

**KOHL'S**

## Q2 2021 Results Presentation

August 19, 2021



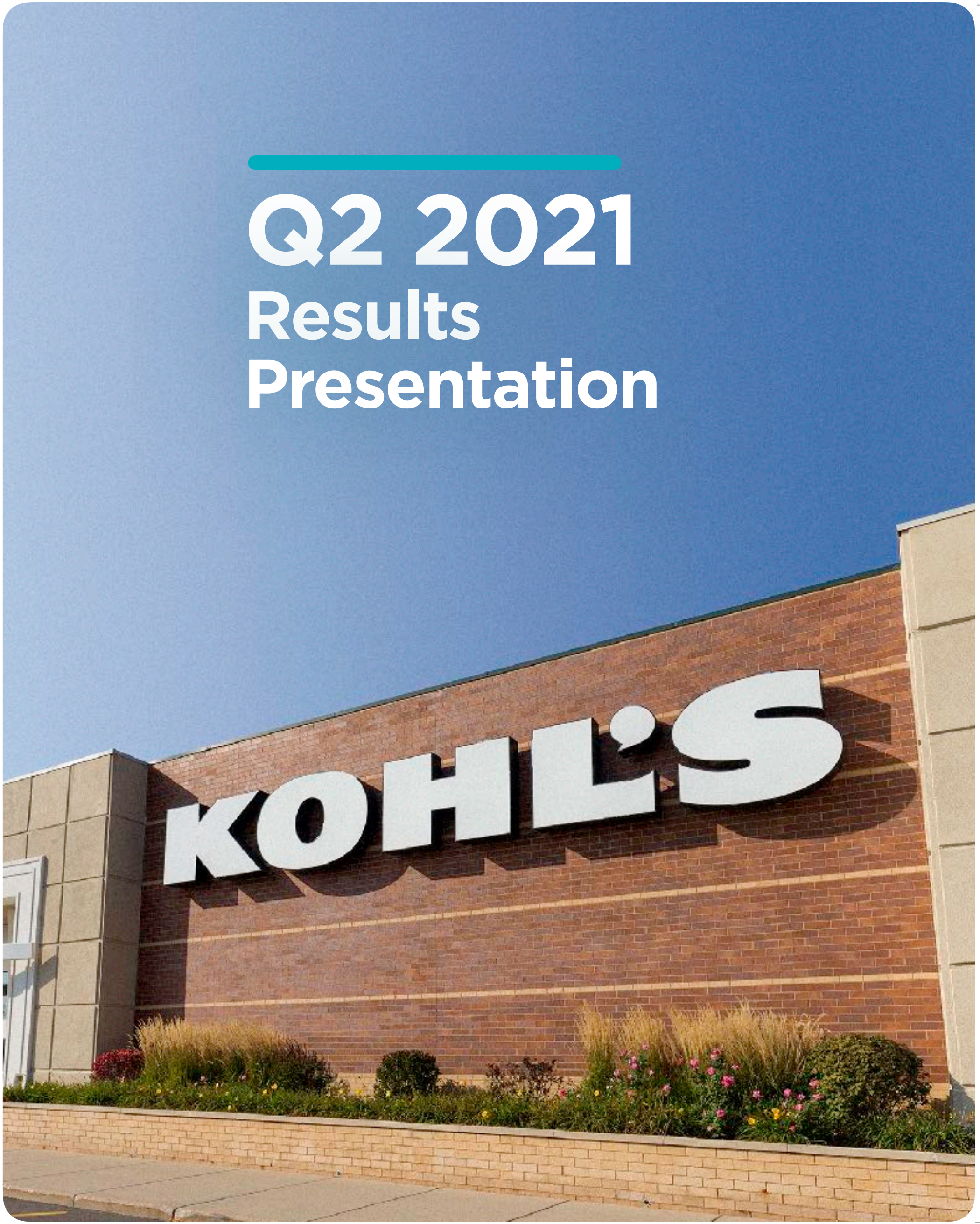
## Cautionary Statement Regarding Forward-Looking Information

This presentation contains "forward-looking statements" 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 include, but are not limited to, comments about Kohl's future financial plans, capital generation, management and deployment strategies, adequacy of capital resources and the competitive environment. Such statements are subject to certain risks and uncertainties, which could cause Kohl's actual results to differ materially from those anticipated by the forward looking statements. These risks and uncertainties include, but are not limited to, those described in Item 1A in Kohl's Annual Report on Form 10-K, which is expressly incorporated herein by reference, and other factors as may periodically be described in Kohl's filings with the SEC. Any number of risks and uncertainties could cause actual results to differ materially from those Kohl's expresses in its forward-looking statements, including the short and long-term impact of COVID-19 on the economy and the pace of recovery thereafter. Forward-looking statements speak as of the date they are made, and Kohl's undertakes no obligation to update them.

## Non-GAAP Financial Measures

In addition, this presentation contains non-GAAP financial measures, including Adjusted EPS, Adjusted Net Income, and Free Cash Flow. Reconciliations of all non-GAAP measures to the most directly comparable GAAP measures are included in the Appendix of this presentation.





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# Q2 2021 Results

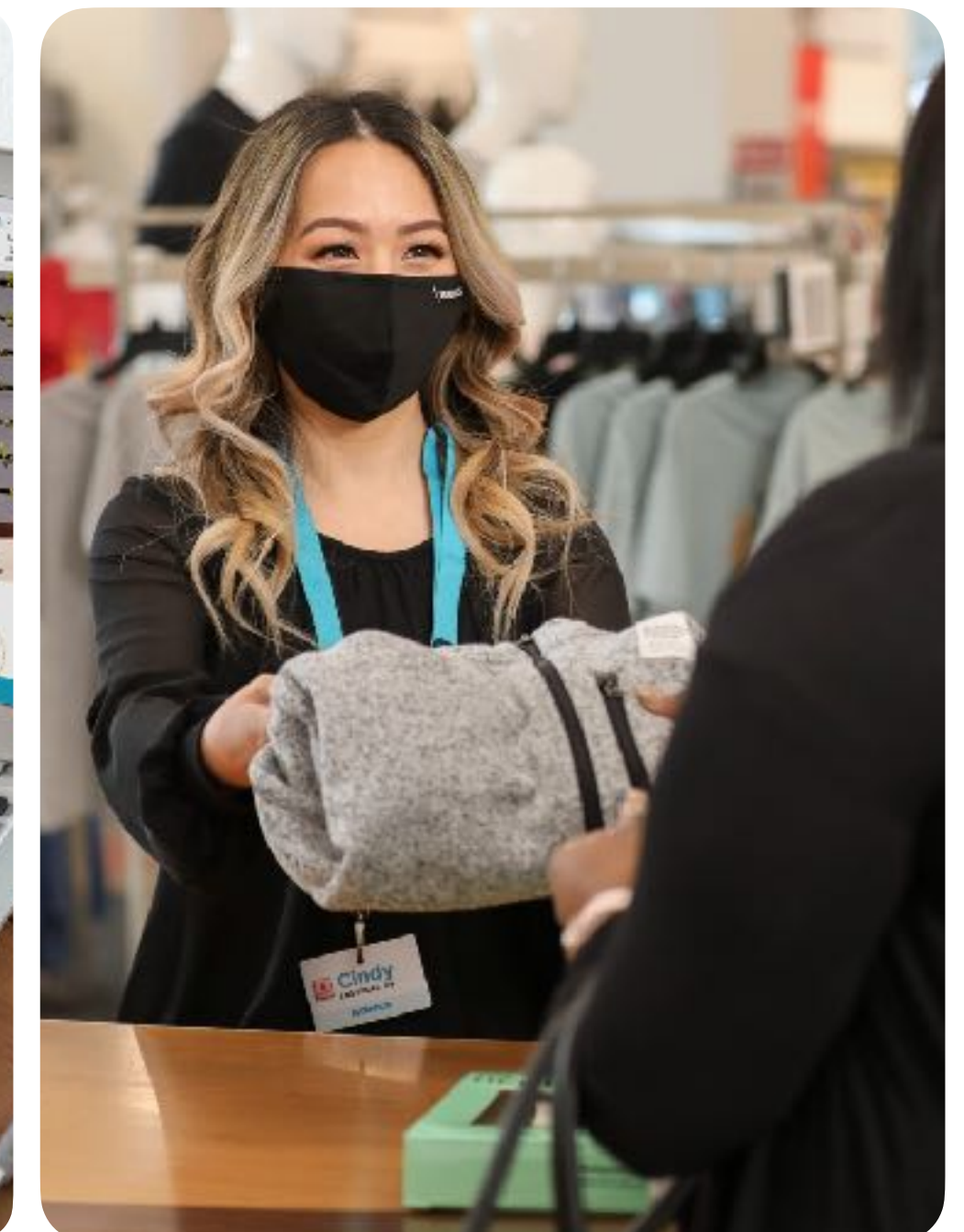
# Q2 2021 Results

## Key Takeaways

- Delivered record Q2 earnings as both sales and margins materially exceeded expectations
- Growth in the quarter was driven by higher store sales as customer traffic further improved
- Achieved highest Q2 operating margin in a decade through an intense focus on inventory management, pricing & promotion optimization and disciplined expense management
- Strengthened financial position during the quarter, ending with \$2.6 billion in cash
- Repurchased \$255 million of shares in the quarter, underscoring our confidence in the business and commitment to creating shareholder value

## Q2 2021 Results

- Net sales increased 31% versus Q2 2020
- Gross margin increased 942 bps compared to last year driven primarily through managing inventories tightly and further scaling our pricing and promotion optimization strategies
- SG&A expense increased 18.2% in Q2 and leveraged 291 bps as a percentage of revenue compared to last year driven by improved store labor productivity and lower technology spend
- Operating margin of 12.8% in Q2 2021, the highest Q2 operating margin in 10 years
- Diluted earnings per share of \$2.48 compared to an adjusted loss<sup>1</sup> of (\$0.25) per share in Q2 2020
- Inventory increased 1% versus prior year and inventory turn reach at 10-year high
- Strong operating cash flow of \$1.4 billion in Q2 2021



# Q2 Key Metrics

## Consolidated Statement of Operations

(Dollars in Millions)

	Three Months Ended	
	July 31, 2021	August 1, 2020
Net Sales	\$ 4,223	\$ 3,213
Total Revenue	4,447	3,407
Gross Margin Rate	42.5%	33.1%
SG&A	1,241	1,050
Depreciation	210	219
Impairments, Store Closings, and Other Costs	—	(2)
(Gain) on Sale of Real Estate	—	(127)
Operating Income	570	118
Interest Expense	62	78
Provision (benefit) for Income Taxes	126	(7)
Net Income	382	47
Diluted EPS	\$2.48	\$0.30
Adjusted Net Income (Non-GAAP) <sup>(1)</sup>	382	(39)
Adjusted Diluted EPS (Non-GAAP) <sup>(1)</sup>	\$2.48	(\$0.25)

## Key Balance Sheet Items

(Dollars in Millions)

	July 31, 2021	August 1, 2020
Cash and Cash Equivalents	\$ 2,569	\$ 2,428
Merchandise Inventories	2,733	2,698
Accounts Payable	1,495	1,064
Long-term Debt	1,909	3,450

## Key Cash Flow items

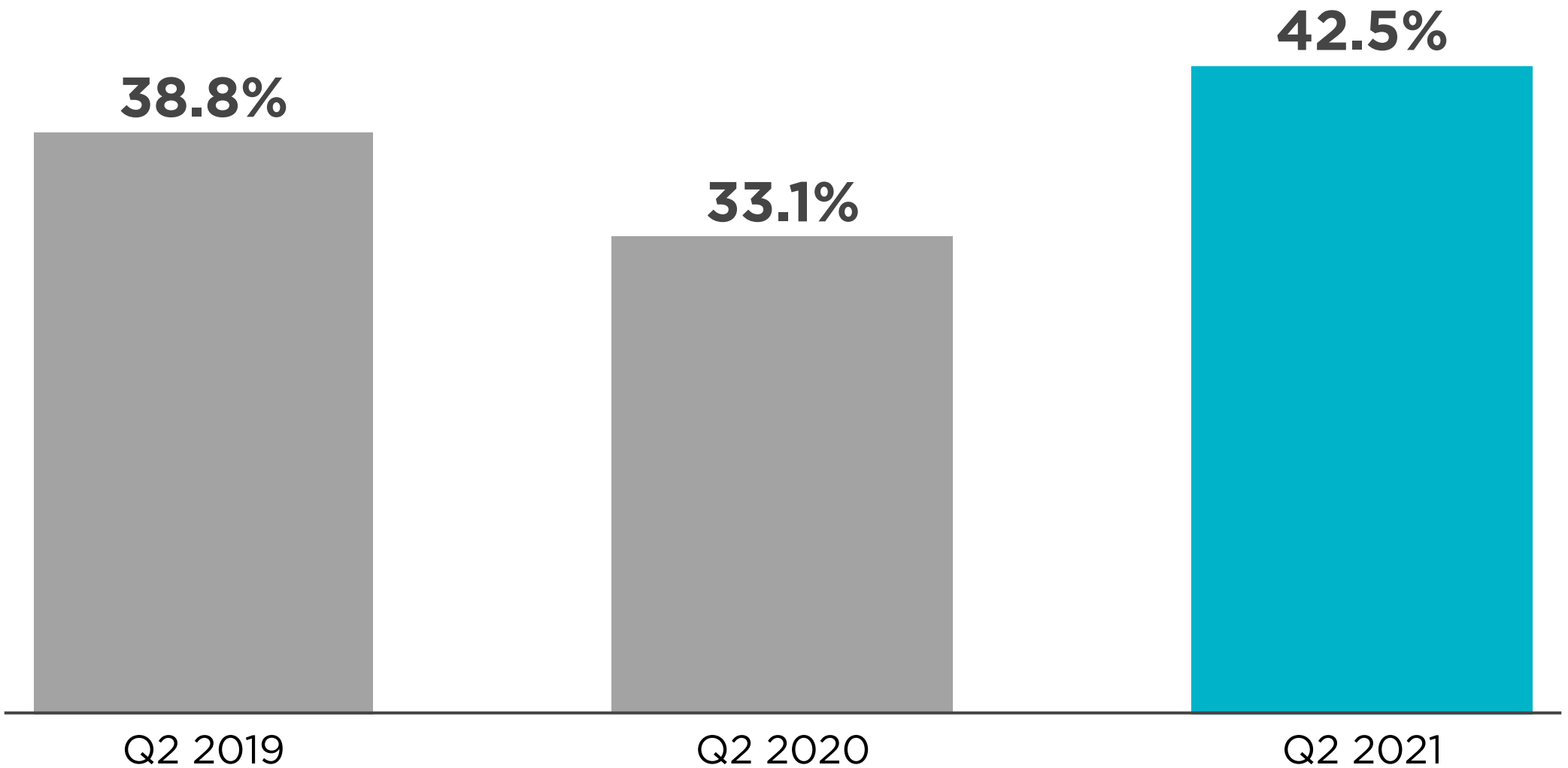
(Dollars in Millions)

	July 31, 2021	
	Three Months Ended	Six Months Ended
Operating Cash Flow	\$ 1,414	\$ 1,692
Capital Expenditures	(132)	(191)
Net, Finance lease and Financing obligations	(28)	(61)
Free Cash Flow <sup>(1)</sup>	\$ 1,254	\$ 1,440

# Q2 2021 Gross Margin & SG&A Expense Performance

## Gross Margin

Increased 942 bps versus Q2 2020 and 373 bps versus Q2 2019

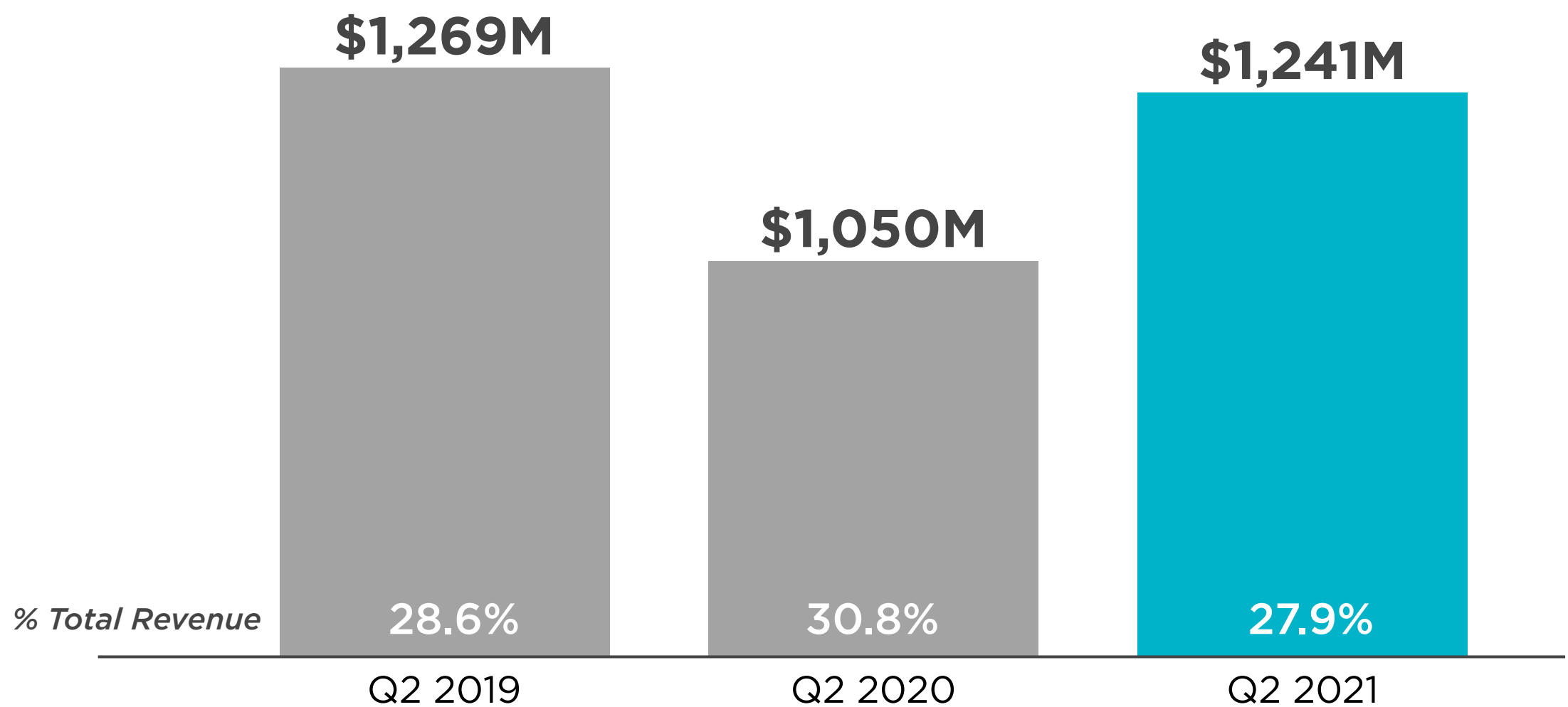


### Q2 2021 Gross Margin Takeaways

- + Tightly managed inventories and achieved 10 year high in inventory turn
- + Further scaled pricing and promotion optimization strategies
- + Cost of Shipping tailwind from lower digital penetration of 26% versus 41% in Q2 2020
- + Favorable industry backdrop provided for a greater percentage of full price selling

## SG&A Expense

SG&A leveraged 291 bps versus Q2 2020 and 74 bps versus Q2 2019



### Q2 2021 SG&A Takeaways

- + Marketing-to-Sales ratio below 4% in Q2 2021
- + Lowered technology spend by more than 10% versus Q2 2020
- + Improved store labor productivity

# Enhanced Liquidity Position

## Key Balance Sheet & Cash Flow Items: Q2 2021

January 31, 2021

**Beginning Cash** ..... **\$2,271M**

### Sources

Operating Cash Flow ..... \$1,692M  
 New Debt ..... \$500M

### Uses

Reductions in LT Debt ..... (\$1,044M)  
 Share Repurchase ..... (\$301M)  
 Other\* ..... (\$281M)  
 Capex ..... (\$191M)  
 Dividend ..... (\$77M)

July 31, 2021

**Ending Cash** ..... **\$2,569M**

## Key Takeaways

- Strong earnings performance and cash flow generation further improved leverage profile
- Accelerated share repurchases, underscoring our confidence in the business and commitment to creating shareholder value
- Long history of disciplined capital management
- More than two decades of maintaining Investment Grade rating
- Well-positioned to capitalize on evolving customer behaviors and the retail industry disruption



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# Updated 2021 Outlook

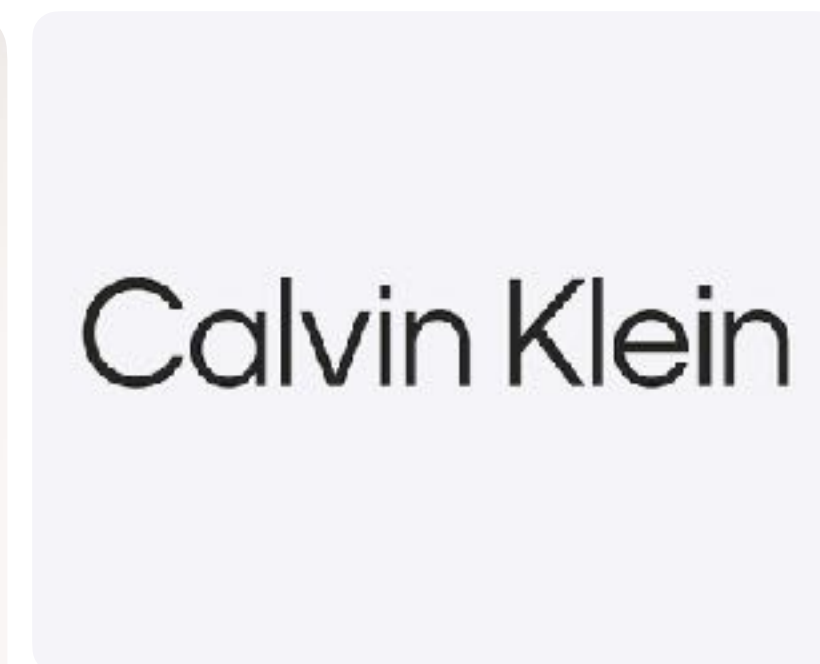
# Updated 2021 Outlook

Metric	Full Year Guidance
Net Sales	<b>Low twenties percent increase</b> versus 2020 <i>From a mid-to-high teens percent increase</i>
Operating Margin	<b>7.4% to 7.6%</b> <i>From 5.7% to 6.1%</i>
Adjusted EPS*	<b>\$5.80 to \$6.10</b> <i>From \$3.80 to \$4.20</i>



## Capital Allocation Strategy

- **Capex:** \$600 million to \$650 million
- **Dividend:** \$0.25 quarterly dividend payable on September 22, 2021
- **Share Repurchase Program:** \$500 million to \$700 million, up from \$200 million to \$300 million



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# Our Strategy

# Kohl's has built a powerful foundation



## Customers

**65M** Active Customers

**30M** Loyalty Members

**29M** Kohl's Charge Card holders



## Digital

**40%** Digital sales penetration in 2020

**1.6B** Website visits in 2020

## Stores

**90%** of stores generated \$1M+ in 4-wall cash flow

**95%** of Kohl's stores are off-mall

**1,162** stores in 49 states at year end 2020

**80%** of Americans live within 15 miles of a Kohl's store

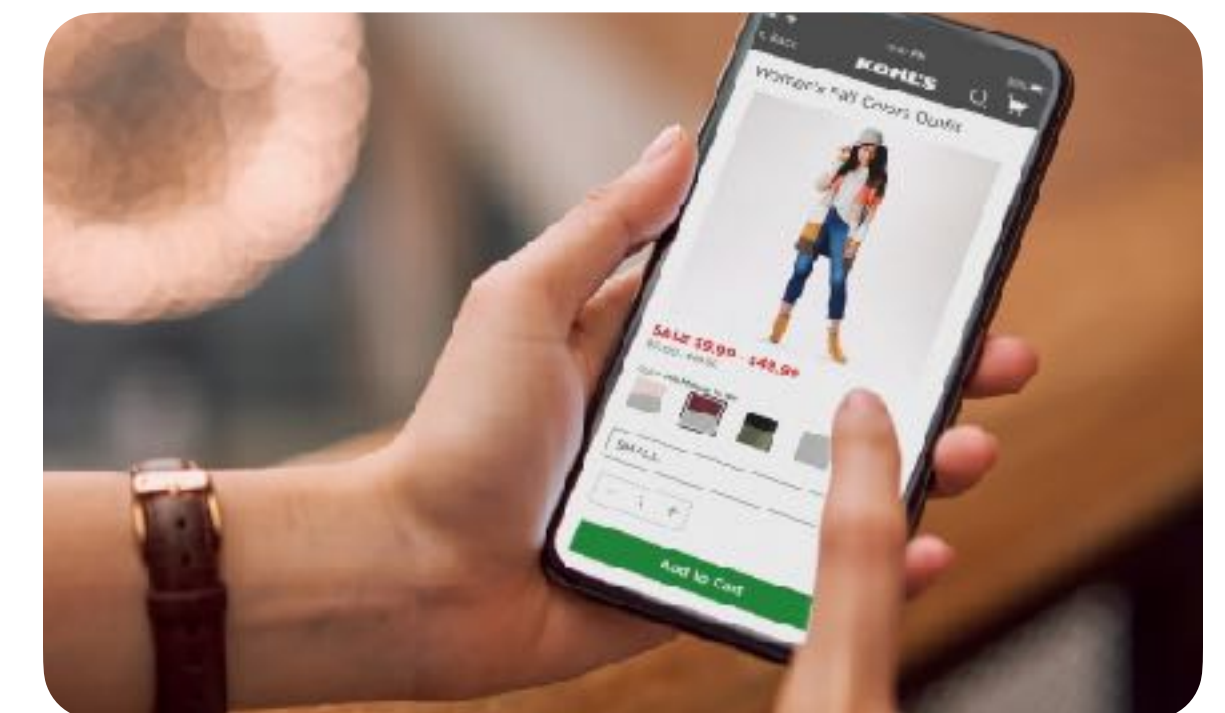
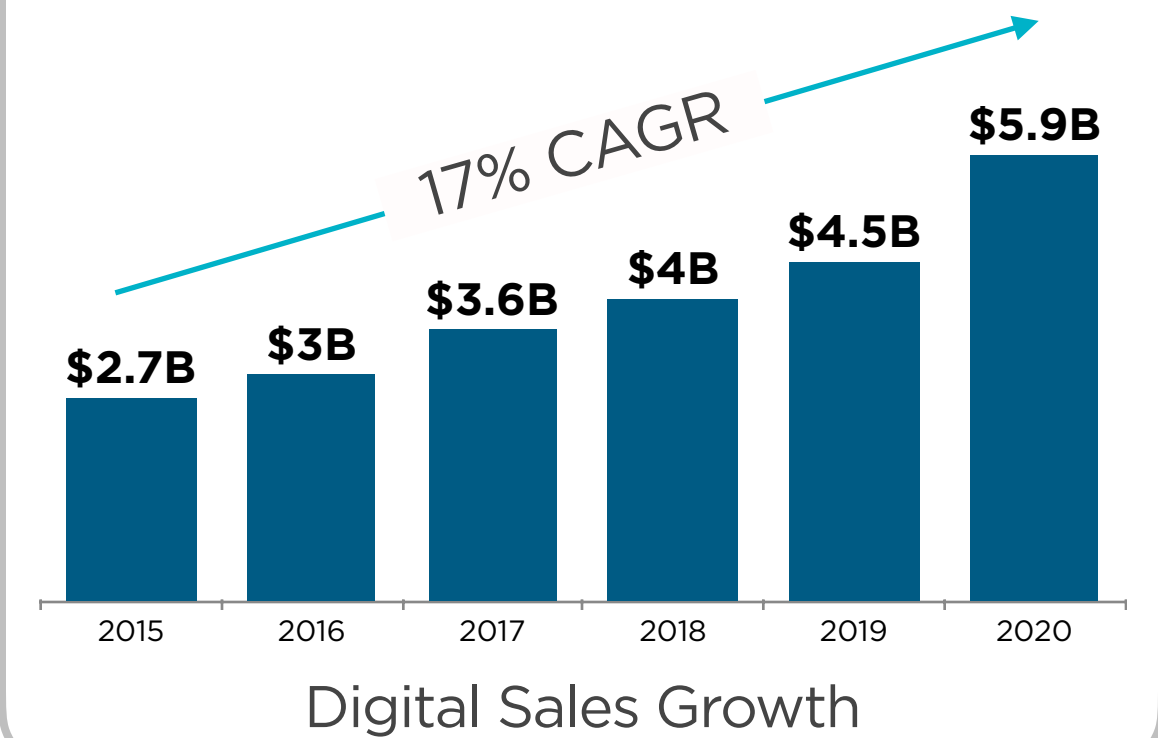
**43%** of digital sales fulfilled by stores in 2020

**10%** higher digital sales in markets with stores

**600M** store visits

## Accessible & Aspirational Brand Portfolio

**KOHL'S + SEPHORA**



# The most trusted retailer of choice for the active and casual lifestyle



## Drive Top Line Growth

### Destination for Active & Casual Lifestyle

- Expand Active and Outdoor
- Reignite growth in Women's
- Build a sizable Beauty business
- Drive category productivity and inventory turn
- Capture market share from retail industry disruption

### Leading with Loyalty & Value

- Best-in-class loyalty
- Drive productivity through deeper engagement
- Deliver personalized experiences

### Differentiated Omni-channel Experience

- Healthy store base in evolving landscape
- Modernize the store experience
- Continue digital growth
- Further enhance omni-channel capabilities

## Expand Operating Margin

### Operating Margin Goal of 7% to 8%

- End-to-end supply chain transformation
- SG&A efficiency through store labor, marketing, and technology
- Operational excellence

## Disciplined Capital Management

### Maintain Strong Balance Sheet

- Sustain Investment Grade rating
- Solid cash flow generation
- Committed to returning capital to shareholders

## Strong Organizational Core

### Agile, Accountable & Inclusive Culture

- Innovative and adaptive learning approach
- Focused on diversity and inclusion
- ESG stewardship

## Creating Long-term Shareholder Value



Return to growth



Expand operating margin



Solid cash flow generation



Maintain strong balance sheet



Return capital to shareholders

# Driving top line growth



## Grow Active to 30% of Sales

- **Fuel growth with key national brands**, Nike, Under Armour and Adidas
- **Expand Active** space by at least 20% in 2021
- **Drive athleisure** through launch of FLX, our new private brand, Calvin Klein basics and loungewear, and expand assortment of Champion
- **Grow outdoor** through expansion of Lands' End and launch of Eddie Bauer



## Beauty Growth with Sephora

- Highly complementary strategic partnership to **establish Kohl's as a leading beauty destination**
- **Comprehensive digital launch** August 2021
- **Launch in 200 stores Fall 2021**, 400 stores in 2022, and reaching at least 850 stores by 2023
- Assortment will include **~125 emerging and established brands** emulating freestanding Sephora store
- Expected to drive significant traffic and **acquisition of new younger customer**



## Reignite Women's Growth

- New organization structure and leadership to drive improved performance
- **Significant portfolio reinvention** with exit of 10 downtrending brands
- **Refresh and differentiate** a more focused portfolio of private brands (e.g. Sonoma, So, LC Lauren Conrad)
- **Distort denim opportunity** (e.g. Levi's, key private brands)
- **Improving merchandising and clarity** through significant choice count reduction and building depth



## Extend Casual Lifestyle to Home

- **Expand soft home** category (e.g. Koolaburra by Ugg, Sonoma)
- **Expand underdeveloped categories** (e.g. decor, kid's bedroom, storage)
- Lean into healthy home (e.g. sleep and cookware)

# Driving top line growth

## Investing in Omni-channel



### Loyalty Members are More Productive

- New Kohl's Rewards loyalty program, added new features, enhanced personalization and simplified rewards in Kohl's Cash
- **Kohl's Cash:** Iconic and differentiated loyalty device that provides a fly-wheel effect on customer return visits
- **Kohl's Card:** Provides more opportunities for customers to save

**30 million loyalty members spend 2x more than non-loyalty members and highest tier Kohl's Card members ("Most Valuable Customer") spend 10x more than non-loyalty members**



### Transforming the Role of the Store

- Modernizing the store experience through refresh program and category reflow to highlight outsized growth businesses
- Simplified and edited shopping experience through fixture de-densification (standard to small strategy)
- Inspired solutions and product storytelling through continued investments in merchandising (e.g. expanding the learnings from the Outfit Bar concept)
- Evolve existing omni experiences: BOPUS/BOSS, Store Drive Up, Amazon Returns
- Continue to pursue innovation and discovery (e.g. Curated by Kohl's, emerging brands)

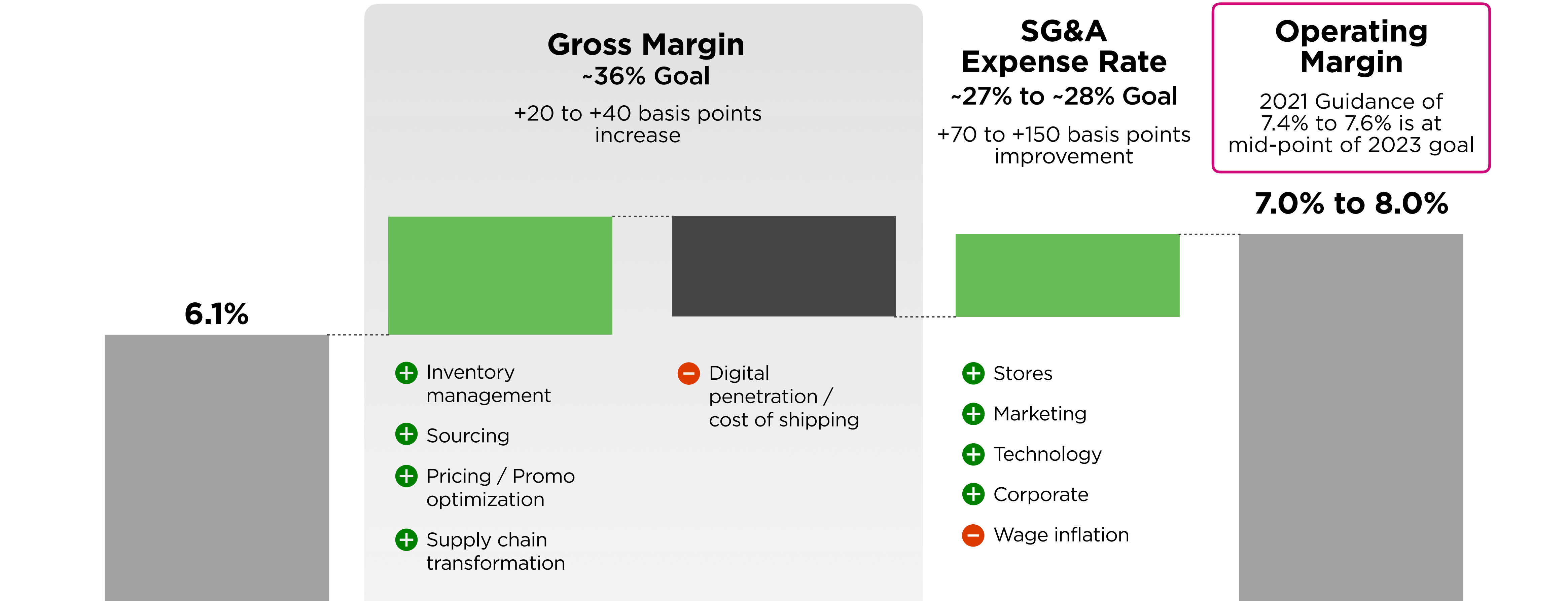
**Omni-customer is 4x more productive than store-only shopper and 6x more productive than digital-only customer**



### Enhance Digital Capabilities to Drive Growth

- Continue to invest in the evolution of the digital experience (e.g. Kohls.com, App)
- Expanding digital brand portfolio (e.g. Fanatics, Sephora, Lands' End, Eddie Bauer)
- Opened our sixth e-commerce fulfillment center in 2021

# Strong execution against our new strategy positions us to achieve our 2023 strategic goals well ahead of our plan



FY 2019  
Adj. Operating  
Margin \*

Gross Margin

SG&A

FY 2023

\* Adjusted Operating Margin is a non-GAAP financial measure. For reference, the reconciliation can be found in the Appendix.



# We have a history of strong cash flow generation along with a focus on maintaining a balanced capital allocation strategy

## Maintain strong balance sheet

*Long-term objective of maintaining Investment Grade rating*



### Q2 2021 Takeaways

- Delivered \$1.25B of free cash flow
- Repurchased \$255M of shares
- Invested \$132M in the business
- Paid \$38M in dividends to our shareholders
- Further improved leverage profile

### History of Capital Allocation

- \$3.0B of cumulative free cash flow generated from 2018 to 2020
- \$1.8B invested in our business from 2018 to 2020 to help drive our omnichannel strategies
- Over \$900M returned to shareholders over the past 3 years through our dividend program
- Nearly \$900M of shares repurchased from 2018 to 2020
- History of employing liability management strategies to enhance our leverage profile and remain committed to Investment Grade Rating

# Kohl's Continued Commitment to ESG

Kohl's has a long-standing focus on Environmental, Social and Governance stewardship



## Environmental

With a large retail footprint, we are in a unique position to make a difference through positive actions.

- Sustainability measures are tied to CEO performance and management team incentives.
- Kohl's has published 2025 goals to reduce energy costs, decrease emissions, increase solar and wind energy, and reduce waste and increase recycling.
- **Climate change:** In our efforts to reduce greenhouse emissions, we have reduced energy consumption by 39% since 2008 - exceeding our 2025 goal, expanded to 164 wind and solar locations, and built 101 EV charging locations.
- **Waste and Recycling:** In our efforts to reduce waste, we have diverted 85% of waste from landfills - meeting our 2025 goal and reduced the amount of packaging we use for Kohl's-owned branded packaging.
- **Sustainable Sourcing:** To focus on efficient use of natural resources, we have 80% of production facilities completed the Higg Index Environmental Module, on our way to our 2025 goal and we are using the Higg Index to drive substantial water reduction.
- See more detail in our annual [ESG Report](#).

## Social

Understanding and embracing differences for Kohl's associates, customers and community is not just the right thing to do; it is critical in creating an inclusive workplace and brand experience, as well as in driving growth for the organization.

- In 2020, we shared our commitment to a renewed Diversity & Inclusion (D&I) strategy focused on Our People, Our Customers and Our Community and our mission to empower more families through equity, D&I.
- We've appointed a Chief Diversity & Inclusion Officer, reporting to the CEO.
- **People:** We've expanded our associate Business Resource Groups at Kohl's, provided unconscious bias training across the organization, created a cross-functional D&I Task Force and published our D&I Pledge for Progress.
- **Customers:** We've created a D&I product strategy, launched a Diversity Design Council, created new product and categories, and have invested in targeted D&I marketing.
- **Community:** We've committed to doubling our diverse supplier spend by 2025 and are well on our way. We have also committed to significantly increasing our philanthropic support.

## Governance

We hold ourselves to a high level of ethical standards and maintain a Code of Ethics guide, Global Human Rights Policy, Business Partner Code of Conduct, and Corporate Governance Guidelines to ensure that we run our business with integrity.

- We have been recognized as one of the World's Most Ethical Companies by the Ethisphere Institute, a global leader in defining and advancing the standards of ethical business practices.
- We have published standards for Supply Chain Management, Facility Sustainability, Product Safety, Workforce Practices, Cybersecurity and Crisis Management that you can view in our [ESG Report](#).
- We have a strong, independent and diverse Board of Directors that has an ongoing commitment to active Board refreshment, demonstrated by the addition of eight new directors in the past 5 years.

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# Appendix

# Reconciliations

## Adjusted Net Income (Loss) and Diluted Earnings (Loss) per Share, Non-GAAP Financial Measures (unaudited)

(Dollars in Millions, Except per Share Data)	Three Months Ended	
	July 31, 2021	August 1, 2020
<b>Net Income (Loss)</b>		
GAAP	\$ 382	\$ 47
Impairments, store closing, and other	—	(2)
(Gain) on Sale of Real Estate	—	(127)
Income tax impact of items noted above	—	43
<b>Adjusted (non-GAAP)</b>	<b>\$ 382</b>	<b>\$ (39)</b>
<b>Diluted Earnings (Loss) per Share</b>		
GAAP	\$ 2.48	\$ 0.30
Impairments, store closing, and other	—	(0.01)
(Gain) on Sale of Real Estate	—	(0.82)
Income tax impact of items noted above	—	0.28
<b>Adjusted (non-GAAP)</b>	<b>\$ 2.48</b>	<b>\$ (0.25)</b>

# Reconciliations

## Adjusted Operating Income

(\$ in millions)

	2019
Operating Income	\$ 1,099
Impairments, store closing, and other	113
Adjusted Operating Income	1,212
Total Revenue	\$ 19,974
<b>Adjusted Operating Income as a % of Total Revenue</b>	<b>6.1%</b>

## Free Cash Flow

(\$ in millions)

	July 31, 2021	
	Three Months Ended	Six Months Ended
Net cash provided by operating activities	\$ 1,414	\$ 1,692
Acquisition of property and equipment	(132)	(191)
Finance lease and financing obligation payments	(32)	(65)
Proceeds from financing obligations	4	4
<b>Free Cash Flow</b>	<b>\$ 1,254</b>	<b>\$ 1,440</b>

