Kohl's Corporation

We value Kohl's stock at $100.75, while it is currently trading at $80.75 and forecast a 24.77% upside.

Key takeaways:

Revenue Growth

- We are projecting annual sales growth at around 2.5% going forward.
- This revenue growth will be driven by its pick-up-in-store strategy and competitor store closures.
- After four quarters of consecutive comparable sales growth it is becoming clear that these factors are acting as growth drivers.

Standard-to-Small Strategy

- Gross margins to rise by 20bps per annum as the company continues downsizing stores.
- Since 2017 Kohl's downsized 500 stores which has improved margins as a result of lower inventory levels and less markdowns.
- Despite downsizing so many stores, total retail revenues rose 2.2% in 2017 and 3.8% in the first half of this year.
- As a result, we anticipate that they will continue the downsizing strategy and reduce the size of the remaining 650 stores.

Return on Property portfolio

- As a result of the downsizing initiative, Kohl's will be able to get a higher return on its property portfolio.
- We are conservatively forecasting that they will generate an extra $50m in free cash flow by 2022 because of rental income.
- It also gives Kohl's an opportunity to partner with brands that could drive traffic in its own stores. At the beginning of this year they reached an agreement for 10 Aldi stores to open at Kohl's locations.

Rating: Overweight
KSS (NYSE)

Target Price: $100.75

Company Snapshot	
Price	$80.75
Date of Price	11/12/2018
52 Week Range ($)	$40.94 - $83.28
Market Cap	$13.46B
Fiscal Year End	01/31/2019
Share Outst. (mm)	166.71

US Department Store Industry

Adam Claffey
adam.claffey@ucdconnect.ie

Sam Gillivan
gillivan.sam@ucdconnnect.ie

Five Year Price Performance

About Kohls

Having been originally founded in 1927 by Maxwell Kohl as a grocery store, Kohl's opened its first department store in 1962. Kohl's Corp as it exists today was formed in 1988 after a group of investors purchased the company in 1986 from British-American Tobacco and took it public in 1992. Today Kohl's operates 1,158 department stores in the US, more than any other department store chains in the US. In addition, Kohl's operates a website, 12 FILA outlets, and four Off-Aisle clearance centres. Kohl's sells moderately priced apparel, footwear, accessories, beauty and home products. The merchandise sold is proprietary and national branded, see figure 1 for breakdown.

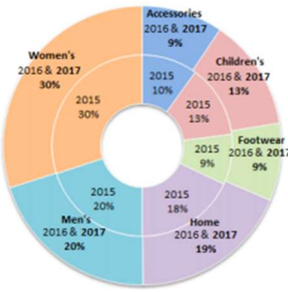

Figure 1 – Sales Breakdown (source 10K)

Why We Recommend Buying Kohl's

Standard-to-Small Strategy

- Kohl's is currently implementing a "standard-to-small strategy" by downsizing stores. We estimate that prior to the downsizing, stores were roughly 70-80 thousand square foot.
- Since the beginning of 2017, they downsized around 500 stores by 20-30 thousand square foot per store. This has reduced inventory by roughly 10% in these stores according to the CFO in the most recent earnings call. Total inventory fell 7% in 2017, see figure 2.

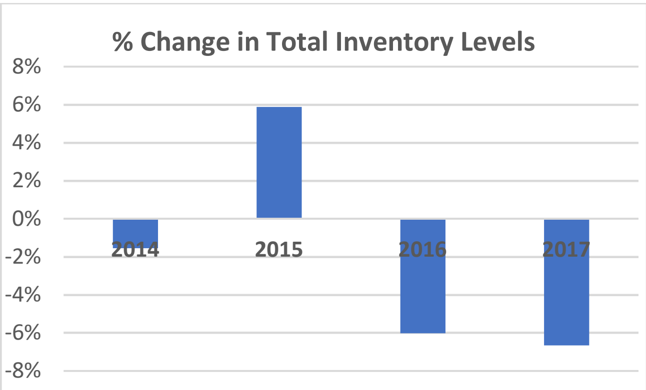

Figure 2

- Despite the lower inventory levels, sales did not fall, in fact sales figures have been strong. This indicates that they are essentially eliminating unproductive retail space.
- This inventory management initiative has contributed to less markdowns, resulting in a forecasted 30 basis points increase for gross margin for 2018.
- Given the success of this strategy, we anticipate that they will downsize the majority of their other 600 stores which will drive 20 bps increases in gross margins going forward.
- They are currently trialling twelve 35 thousand square foot stores, this is an indication of what management believe the optimal store size could be going forward.

Opportunity for Rental Income and Partnerships

- As a result of the downsizing, Kohl's now has an opportunity to get a higher return on its assets by leasing the extra space.
- We are assuming that Kohl's will only be able to lease stores which they currently own or ground lease. According to the most recent 10K, Kohl's owns and ground leases 649 stores. It is likely that the 500 stores downsized to date were among these 650 stores. We believe they will quickly downsize the approximately 150 stores remaining.
- After speaking to a seasoned commercial real estate expert in the US, that has knowledge of Kohl's real estate profile, he estimated that on average Kohl's would have 10,000 square foot available per store at $20 per square foot. Using this as an estimate, we calculate that if Kohl's was to lease its 650 stores it will generate an extra $130m in cash flow per annum.
- We are aware that Kohl's reached an agreement with Aldi to open 10 stores on its property. We believe that this and similar agreements will result in extra foot traffic at Kohl's. Furthermore, by having a partnership with a grocery store they will be more competitive with Walmart and Target.

Benefits of "Pick-Up-in-Store"

- Kohl's is presently promoting various pick-up-in-store offerings. When customers buy-online-pick-up-in-store (BOPUS), they are rewarded with a $5 Kohl's coupon. Furthermore, on October 23 the company announced that any orders on Kohls.com could now be shipped to any store.
- We believe trying to reduce expensive shipping costs makes sense as they are a drain on margins,

also given the scale of Amazon's home delivery operations, it is difficult for Kohl's to complete.

- As Kohl's has over 1,000 stores, with 80% of Americans within 15 miles of a Kohl's store (Kohls.com), the pick-up in store strategy will be effective.

Competitor Store Closures

- There is evidence in recent quarters that Kohl's has begun to benefit from competitor store closures. They have achieved comparable sales growth in the most recent four quarters (See figure 3.

Time	Q12017	Q22017	Q32017	Q42017	Q12018	Q22018
Comparable Sales Growth	-2.70%	-0.40%	0.10%	6.30%	3.60%	3.10%

Figure 3

- Last year, JC Penney and Sears closed 140 and 125 stores respectively. More recently we have seen Bon Ton Stores and Sears filing for bankruptcy. Therefore, we anticipate there will be more store closures and Kohl's will continue to benefit.
- In the most recent earnings call, referring to the upcoming closures of 200 Bon Ton Stores, Michelle Gass (CEO) said they plan to "put marketing dollars strategically against those store closures".
- To try and quantify the opportunities that exists for Kohl's, we calculated the total revenue figure of three big rivals that are in financial distress in figure 4.

Competitors	2017 Revenue
Sears	16.7B
JC Penney	12.51B
Bon Ton	2.76B
Total	31.97B

Figure 4 – Source Bloomberg

Reducing Debt levels

- Debt levels began to rise in 2011 as a result of large share buyback programmes, resulting in a significantly lower share count, see figure 5.

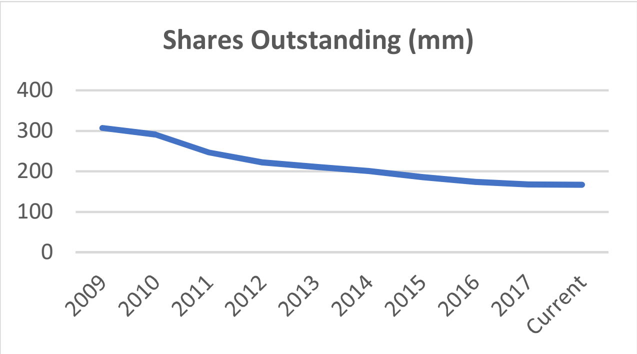

Figure 5 – Source Bloomberg

- However, reducing debt levels is now the current priority of the company, see figure 6. In the first half of 2018 they reduced debt by $528m. in the most recent earnings call, the CFO stated that they "plan to monitor the market for future opportunities to repurchase more of our debt".

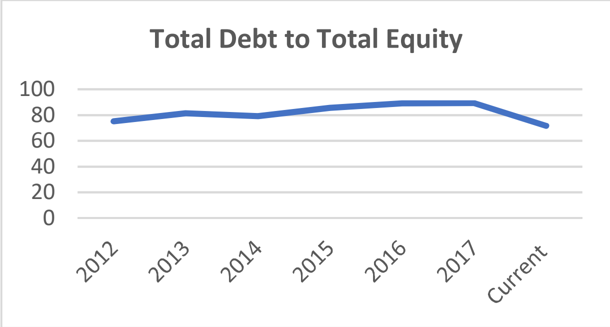

Figure 6 – Source Bloomberg

- We believe by reducing its debt levels in a strong economic climate, it will provide more of a cushion should there be a market downturn. High debt levels will provide management with a further headache if there is a recession. Furthermore, as we are in a rising interest rate environment, debt is becoming more expensive so there is no case for using it to fund share repurchases.

Targeting Millennials

- Kohl's has recently launched some key initiatives that we believe will attract younger customers.
- In 2017, Kohl's reached an agreement with Under Armour to sell its merchandise. It already had similar agreements with Nike and Adidas. During the second quarter, the company recently launched an active expansion test in 30 stores earlier this month, increasing the active wear sections by approximately 40%.
- In 2017 Kohl's partnered with Amazon to provide a return service for Amazon products. This initiative was initially launched at 82 stores and has grown to over 100 stores. Former CEO Kevin Mansell said that the initiative was driving traffic at Kohl's in March 2018 (CNBC 2018).

Valuation

Scenario 1 - Base Case with Robust Consumer Spending

Revenue Forecast

Our belief is that the following factors will influence revenue growth growing forward:

- US Consumer Spending
- Flat Store Count
- Online sales growth in the retail sector
- Competitor store closures and company strategy

Consumer Spending

Our revenue projections will take into consideration forecasts for US consumer spending. To calculate nominal consumer spending growth forecasts, we added consensus real consumer growth and the forecasted core inflation rate. These figures were available until 2020 on Bloomberg. For the years 2021 and 2022 we averaged the last 10 years to make our forecast.

Flat Store Count

We anticipate that Kohl's store count will remain flat for our forecasted period. Firstly, the company's store count has been flat since 2013, see figure 7. Secondly, as the company has performed well for the last 18 months, it appears unlikely store closures will occur in the near future. Thirdly, management have given no indication that they are planning to shut down stores in the near future.

Year	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E
Store Count	1158	1162	1164	1154	1158	1158	1158	1158	1158	1158

Figure 7

Online Retail Growth

The growth in online spending has negatively impacted Kohl's for a significant period of time. As a result, Kohl's comparable sales growth has been significantly below consumer spending growth rates, see figure 8. Since 2010 total online retail sales have been rising roughly 15% per year, we would expect this trend to continue to the end of our forecasted period. We have tried to quantify the impact of this on Kohl's past comparable sales figures and their comparable sales figures going forward.

We did this by calculating the difference between nominal consumer spending growth and comparable sales growth, see figure 8. We estimate that from 2013-2017, the shift to online sales has lowered Kohl's comparable sales growth by roughly 4.5% per year.

Year	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E
Nominal Consumer Spending Growth	3.0%	4.5%	5.0%	4.4%	4.1%	4.6%	4.8%	4.3%	4.3%	4.3%
Comparables Sales Growth	-1.2%	-0.3%	0.7%	-2.4%	1.5%	2.0%	2.5%	2.3%	2.5%	2.6%
Difference	-4.2%	-4.8%	-4.3%	-6.8%	-2.6%	-2.6%	-2.3%	-2.0%	-1.8%	-1.7%

Figure 8

Comparable sales growth converging towards Consumer spending growth

Since Q3 2017 and the first half of 2018 comparable sales growth was strong (figure 5) and has started to converge with nominal consumer spending growth as previously shown. We have forecasted that this trend will continue for the reasons outlined earlier in this report.

Bringing it all together
After bringing all of our assumptions together, we have arrived at the following sales forecasts.

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022
Sales	19023	19204	18686	19095	19476.9	19963.82	20422.99	20941.22	21493.55
% growth	-0.00042	0.009515	-0.02697	0.021888	0.02	0.025	0.023	0.025375	0.026375

Figure 9

Cost of Goods Sold and Margin
As discussed above we anticipate that the "standard-to-small" will increase margins by 30bps this year and 20bps in the forecasted period, as Kohl's continues to downsize its stores.

Time Period	1st half of 2017	2nd half of 2017	1st half of 2018	2nd half of 2018 E	2019E	2020E	2021E	2022E
Gross Margin	36.23%		36.53%		36.73%	36.93%	37.13%	37.33%
	37.79%	34.93%	38.27%	35.25%				

Figure 10

Selling, General & Admin Expenses
In 2016 and 2017, SG&A was 26.3% and 26.2% of sales respectively. According to the 10K, the vast majority of this expense is variable as they include payroll and distribution costs. We anticipate that these expenses will remain at 26.2% of sales going forward.

At the beginning of this year, the company migrated to a cloud software system which the company say will result in a 2% increase for this year and that this expense will continue going forward. We isolated the expense attributable to the cloud migration at $102m per year.

Putting all of this together, our projections add the $102m figure to 26.2% of sales in the period to arrive at our projected SG&A expenses.

Year	2016	2017	2018E	2019E	2021E	2022E
Cloud Expense	0	0	102	102	102	102
Variable SG&A	4919	5008	5236	5356	5492	5637
SG&A	4919	5008	5210	5338	5594	5739
As a % of sales	26.3%	26.2%	26.8%	26.7%	26.7%	26.7%

Figure 11

Net Credit Card Earnings
Net credit card revenue has been increasing year on year since 2014 by 4.90%. Due to a lack of information about this segment and the fact its profits bear little relationship to sales, we are anticipating that it will grow by the same amount going forward. Credit Card profits will be discussed further on in the report in the "risks" section.

Rental Income
We are forecasting that Kohl's will be leasing property at 100 locations in 2019, increasing by 50 locations each year over the projection period. By 2022, we believe Kohl's will be leasing 250 stores. The average store lease will consist of 10,000 square foot at $20 a square foot. We multiplied the number of stores available for lease by 10,000 square foot to calculate the total square foot available for lease in the period. We then multiplied this by the average lease rental income of $20 per square foot to calculate total lease rental income for the period.

Capital Expenditure

The company's guidance for capital expenditure is $700m for 2018. Capital expenditure has been around this figure since 2014 and we are expecting the company's capex to remain at this level for the coming years. As such we are forecasting capital expenditure at $700m per annum.

Year	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E
Capital Expenditure	690	768	672	700	700	700	700	700	700

Figure 12

PPE & Depreciation & Amortization

In order to project D&A going forward we needed to project the value of its PPE first.

PPE

Since 2014, the value of PPE has fallen each year (2.25% CAGR). This has occurred because the company's capital expenditure on PPE has been lower than the depreciation on PPE. Roughly half of the company's capital expenditure is now on IT, see figure 13. Our projection is that PPE will continue to fall by 2.25% CAGR for our projection period.

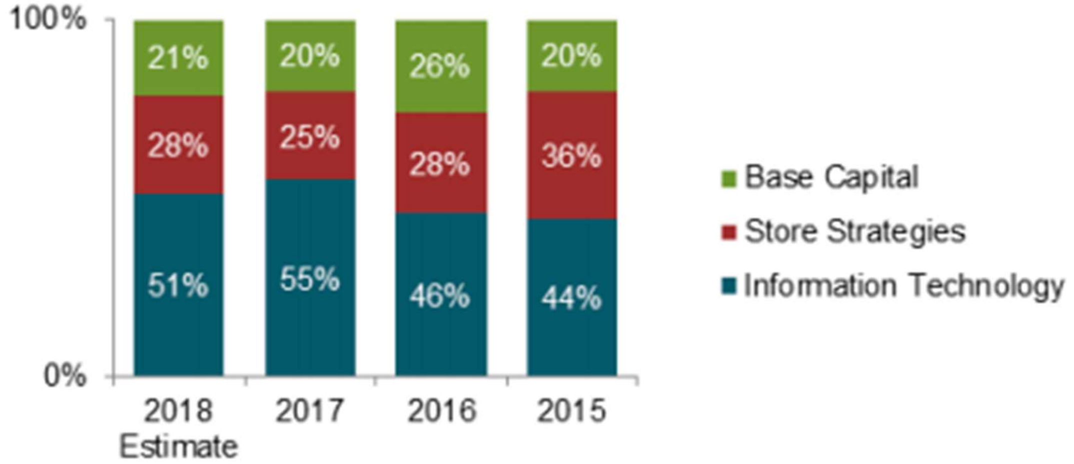

Figure 13

Our projection is that PPE will continue to fall by 2.25% CAGR for our projection period, see figure 14.

Depreciation and Amortization

To forecast our annual Depreciation & Amortization figure we used the following equation:

$$D\&A = \text{Opening PPE} + \text{Capital Expenditures} - \text{PPE}$$

As can be seen in figure 14**,** using this formula would have been close to predicting the annual D&A from 2015-2017, as such we used this formula to predict the D&A in the coming years.

Year	2015	2016	2017	2018E	2019E	2020E	2021E	2022E
PPE (opening balance)	8515	8308	8103	7773	7598	7427	7259	7096
PPE (closing balance)	-8308	-8103	-7773	-7598	-7427	-7259	-7096	-6936
Capital Expenditure	690	768	672	700	700	700	700	700
Forecast	897	973	1002	875	871	867	864	860
Actual	934	938	991					

Figure 14

Working Capital

To project working capital, we calculated it as a percentage of sales from 2014-2017. We found that the percentage ranged from 12.2% to 14.3%. As a result of the lack of variability we averaged the percentage at 13.5% of sales and project that it will be 13.5% of sales going forward.

Year	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E
Working Capital	2721	2362	2273	2680	2622	2688	2749	2819	2894
% of Sales	14.3%	12.3%	12.2%	14.0%	13.5%	13.5%	13.5%	13.5%	13.5%
Increase in Net Working Capital	309	-369	563	-72	-58	66	62	70	74

Figure 15

BETA

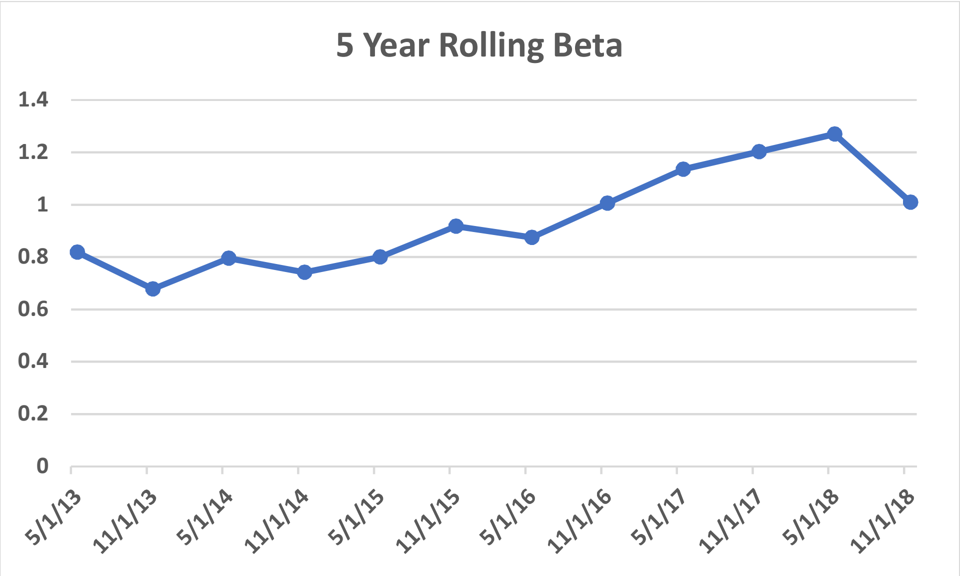

Figure 16

To calculate the levered beta, we regressed the last 60 months of returns with the returns of the S&P 500, resulting in a levered beta of 1.01. This figure is justified, as can be seen in figure 16 the rolling beta for the last 5 years. On average the beta has been very close to 1 over this time. We then calculated the unlevered beta at .83.

Company	Levered Beta	Total Debt	Market Value of Equity	Total Debt/ Capitalisation	Marginal Tax Rate	Unlevered Beta
KSS	1.01	3.93	13.67	28.8%	24.5%	0.83

Figure 17

Adjusted Present Value

Debt/Equity Ratio

As previously discussed, Kohl's debt levels have varied over past years. Therefore, we used the APV approach, calculating projected free cash flows attributable to shareholders as well as the tax shield of the constant debt amount.

Market Premium

Market premium was taken from the NYU Stern data base of market risk premiums. The risk premium for the United States was 5.08%.

Risk-Free Rate

Our projection period is just under 5 years, so we used the 5-year treasury yield as a measure of the risk-free rate. This yield is 3.06%.

Cost of Equity

Using the capital asset pricing model and plugging in the values calculated above, we determined the cost of equity to be 8.41%.

Effective Tax rate

The reduction of the corporate income tax rate in 2017 effective from 1 January 2018 will benefit Kohl's. After the adjustment to the tax rate in the US, Kohl's effective tax rate dropped from 36.5% in 2016 to 23.1% in 2017. Kohl's management has estimated the effective tax rate to be 24-25% in 2018. As a result, we have projected that Kohl's will pay an effective tax rate of 24.5% going forward.

Cost of Debt

We divided the interest expense by the total outstanding debt at the end of 2017 in order to arrive at a cost of debt of 6.62%.

Tax Shield

We calculated the PV of the tax shield at $206 million. Firstly, we calculated the cost of debt by dividing total interest expense in 2017 by total debt. Secondly, we forecasted total debt would decrease by 5% each year until 2022. Thirdly, we multiplied the total debt in the period, by the interest rate and the tax rate. We repeated this for each period and discounted them using the cost of debt.

	Interest Tax Shield				
	Q3 + Q4 2018	**2019**	**2020**	**2021**	**2022**
Debt Balance	3730	3544	3366	3198	3038
Cost of Debt (kd)	0.033	0.066	0.066	0.066	0.066
Tax Rate	0.245	0.245	0.245	0.245	0.245
Tax Shield	30	57	55	52	49
Discount Factor	0.968	0.908	0.852	0.799	0.749
PV of Tax Shield	29	52	47	41	37
Sum					206

Figure 18

Terminal Growth Rate

We estimated the terminal growth rate to be 1%. Using OECD projected US GDP figures, we estimated the US GDP will grow by 1.6% until 2060. Kohl's is a mature company, so we believe its growth will be below GDP.

Discounted Cash Flow Model

	Historical Period							Projection Period			
In Millions of USD	2014	2015	2016	2017	Q1 + Q2 2018	Q3 + Q4 2018	2018	2019	2020	2021	2022
Sales	19023	19204	18686	19095	8263	11214	19477	19964	20423	20928	21466
% growth	*-0.04%*	*1.0%*	*-2.7%*	*2.2%*			*2.0%*	*2.5%*	*2.3%*	*2.5%*	*2.6%*
Total COGS	(12,098)	(12,265)	(11,944)	(12,176)	(5,101)	(7,261)	(12,362)	(12,631)	(12,881)	(13,157)	(13,453)
Gross Profit	6,925	6,939	6,742	6,919	3,162	3,953	7,115	7,333	7,542	7,770	8,013
Gross Margin	36.40%	36.13%	36.08%	36.23%	38.27%	35.25%	36.53%	36.73%	36.93%	37.13%	37.33%
SG&A	(4,780)	(4,908)	(4,919)	(5,008)	(2,531)	(2,679)	(5,210)	(5,338)	(5,458)	(5,591)	(5,732)
As a % of sales	*25.1%*	*25.6%*	*26.3%*	*26.2%*	*30.6%*	*23.9%*	*26.8%*	*26.7%*	*26.7%*	*26.7%*	*26.7%*
Net Credit Card Earning	430	456	484	496	221	299	520	546	572	600	630
		6.05%	6.14%	2.48%	4.89%						
Rental Income	0	0	0	0	0	0	0	20	30	40	50
Other Operating Expense	0	0	(93)	0	0	0	0	0	0	0	0
Operating Income before Depreciation & Amortization	2,575	2,487	2,214	2,407	852	1,573	2,425	2,561	2,686	2,820	2,961
% margin	*13.5%*	*13.0%*	*11.8%*	*12.6%*	*10.3%*		*12.5%*	*12.8%*	*13.2%*	*13.5%*	*13.8%*
Depreciation and Amortization	(886)	(934)	(938)	(991)	(484)	(476)	(960)	(871)	(867)	(864)	(860)
Pre-Tax Income	1,689	1,553	1,276	1,416	368	1,097	1,465	1,689	1,819	1,957	2,101
% margin	*8.9%*	*8.1%*	*6.8%*	*7.4%*	*4.5%*		*7.5%*	*8.5%*	*8.9%*	*9.3%*	*9.8%*
Taxes	(482)	(384)	(319)	(258)	(117)	(242)	(359)	(414)	(446)	(479)	(515)
NOPAT	1,207	1,169	957	1,158	251	855	1,106	1,275	1,373	1,477	1,586
Plus: Depreciation & Amortization	886	934	938	991	484	476	960	871	867	864	860
Less: Capital Expenditures (net)	(682)	(690)	(768)	(672)	(312)	(388)	(700)	(700)	(700)	(700)	(700)
Working Capital	2721	2362	2273	2680	2632	2622	2622	2688	2749	2817	2890
Less: Increase in Net Working Capital	(309)	369	(563)	72	48	10	58	(66)	(62)	(68)	(72)
Unlevered Free Cash Flow	1,102	1,782	564	1,549	471	953	1,424	1,381	1,479	1,573	1,674
Present Value of Free Cash Flow						915		1,224	1,208	1,186	1,164
										Total	5,697

Figure 19

Scenario 1 Share Price

PV of FCF from 18 to 22	5,697
PV of Tax Shield	206
Terminal growth rate	1.0%
PV of Terminal Value	16367
Enterprise Value	22064
Less: Net Debt	3930
Equity Value	18134
Shares Outstanding (mm)	166.71
Scenario 1 Share Price	$108.77
Current Share Price as of 12/11/18	$80.75
Upside	35%

Figure 20

Scenario 2 – Recession

As there is a potential downside risk in holding Kohl's stock in the event of a recession, we are incorporating this risk our valuation. As opposed to examining the effect of a recession on each item in our free cash flow projection which is too tricky, we have looked at the impact of the last two recessions on its share price. In 2001 there was a mild recession lasting 8 months which led to a 35% fall in share price and the 2007-2009 financial crisis resulted in a 67% decline in share price, see figure 20.
It is our belief that the magnitude of a future recession would lie somewhere between the two previous recessions. As a result, we believe the next recession will reduce the share price from our forecasted value by roughly 51%**.** We subtracted this from the price implied in our base case scenario to arrive at our expected recession share price of $53.30.

Figure 20

Scenario 2 Share Price

Scenario 1 Share Price	$108.77
Recession Downsize Risk	-$55.47
Implied Recession Share Price	$53.30

Figure 22

Final Valuation – Weighting the scenarios

According to Bloomberg consensus estimates the probability of a recession occurring in the next 12 months is 15%. Therefore, considering the probability of the two scenarios presented we find that Kohl's stock should be valued at $100.75

	Base Case	Recession
Share Price	$108.77	$53.30
Probability	85%	15%
	92.45	8.30
Final Valuation		$100.75

Figure 23

Risks to our Investment Thesis

E-Commerce

- In recent years Amazon has taken large chunks of market share off traditional department stores which is likely to continue in the coming years. Online retail spending has been rising 15% year on year and we anticipate this growth to continue in the coming years as it still only accounts for less than 10% of total retail spending as of last year (US Census Bureau). Furthermore, online apparel sales are growing faster than other retail segments, meaning the risk is greater for department stores such as Kohl's than some other retail segments.
- While Kohl's digital sales are increasing roughly 20% per year, reflecting the changing landscape, the margins are lower on these sales as a result of the shipping costs. This is why they are incentivising customers to pick up their online orders in store. Finally, as Kohl's has a larger than normal store footprint (1,158 stores), it faces a greater challenge should online retail sales grow at a faster pace than presently.

Tariffs

- Donald Trump recently implemented $200b worth of tariffs on Chinese imports to the US. It is clear that this will impact Kohl's as products such as clothing and shoes are included. It is unclear exactly what the impact of these tariffs will be at the moment. However, there is a risk that Kohl's will be forced to absorb some of the costs associated the tariff. It will be necessary to monitor the impact of these tariffs.

Credit Card Division

- We are concerned about the credit card segment and the lack of transparency surrounding it. We are aware that Kohl's has a partnership with Capital One in which it shares "in the net risk-adjusted revenue of the Kohl's credit card portfolio as defined by the sum of finance charges, late fees and other revenue less write-offs of uncollectible accounts", as per the most recent 10K.
- As a result of the earnings that Kohl's generates from this agreement (roughly 33% of net earnings), it incentivises customers to sign up for its credit cards by offering generous discounts on its merchandise, of up to 30%. Our main concerns can be summarised under the following two points

  - **Accounting Practice**
  - **Reputational Risk**

Accounting Practice

Despite generating roughly 33% of net earnings, until the current financial year its credit card profits were just subtracted from its SG&A expenses, with a short note stating the credit card profit figure for the year. We are surprised that its auditor EY was allowing this.

There has been a positive change this year where the company has created a line in its income statement called "Other Revenue" which contains its credit card revenue. However, for Q1 and Q2 of 2018, it is unclear as to what the expenses are for its credit cards division and thus its profit. We are calling on the company to go further and provide a clearer breakdown of all items related to its credit segment going forward, in order to give investors a complete picture.

Reputational Risk

As the company don't give any disclosures about the risk profile of the customers that use the credit cards, we are unsure on the likelihood of defaults becoming an issue. However, we believe that if a recession were to occur and defaults become an issue, not only will it hurt its credit card revenues, it may inflict reputational damage on Kohl's and hurt its core retail business as Kohl's could be blamed for the defaults. As a result, we would like assurances from senior management each financial year, regarding the credit quality of its credit card portfolio.

Important Disclaimer

Please read this document before reading this report.

This report has been written by MBA students at University College Dublin's Smurfit School of Business in partial fulfillment of their course requirements. *The report is a **student and not a professional*** report. It is intended solely to serve as an example of student work at the Smurfit School of Business. It is not intended as investment advice. It is based on publicly available information and may not be complete analyses of all relevant data.

If you use this report for any purpose, you do so at your own risk. **YALE UNIVERSITY, YALE SCHOOL OF MANAGEMENT, YALE UNIVERSITY'S OFFICERS, UNIVERSITY COLLEGE DUBLIN, SMURFIT SCHOOL OF BUSINESS AND UNIVERSITY COLLEGE DUBLIN'S OFFICERS, AS WELL AS FELLOWS, FACULTY, STAFF, AND STUDENTS FROM ANY OF THE ABOVE LISTED INSTITUTIONS MAKE NO REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED, ABOUT THE ACCURACY OR SUITABILITY FOR ANY USE OF THESE REPORTS, AND EXPRESSLY DISCLAIM RESPONSIBILITY FOR ANY LOSS OR DAMAGE, DIRECT OR INDIRECT, CAUSED BY USE OF OR RELIANCE ON THESE REPORTS.**