

Kohl's Report

December 31, 2024

Financial and Strategic Analysis of Kohl's Corporation

This report examines significant financial and strategic decisions made by Kohl's Corporation, shedding light on their impact on shareholder value. While the company has achieved impressive milestones in its retail operations, other aspects of its financial strategy warrant closer examination, particularly regarding stock buybacks and insider activity.

Stock Performance and Market Capitalization

Kohl's stock has experienced dramatic changes in recent years:

- In 2018, the stock was trading at \$82 per share. Today, it is \$14, representing an 83% decline.
- Revenue has decreased from \$20.4 billion in 2018 to \$16.8 billion — a decline of 18%.
- Market capitalization has fallen by 94%, from its 25-year peak of \$26 billion in 2002 to \$1.5 billion today.

This report explores the primary factors influencing these changes and examines how alternative financial decisions could have resulted in greater stability and shareholder value.

Share Buybacks and Financial Strategy

Over the past 30 years, Kohl's has generated \$415 billion in revenue and \$18.2 billion in net income, approximately 4.5% of revenue. During this time, the company:

- Paid \$4 billion in dividends.
- Directed \$11 billion of its earnings toward share buybacks, reducing outstanding shares from 300 million to approximately 110 million.
- Spent \$2.06 billion on buybacks in 2021 and 2022 at an average price of \$44.42 per share.

Had Kohl's instead reinvested the \$11 billion in S&P 500 index funds, the company could have:

- Maintained approximately 330 million shares outstanding.
- Accumulated \$45 billion in cash and S&P index investments.
- Increased its tangible equity to \$48 billion, translating to \$146 per share in tangible equity.

This report discusses how these alternative strategies might have strengthened Kohl's financial condition and significantly enhanced shareholder value.

Insider Actions and Governance

The report also examines the potential conflicts of interest in Kohl's use of shareholder funds for stock buybacks. Key points include:

- Approximately \$700 million in stock-based compensation was issued to directors between 2011 and 2024.
- Directors frequently sold their shares around the same time the company conducted buybacks, raising questions about the alignment of interests between insiders and shareholders.
- Insiders sold 7.3 million of the 15.7 million shares awarded to them during periods closely aligned with corporate buyback activity.

These actions prompt ethical considerations about whether the board of directors fulfilled their fiduciary duty to act in the best interest of shareholders.

Fiduciary Duty and Ethical Considerations

The fiduciary duty of independent board members includes:

1. Acting in good faith and in the best interest of shareholders.
2. Exercising due care and diligence in decision-making.
3. Avoiding conflicts of interest and disclosing any potential conflicts.

This report raises questions about the alignment between the board's actions and their fiduciary responsibilities, emphasizing the importance of congruency—ensuring actions align with stated values and responsibilities.

Conclusions:

1. The 83% decline in Kohl's share price from its peak cannot simply be attributed to external challenges.
2. The decisions made by management and the board of directors or their financial advisors reflect a series of profound errors in judgement and shortsighted actions that have had devastating consequences for the company's owners.
3. While insiders have profited significantly, shareholders have borne the brunt of these failures.
4. This raises pressing questions about accountability. Should there be mechanisms for shareholders to recover compensation from directors who fail so catastrophically in their fiduciary responsibilities?
5. Cases like Kohl's highlight the urgent need for greater oversight and stronger protections to ensure corporate decisions prioritize the long-term interests of shareholders.

Were the decisions made by insiders simply grave mistakes, or do they reflect a deeper level of misjudgment? At what point would their "errors" cross the threshold into gross incompetence or demonstrate a blatant disregard for the interests of shareholders?

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