

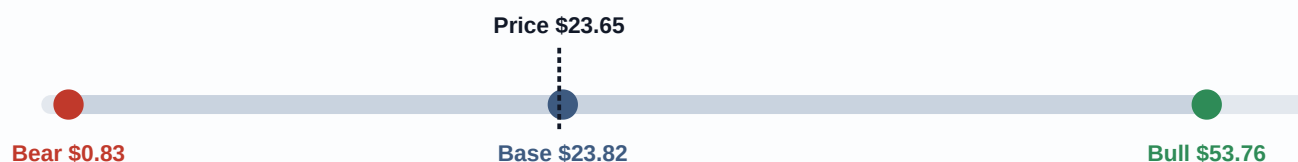
Initiated 2026-10-27 · Price \$23.65 (as of 2026-10-26 close, stockanalysis) · Mkt cap \$2.68bn (113.38mm shares outstanding; \$2.79bn on 118.0mm diluted) · Consumer discretionary / department stores · Model: verified

Rating: Hold — Conviction: Low

Kohl's has stopped shrinking as fast. Comps were -0.9% in Q2 against -3.1% for FY2025, inventory is down 3%, and net senior debt has fallen to $\sim\$0.5$ bn. The stock is up $\sim 44\%$ in a year and now sits on the model's Base case, which already assumes sales stabilize near -1% a year after five years of $\sim 5.5\%$ annual decline. Value is spread extremely wide on either side of that case because the equity is a thin stub under $\$3.7$ bn of notes and finance leases, so we see no edge in either direction until comps actually turn positive.

Conviction tests (3a-v-c): T1 fail (Hold $\rightarrow$ Sell at +1pp: Base midpoint -13.3% with the Bear case at $\sim\$0$; -1 pp gives $+17.3\%$, still Hold) · T2 pass (Gordon DCF alone $+11.1\%$, exit DCF alone -9.7% : both read Hold) · T3 pass · T4 pass (no pending deal, ruling or contract event; the remaining $\sim\$35$ mm of IEEPA refund claims is $\sim\$0.30$ /share)

MODEL VALUE RANGE VS PRICE



Business overview

Kohl's runs 1,151 mid-priced department stores in 49 states, mostly off-mall, plus Kohls.com (digital is $\sim 26\%$ of net sales). FY2025 total revenue was $\$15.5$ bn. That is $\$14.8$ bn of net sales (women's 24%, accessories including Sephora 21%, men's 20%, home 15%, children's 12%, footwear 8%) plus $\$0.75$ bn of other revenue, mainly its share of the Capital One-owned Kohl's credit-card portfolio. Sephora shop-in-shops are in 1,100+ stores and carry the only growing category. Three variables drive earnings: (1) comps, mainly transaction count in apparel; (2) gross margin, set by proprietary-brand mix, promotions and tariffs on Asia-sourced goods; (3) fixed-cost leverage on store payroll and occupancy, where small sales moves swing a ~ 3.5 – 4% operating margin.

Competition

Off-price is where the share goes. TJX comps rose 4% in its quarter to 2026-08-01 (Marmaxx US $+1\%$, HomeGoods $+7\%$). Macy's comps rose 2.7% in its Q2 (Macy's banner $+1.1\%$, Bloomingdale's $+11.3\%$; reported 2026-09-10). Kohl's comps fell 0.9% over the same quarter. Kohl's is still the laggard, even if the gap with the Macy's banner has narrowed to ~ 2 pp. The pressure shows up first in traffic (FY2025 transactions were down $\sim 4\%$) and then in promotions. On the same lease-inclusive stockanalysis basis, the closest comparable, Macy's, trades at 7.1x TTM EV/EBITDA against Kohl's 6.9x. Dillard's trades at 11.3x and the off-pricers at 19–21x.

Bull case

1. **Comps turn positive** — proprietary brands comped +3% in Q2. A new chief merchant joined from Walmart (effective 2026-09-28). Choice counts are being cut by mid-teens, and footwear improved ~500bp from Q1. Together these take comps to +1–2% from FY2027. Plays out if the middle-income consumer holds up and holiday FY2026 is positive. *Model: rev_growth, terminal_growth*
2. **Margin rebuild** — proprietary brands carry higher gross margin, inventory is lean, and SG&A fell 1.3% in H1. EBITDA margin recovers past FY2023's 8.4% toward ~8.9%. Plays out if positive comps return operating leverage on the fixed store base. *Model: ebitda_margin*
3. **Re-rating from a distressed multiple** — 4.7x EBITDA on the model's basis (excluding operating leases) prices continued decline. Stabilization would justify a Macy's-like multiple. Plays out if two or more quarters of positive comps arrive. *Model: exit_ev_ebitda*

Bear case

1. **Share loss resumes** — total revenue has fallen from \$19.4bn (FY2021) to \$15.5bn (FY2025). Off-price and Amazon keep taking the apparel trip, and comps go back to –3% to –4%. Plays out if Q2's improvement proves to be easy comparisons and the merchandising reset misses. *Model: rev_growth, terminal_growth*
2. **Margin deleverage** — FY2026 margins include ~\$100mm of one-off IEEPA refunds (~\$0.85/share pre-tax, 3.6% of market cap). On falling sales, fixed costs take EBITDA margin toward 5.5%. Other revenue is also shrinking, down \$84mm in FY2025 and 4.4% in H1 FY2026, as credit-card sales fall. *Model: ebitda_margin*
3. **Leverage magnifies everything** — debt is 57% of capital at market weights, including \$2.39bn of finance leases and financing obligations. The ratings are B2/B+/BB- (Fitch outlook negative), and the 2031 notes already carry a 175bp step-up. Refinancing the 2029–31 notes at B-rated yields lifts the cost of capital and caps the multiple. *Model: wacc, exit_ev_ebitda*

Valuation & balance sheet

Metric (definition)	Current	Own history (range or 5y avg)	Peers	Source, as-of
EV/EBITDA, model basis (mkt cap on diluted shares – cash + notes + finance leases; excl. operating leases)	4.7x FY2025 adj. EBITDA \$1,210mm; 4.4x LTM \$1,293mm	n/a (unverified)	not computed on this basis	EDGAR, Q2 10-Q, 2026-08-01; price 2026-10-26
EV/EBITDA TTM (stockanalysis, lease-inclusive)	6.9x	n/a (unverified)	M 7.1x · DDS 11.3x · TJX 18.7x · ROST 20.6x	stockanalysis, 2026-10-26
P/E forward (stockanalysis consensus)	15.7x (TTM 10.2x, refund-and settlement-flattered)	52-week price change +44%	M 11.1x · DDS 19.4x · TJX 26.5x · ROST 27.4x	stockanalysis, 2026-10-26
P/B	0.64x	n/a (unverified)	M 1.25x · DDS 4.94x · TJX 14.9x · ROST 11.1x	stockanalysis, 2026-10-26

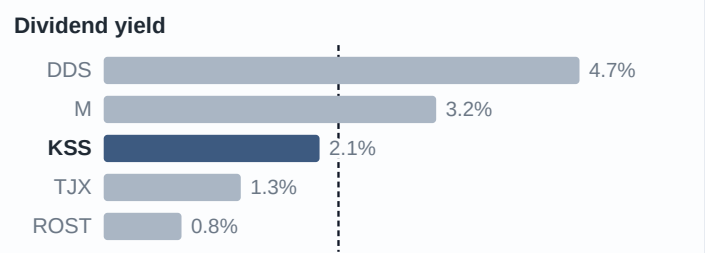
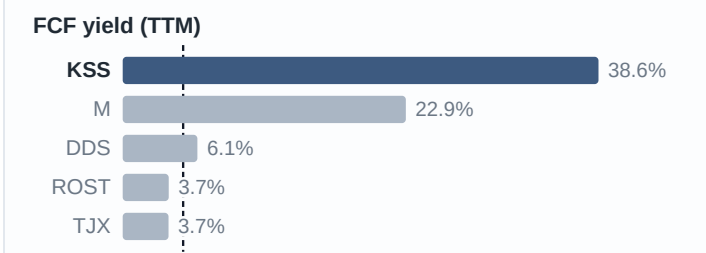
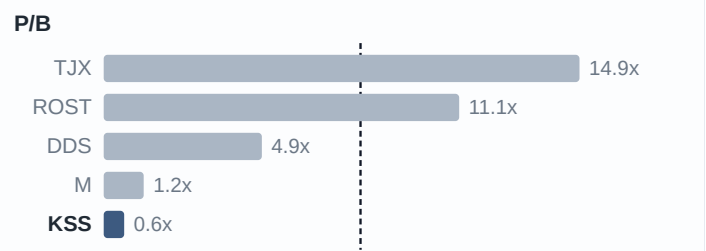
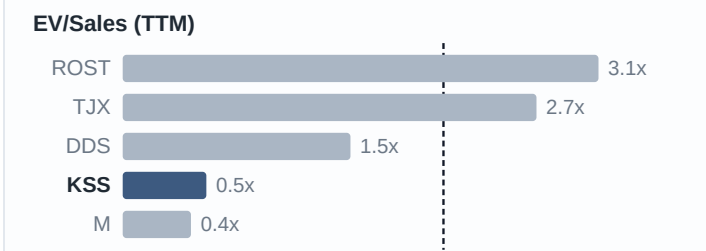
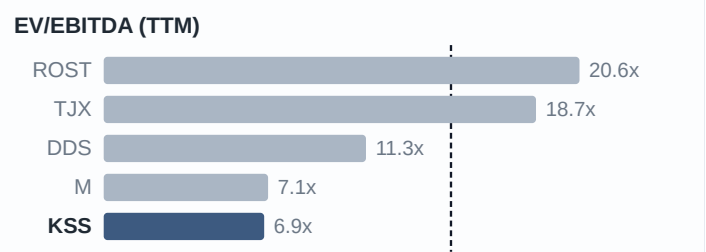
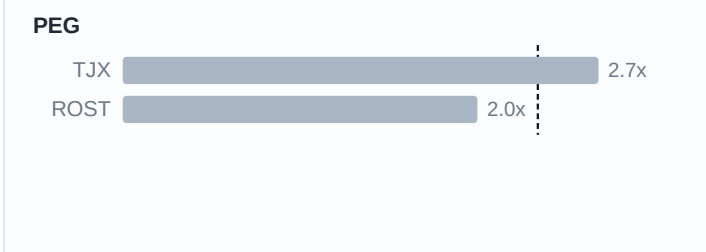
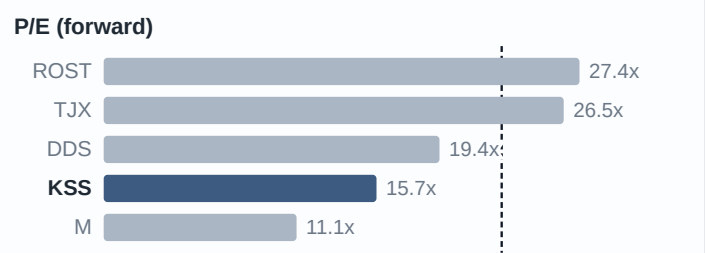
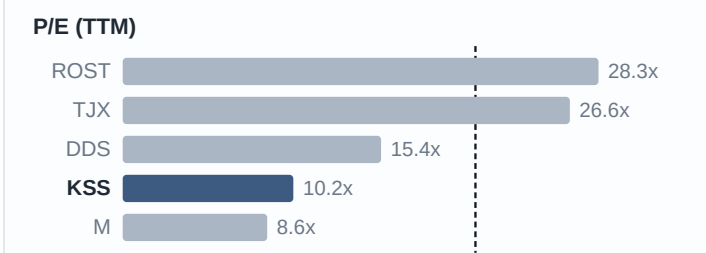
Model-implied value range (from `model-summary.json` ; generic module, Gordon-growth DCF and exit-EV/EBITDA DCF, midpoints): Bear \$0.83 · Base \$23.82 · Bull \$53.76 per share, i.e. implied returns of –96.5% / +0.7% / +127.3% vs \$23.65. *These ranges show how the bull and bear drivers translate into value; they are not price targets.* The price sits on Base, so the market is paying for guided FY2026 and a slow –1% drift after that. Neither the stabilization nor the resumption of decline is priced. The Base 4.5x exit is a 4% de-rating from today's 4.7x on FY2025 EBITDA. The two methods differ by 23%: Gordon gives \$26.28 and exit \$21.35, so the Gordon method embeds a higher terminal multiple than 4.5x, even at –1% perpetual growth. Bear is near zero because a 3.5x exit on 5.5% margins barely covers \$2.9bn of net debt and finance leases. A tail run, needed because a single banner is 100% of revenue, used revenue –2%/–5%/–5%/–5%/–5%, margin down to 4.8%, a 3.0x exit, 11% WACC and –4% terminal growth. It gives \$0.00 (–100%, equity floored), so the bear and tail differ in degree of shortfall, not in the printed figure. Base FY2026 EPS is \$2.17 against the \$1.80–2.40 adjusted guide (midpoint \$2.10, within 5%).

Balance sheet: net leverage 2.4x FY0 EBITDA (notes \$1,342mm + finance leases \$2,387mm – cash \$821mm), coverage 5.7x, liquidity \$821mm cash plus an undrawn \$1.5bn ABL (subject to borrowing base), nearest material maturity \$360mm 10% secured notes in 2030 (\$42mm in 2029), ratings Moody's B2 (positive) / S&P B+ (stable) / Fitch BB- (negative).

Model note: Built and verified (LibreOffice recalculation matched all 3,207 formula cells). Unverified inputs: none. Assumptions without basis: none. No scenario consistency CHECKs. Base WACC 8.7% includes a stated +0.65pp premium over the 8.05% CAPM/market-weight arithmetic, because debt is at book value and the equity is a thin stub. The finance-lease coupon (~5%) and 2040 maturity are estimates for an amortizing lease book. cost_of_debt (8.5%) is calibrated to net interest on net debt, not to coupons. FY0 cash and debt are at 2026-08-01, with the NWC level offset by H1 model-basis FCF of \$407.8mm.

RELATIVE VALUE VS PEERS

Metric	KSS	M	DDS	TJX	ROST	Peer median	vs median
P/E (TTM)	10.2x	8.6x	15.4x	26.6x	28.3x	21.0x	-52%
P/E (forward)	15.7x	11.1x	19.4x	26.5x	27.4x	23.0x	-31%
PEG	n/a	n/a	n/a	2.7x	2.0x	2.3x	
EV/EBITDA (TTM)	6.9x	7.1x	11.3x	18.7x	20.6x	15.0x	-54%
EV/Sales (TTM)	0.5x	0.4x	1.5x	2.7x	3.1x	2.1x	-74%
P/B	0.6x	1.2x	4.9x	14.9x	11.1x	8.0x	-92%
FCF yield (TTM)	38.6%	22.9%	6.1%	3.7%	3.7%	4.9%	+33.7pp
Dividend yield	2.1%	3.2%	4.7%	1.3%	0.8%	2.3%	-0.2pp



As of 2026-10-27. One source and one definition for every company: TTM multiples, forward P/E on stockanalysis consensus, EV/EBITDA and EV/Sales on stockanalysis EV (lease-inclusive: KSS total debt \$6.42bn includes operating leases) and TTM EBITDA. Not the model's own EV basis. Quotes are the 2026-10-26 4:00 PM ET close, fetched 2026-10-27. Dashed line = peer median. Source: stockanalysis.com /stocks/<ticker>/statistics/, fetched 2026-10-27.

Notes. The source shows no PEG for KSS, M or DDS (no credible multi-year growth estimate); TJX and ROST PEGs are the source's own, resting on its analyst growth estimates. KSS TTM earnings include ~\$100mm of one-off IEEPA tariff refunds recognized in Q2 FY2026 COGS; the forward P/E sits above the TTM for KSS, M and DDS because consensus expects lower earnings. KSS TTM FCF (~\$1.03bn) is flattered by working-capital timing (payables up \$284mm y/y at Q2) and tariff refunds; FY2025 OCF less capex was \$1,008mm.

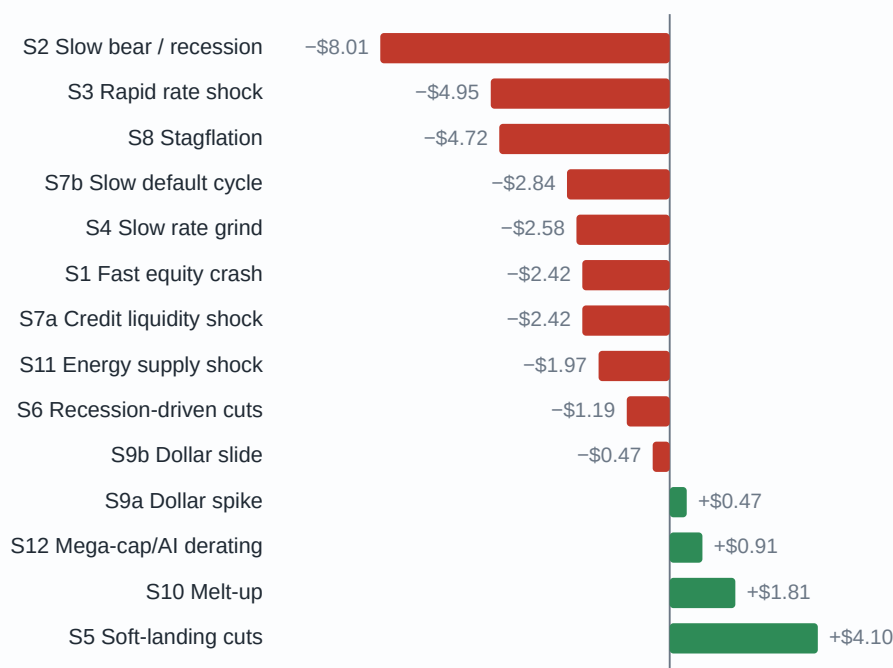
Scenario stress test

Reasoned from the bull/bear drivers above. The model column comes from the scenario overlays (Base case + shock).

Scenario	Effect	Mechanism	Magnitude	Model Δ value vs Base (\$/sh)
S1 Fast equity crash	–	High-beta (1.35), ~28%-shorted equity stub de-rates; no operating channel	Med	–\$2.42
S2 Slow bear / recession	–	Middle-income discretionary apparel: comps, fixed-cost deleverage, markdowns, credit-card write-offs. Milder than Base – Bear (\$22.99) on purpose: a two-year dip, not permanent share loss	High	–\$8.01
S3 Rapid rate shock	–	Discount rate on a 57%-debt structure; dearer refinancing of 2029–31 notes	Med	–\$4.95
S4 Slow rate grind	–	Same channel, slower	Med	–\$2.58
S5 Soft-landing cuts	+	Lower rates plus an intact consumer lift a levered, rate-sensitive equity	Med	+\$4.10
S6 Recession-driven cuts	–	Rate relief swamped by weaker discretionary spend	Low	–\$1.19
S7a Credit liquidity shock	–	B-rated issuer de-rates with spreads; ABL undrawn, no near maturity	Med	–\$2.42
S7b Slow default cycle	–	Credit-card profit share falls with write-offs; refinancing costs rise	Med	–\$2.84
S8 Stagflation	–	Imported-apparel, freight and wage inflation; promotions limit pass-through	Med	–\$4.72
S9a Dollar spike	+	Cheaper Asia-sourced merchandise; no foreign sales	Low	+\$0.47
S9b Dollar slide	–	Mirror of S9a	Low	–\$0.47
S10 Melt-up	+	High-beta, high-short-interest value stock re-rates	Low	+\$1.81
S11 Energy supply shock	–	Freight/fuel costs; gasoline squeezes middle-income spend	Low	–\$1.97
S12 Mega-cap/AI derating	+	Rotation into cheap domestic value without recession	Low	+\$0.91

Currently active/on watch per the playbook: S3 partially active (10Y 5.00% price leg met, pace legs short); S8, S10, S11 on watch.

MODEL VALUE CHANGE VS BASE, BY SCENARIO



What would change the call

Upgrades if: comps turn positive for two consecutive quarters with gross margin ex-refunds flat or up, and holiday FY2026 operating margin lands at the top of the 3.5–4.0% guide. **Downgrades if:** Q3 or Q4 comps fall back below –2%, FY2026 guidance is cut, or another rating downgrade triggers further coupon step-ups.

Watch items

- **W1:** Q3 FY2026 comps — better than –0.9% (Q2) sustains the base; below –2% breaks it — Q3 release — late November 2026 (est.) — *Model: rev_growth*
- **W2:** FY2026 adjusted operating margin — inside 3.5–4.0% without further refunds — Q4 release / FY2026 10-K — March 2027 — *Model: ebitda_margin*
- **W3:** Other revenue (credit-card profit share) — decline narrower than H1's –4.4% — Q3 10-Q — December 2026 — *Model: ebitda_margin*
- **W4:** Further debt repurchases or refinancing of the 2029–31 notes, and rating outlooks — 10-Q / 8-K — ongoing — *Model: none*

Sources

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Independent single-name research. Directional characterization, not a price target, execution instruction, or portfolio recommendation.