided by (used in) operating, financing, or investing activities.

### 3. Store Closure and Restructure Reserve

The following table summarizes changes in the store closure and restructure reserve during the nine months ended November 3, 2018:

Edgar Filing: KOHLS Corp - Form 10-Q

(Dollars in Millions)	
Balance - February 3, 2018	\$ 87
Payments, reversals and additions	(13)
Balance - November 3, 2018	\$ 74

Table of Contents

## KOHL'S CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

## 4. Debt

Long-term debt consists of the following unsecured senior debt:

Maturity (Dollars in Millions)	Effective Coupon		Outstanding November 3, 2018	Outstanding February 28, 2018 & October 28, 2017
	Rate	Rate		
2021	4.81 %	4.00 %	\$ 413	\$ 650
2023	3.25 %	3.25 %	350	350
2023	4.78 %	4.75 %	184	300
2025	4.25 %	4.25 %	650	650
2029	7.36 %	7.25 %	42	99
2033	6.05 %	6.00 %	112	166
2037	6.89 %	6.88 %	101	150
2045	5.57 %	5.55 %	433	450
	4.76 %		\$ 2,285	\$ 2,815

Long-term debt is net of unamortized debt discounts and deferred financing costs of \$13 million at November 3, 2018, \$18 million at February 3, 2018, and \$19 million at October 28, 2017.

Our long-term debt is classified as Level 1, financial instruments with unadjusted, quoted prices listed on active market exchanges. The estimated fair value of our long-term debt was \$2.3 billion at November 3, 2018 and \$2.9 billion at both February 3, 2018 and October 28, 2017.

Year to date, we have reduced our outstanding debt by \$530 million including \$500 million which was repurchased pursuant to a cash tender offer and \$30 million which was repurchased on the open market. In conjunction with the debt reduction, we recorded a one-time \$42 million loss on extinguishment of debt which includes \$35 million of premium paid to holders of the debt, \$4 million related to an interest rate hedge, and \$3 million of deferred financing fees and original issue discounts.

## 5. Stock-Based Compensation

The following table summarizes our stock-based compensation activity for the nine months ended November 3, 2018:

	Stock Options		Nonvested Stock Awards		Performance	Share Units
	Weighted		Weighted			Weighted
	Average		Average			Average
	Exercise		Grant Date			Grant Date
(Shares and Units in Thousands)	Shares	Price	Shares	Fair Value	Units	Fair Value
Balance - February 3, 2018	1,139	\$ 50.51	2,811	\$ 45.60	660	\$ 44.97
Granted	—	—	1,017	63.57	187	65.71
Exercised/vested	(992 )	50.46	(1,102 )	47.56	(38 )	78.35
Forfeited/expired	(2 )	53.38	(78 )	48.78	(5 )	46.91
Balance - November 3, 2018	145	\$ 51.87	2,648	\$ 51.62	804	\$ 48.21

Table of Contents

## KOHL'S CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

## 6. Contingencies

We are subject to certain legal proceedings and claims arising out of the conduct of our business. In the opinion of management, the outcome of these proceedings and litigation will not have a material adverse impact on our consolidated financial statements.

## 7. Net Income Per Share

Basic net income per share is net income divided by the average number of common shares outstanding during the period. Diluted net income per share includes incremental shares assumed for share-based awards.

The information required to compute basic and diluted net income per share is as follows:

	Three Months Ended		Nine Months Ended	
	November 3, 2018	October 28, 2017	November 3, 2018	October 28, 2017
(Dollar and Shares in Millions, Except per Share Data)	2018	2017	2018	2017
Numerator—Net income	\$ 161	\$ 117	\$ 529	\$ 391
Denominator—Weighted average shares:				
Basic	164	166	165	168
Impact of dilutive stock-based awards	1	—	1	—
Diluted	165	166	166	168
Antidilutive shares	—	2	—	3
Net income per share:				
Basic	\$ 0.98	\$ 0.70	\$ 3.21	\$ 2.33
Diluted	\$ 0.98	\$ 0.70	\$ 3.19	\$ 2.32



Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

For purposes of the following discussion, unless noted, all references to "the quarter" and "the third quarter" are for the three fiscal months (13 weeks) ended November 3, 2018 and October 28, 2017. References to "year to date" are for the nine fiscal months (39 weeks) ended November 3, 2018 and October 28, 2017.

The following discussion should be read in conjunction with our Consolidated Financial Statements and the related notes included elsewhere in this report, as well as the financial and other information included in our 2017 Annual Report on Form 10-K (our "2017 Form 10-K"). The following discussion may contain forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could materially differ from those discussed in these forward-looking statements. Factors that could cause or contribute to those differences include, but are not limited to, those discussed elsewhere in this report and in our 2017 Form 10-K (particularly in "Risk Factors").

Executive Summary

As of November 3, 2018, we operated 1,159 Kohl's department stores, a website (www.Kohls.com), 12 FILA outlets, and four Off-Aisle clearance centers. Our Kohl's stores and website sell moderately-priced proprietary and national brand apparel, footwear, accessories, beauty and home products. Our Kohl's stores generally carry a consistent merchandise assortment with some differences attributable to local preferences. Our website includes merchandise which is available in our stores, as well as merchandise that is available only on-line.

Key financial results for the quarter included:

- 2.5% increase in comparable sales on a shifted basis
- 25 basis point increase in gross margin as a percent of net sales
- SG&A as a percentage of total revenue deleveraged 37 basis points
- 40% increase in diluted earnings per share

See "Results of Operations" and "Liquidity and Capital Resources" for additional details about our financial results.

Results of Operations

Net Sales

Net sales increased \$57 million, or 1.3%, to \$4.4 billion for the third quarter of 2018. Year to date, net sales increased \$358 million, or 2.9%. Results reported on a "shifted basis" are adjusted for the 53 week in fiscal 2017 by comparing the periods ended November 3, 2018 and November 4, 2017. On a shifted basis comparable sales increased 2.5% for the quarter and 2.1% year to date. On a fiscal basis, which compares the fiscal periods ended November 3, 2018 and October 28, 2017, comparable sales increased 1.0% for the quarter and 2.9% year to date. Kohl's store sales are included in comparable sales after the store has been open for 12 full months. Digital sales and sales at remodeled and relocated Kohl's stores are included in comparable sales, unless square footage has changed by more than 10%.

The following results are on a shifted comparable sales basis:

•The increases in comparable sales reflect higher average transaction value for both the quarter and year-to-date periods. For the quarter, we also saw a positive trend in transactions.

•By line of business, all businesses except Accessories reported increases in comparable sales for both the quarter and year-to-date periods. Women's was positive for the second consecutive quarter. Men's and Children's led the Company for the quarter. Year to date, Men's and Footwear led the Company.

•Geographically, all regions reported increases in comparable sales for both the quarter and year-to-date periods. The Midwest region outperformed the Company average in both periods, while the Southeast underperformed the Company average.

15

---

Table of Contents

## Other Revenue

Other revenue increased \$4 million, or 2%, to \$259 million for the third quarter of 2018 and \$21 million, or 3%, to \$774 million year to date. Higher revenue earned from third-party advertisers on our website contributed to the increases in both periods. Year to date, the increase also includes higher credit revenue and unredeemed gift card and merchandise return card revenue (breakage).

## Cost of Merchandise Sold and Gross Margin

(Dollars in Millions)	Quarter		Year to Date			
	2018	2017	Change	2018	2017	Change
Net sales	\$ 4,369	\$ 4,312	\$ 57	\$ 12,632	\$ 12,274	\$ 358
Cost of merchandise sold	2,752	2,727	25	7,854	7,680	174
Gross margin	\$ 1,617	\$ 1,585	\$ 32	\$ 4,778	\$ 4,594	\$ 184
Gross margin as a percent of net sales	37.0 %	36.8 %	25 bp	37.8 %	37.4 %	39 bp

Cost of merchandise sold includes the total cost of products sold, including product development costs, net of vendor payments other than reimbursement of specific, incremental and identifiable costs; inventory shrink; markdowns; freight expenses associated with moving merchandise from our vendors to our distribution centers; shipping expenses for on-line sales; and terms cash discount. Our cost of merchandise sold may not be comparable with that of other retailers because we include distribution center and buying costs in selling, general and administrative expenses while other retailers may include these expenses in cost of merchandise sold.

The increase in gross margin as a percent of net sales reflects the benefit of less permanent and promotional markdowns due to our ongoing inventory management initiatives.

## Selling, General and Administrative Expenses ("SG&amp;A")

(Dollars in Millions)	Quarter		Year to Date			
	2018	2017	Change	2018	2017	Change
SG&A	\$ 1,375	\$ 1,340	\$ 35	\$ 3,907	\$ 3,774	\$ 133
As a percent of total revenue	29.7 %	29.3 %	37 bp	29.1 %	29.0 %	17 bp

SG&A expenses include compensation and benefit costs (including stores, headquarters, buying, and distribution centers); occupancy and operating costs of our retail, distribution and corporate facilities; freight expenses associated with moving merchandise from our distribution centers to our retail stores and among distribution and retail facilities; marketing expenses, offset by vendor payments for reimbursement of specific, incremental and identifiable costs; expenses related to our credit card operations; and other administrative revenues and expenses. We do not include depreciation and amortization in SG&A. The classification of these expenses varies across the retail industry.

The following table summarizes the increases and decreases in SG&A by expense type:

(Dollars in Millions) Quarter

Edgar Filing: KOHLS Corp - Form 10-Q

	Year to Date	
Corporate costs	\$ 25	\$ 60
Technology	15	51
Distribution costs	6	11
Store expenses	—	14
Marketing	(11 )	(3 )
Total increase	\$ 35	\$ 133

Many of our expenses, including store payroll and distribution costs, are variable in nature. These costs generally increase as sales increase and decrease as sales decrease. We measure both the change in these variable expenses and the expense as a percent of sales. If the expense as a percent of sales decreased from the prior year, the expense "leveraged". If the expense as a percent of sales increased over the prior year, the expense "deleveraged".

Table of Contents

For both periods, stores and marketing expenses leveraged. As planned, technology expenses did not leverage as we made deliberate investments in the cloud and other technology initiatives to drive future efficiencies and growth. Corporate expenses also deleveraged due to higher incentives for the quarter and leadership changes for the year-to-date period.

## Other Expenses

(Dollars in Millions)	Quarter			Year to Date		
	2018	2017	Change	2018	2017	Change
Depreciation and amortization	\$ 243	\$ 243	\$ -	\$ 725	\$ 724	\$ 1
Interest expense, net	63	74	(11 )	197	225	(28 )
Loss on extinguishment of debt	—	—	—	42	—	42

Depreciation and amortization was consistent with last year for both periods.

Interest expense, net decreased due to the benefits of the \$500 million debt tender transaction executed in March 2018, as well as increased interest income due to higher yield and investment balances.

We recognized a one-time \$42 million loss on extinguishment of debt in the first quarter of 2018 related to our \$500 million cash tender offer.

## Income Taxes

(Dollars in Millions)	Quarter			Year to Date		
	2018	2017	Change	2018	2017	Change
Provision for income taxes	\$ 34	\$ 66	\$ (32 )	\$ 152	\$ 233	\$ (81 )
Effective tax rate	17.6%	36.1%		22.3%	37.3%	

The decreases in the provision for income taxes and the effective tax rate were primarily due to the benefit of tax reform as well as favorable audit results.

## Income before Income Taxes, Net Income and Earnings Per Diluted Share

	Year to Date		2017		Earnings	
	2018	Income	Income	Income	before Net	Per Diluted
(Dollars in Millions, Except per Share Data)	Income	before Net	Income	before Net	Income	Per Diluted
GAAP	\$ 681	\$ 529	\$ 624	\$ 391	\$ 3.19	\$ 2.32
Loss on extinguishment of debt	42	32	—	—	0.19	—
Adjusted (Non-GAAP)	\$ 723	\$ 561	\$ 624	\$ 391	\$ 3.38	\$ 2.32

We believe the adjusted results in the table above are useful because they provide enhanced visibility into our results excluding the loss on extinguishment of debt. However, these non-GAAP financial measures are not intended to replace the comparable GAAP measures.

#### Seasonality and Inflation

Our business, like that of most retailers, is subject to seasonal influences, with the major portion of sales and income typically realized during the second half of each fiscal year, which includes the back-to-school and holiday seasons. Approximately 15% of annual sales typically occur during the back-to-school season and 30% during the holiday season. Because of the seasonality of our business, results for any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year.

We expect that our operations will continue to be influenced by general economic conditions, including food, fuel and energy prices, higher wages and by costs to source our merchandise. There can be no assurance that our business will not be impacted by such factors in the future.

Table of Contents

## Liquidity and Capital Resources

The following table presents our primary uses and sources of cash.

Cash Uses	Cash Sources
•Operational needs, including salaries, rent, taxes and other costs of running our business	•Cash flow from operations
•Capital expenditures	•Short-term trade credit, in the form of extended payment terms
•Inventory	•Line of credit under our revolving credit facility
•Dividend payments	
•Share repurchases	
•Debt reduction	

Our working capital and inventory levels typically build throughout the fall, peaking during the November and December holiday selling season.

(Dollars in Millions)	2018	2017	Increase/(Decrease)	
			in Cash	%
Net cash provided by (used in):				
Operating activities	\$ 1,423	\$ 869	\$ 554	64 %
Investing activities	(452 )	(529)	77	15 %
Financing activities	(1,232)	(678)	(554 )	(82 )%

## Operating Activities

Operating activities generated \$1.4 billion of cash in the first three quarters of 2018, an increase of \$554 million over the first three quarters of 2017. The increase was primarily due to changes in accounts payable and merchandise inventory due to our inventory management initiatives and to timing shifts caused by the 53<sup>rd</sup> week in 2017.

## Investing Activities

Investing activities used cash of \$452 million in the first three quarters of 2018 and \$529 million in the first three quarters of 2017. The decrease was primarily due to lower spending on E-commerce fulfillment centers and timing of technology spending.

## Financing Activities

Financing activities used cash of \$1.2 billion in the first three quarters of 2018, an increase of \$554 million over the first three quarters of 2017.

## Edgar Filing: KOHLS Corp - Form 10-Q

In the first nine months of 2018, we reduced our outstanding debt by \$530 million, including \$500 million which was repurchased pursuant to a cash tender offer in the first quarter and \$30 million which was repurchased on the open market. We may again seek to retire or purchase our outstanding debt through open market cash purchases, privately negotiated transactions or otherwise. Such repurchases, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors.

We paid cash for treasury stock purchases of \$275 million in the first three quarters of 2018 and \$288 million in the first three quarters of 2017. Share repurchases are discretionary in nature. The timing and amount of repurchases is based upon available cash balances, our stock price and other factors.

We paid cash dividends of \$301 million (\$1.83 per share) in the first three quarters of 2018 and \$277 million (\$1.65 per share) in the first three quarters of 2017. On November 14, 2018, our Board of Directors declared a quarterly cash dividend on our common stock of \$0.61 per share. The dividend is payable on December 26, 2018 to shareholders of record at the close of business on December 12, 2018.



Table of Contents

As of November 3, 2018, our credit ratings were as follows:

	Standard &		
	Moody's	Poor's	Fitch
Long-term debt	Baa2	BBB-	BBB

## Key Financial Ratios

Key financial ratios that provide certain measures of our liquidity are as follows:

	November	October
	3,	28,
(Dollars in Millions)	2018	2017
Working capital	\$ 2,330	\$ 2,185
Current ratio	1.58	1.61
Debt/capitalization	41.8 %	47.5 %

The increases in our working capital and current ratio include a \$311 million increase in cash despite \$530 million in debt reductions during the first nine months of 2018. The debt/capitalization ratio reflects the benefit of lower debt outstanding.

## Debt Covenant Compliance

As of November 3, 2018, we were in compliance with all debt covenants and expect to remain in compliance during the remainder of fiscal 2018.

## Contractual Obligations

Aside from the \$530 million reduction in outstanding debt and the resulting decline in our interest expense, there have been no significant changes in the contractual obligations disclosed in our 2017 Form 10-K.

## Off-Balance Sheet Arrangements

We have not provided any financial guarantees as of November 3, 2018.

We have not created, and are not party to, any special-purpose or off-balance sheet entities for the purpose of raising capital, incurring debt or operating our business. We do not have any arrangements or relationships with entities that are not consolidated into our financial statements that are reasonably likely to materially affect our financial condition, liquidity, results of operations or capital resources.

## Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect reported amounts. Management has discussed the development, selection and disclosure of its estimates and assumptions with the Audit Committee of our Board of Directors. There have been no significant changes in the critical accounting policies and estimates discussed in our 2017 Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no significant changes in the market risks described in our 2017 Form 10-K.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (the "Evaluation") at a reasonable assurance level as of the last day of the period covered by this report.

## Table of Contents

Based upon the Evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective at the reasonable assurance level. Disclosure controls and procedures are defined by Rule 13a-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act") as controls and other procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving our stated goals under all potential future conditions, regardless of how remote.

### Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended November 3, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1A. Risk Factors

There have been no significant changes in the risk factors described in our 2017 Form 10-K.

This Form 10-Q contains "forward-looking statements" made within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "believes," "anticipates," "plans," "may," "intends," "will," "should," "expects" and similar expressions are intended to identify forward-looking statements. Forward-looking statements may include comments about our future sales or financial performance and our plans, performance, and other objectives, expectations or intentions, such as statements regarding our liquidity, debt service requirements, planned capital expenditures, future store initiatives, and adequacy of capital resources and reserves. Forward-looking statements are based on our management's then current views and assumptions and, as a result, are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. Any such forward-looking statements are qualified by the important risk factors described in Part I, Item 1A of our 2017 Form 10-K or disclosed from time to time in our filings with the SEC, that could cause actual results to differ materially from those predicted by the forward-looking statements. Forward-looking statements relate to the date initially made, and we undertake no obligation to update them.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

We did not sell any securities during the quarter ended November 3, 2018, which were not registered under the Securities Act of 1933, as amended.

Table of Contents

The following table contains information for shares of common stock repurchased and shares acquired from employees in lieu of amounts required to satisfy minimum tax withholding requirements upon the vesting of the employees' stock-based compensation during the three fiscal months ended November 3, 2018:

	Total Number of Shares Purchased as Part of Average Publicly Announced	Price Paid Per Share	Programs or Plans	Total Number of Shares Purchased as of Part of Average Publicly Announced Programs or Plans	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans
(Dollars in Millions)	Purchased	Share	Programs	or Programs	
August 5 - September 1, 2018	409,837	\$77.04	382,828	\$ 1,408	
September 2 - October 6, 2018	636,828	77.04	559,120	1,364	
October 7 - November 3, 2018	523,364	73.15	518,400	1,327	
Total	1,570,029	\$75.72	1,460,348	\$ 1,327	

Table of Contents

## Item 6. Exhibits

Exhibit	Description
10.1	<u>Non-Employee Director Compensation Program.</u>
31.1	<u>Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1	<u>Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2	<u>Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Kohl's Corporation

(Registrant)

Date: December 7, 2018 /s/ Bruce Besanko  
Bruce Besanko

On behalf of the Registrant and as Chief Financial Officer

(Principal Financial Officer)