

KOHLS Corp
Form 10-Q
June 08, 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 May 5, 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

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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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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 * (Do not check if a smaller reporting company)

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: June 2, 2018 Common Stock, Par Value \$0.01 per Share, 167,096,325 shares outstanding.

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KOHL'S CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

KOHL'S CORPORATION

CONSOLIDATED BALANCE SHEETS

(Unaudited)

| | May 5, | February 3, April 29, | |
|--|----------|-----------------------|-----------------------|
| (Dollars in Millions) | 2018 | 2018 | 2017 |
| Assets | | As Adjusted (a) | As Adjusted (a) |
| Current assets: | | | |
| Cash and cash equivalents | \$822 | \$1,308 | \$625 |
| Merchandise inventories | 3,726 | 3,542 | 3,991 |
| Other | 435 | 530 | 378 |
| Total current assets | 4,983 | 5,380 | 4,994 |
| Property and equipment, net | 7,694 | 7,773 | 8,069 |
| Other assets | 239 | 236 | 231 |
| Total assets | \$12,916 | \$13,389 | \$13,294 |
| Liabilities and Shareholders' Equity | | | |
| Current liabilities: | | | |
| Accounts payable | \$1,454 | \$1,271 | \$1,480 |
| Accrued liabilities | 1,135 | 1,213 | 1,147 |
| Income taxes payable | 118 | 99 | 137 |
| Current portion of capital lease and financing obligations | 123 | 126 | 134 |
| Total current liabilities | 2,830 | 2,709 | 2,898 |
| Long-term debt | 2,301 | 2,797 | 2,795 |
| Capital lease and financing obligations | 1,563 | 1,591 | 1,657 |
| Deferred income taxes | 198 | 211 | 283 |
| Other long-term liabilities | 668 | 662 | 674 |
| Shareholders' equity: | | | |
| Common stock | 4 | 4 | 4 |
| Paid-in capital | 3,125 | 3,078 | 3,013 |
| Treasury stock, at cost | (10,737) | (10,651) | (10,503) |
| Accumulated other comprehensive loss | (8) | (11) | (13) |
| Retained earnings | 12,972 | 12,999 | 12,486 |
| Total shareholders' equity | 5,356 | 5,419 | 4,987 |
| Total liabilities and shareholders' equity | \$12,916 | \$13,389 | \$13,294 |

(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

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KOHL'S CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

| | Three Months Ended May 5, April 29, | |
|--|---|-----------------------|
| (Dollars in Millions, Except per Share Data) | 2018 | 2017 |
| | | As Adjusted (a) |
| Net sales | \$3,953 | \$3,815 |
| Other revenue | 255 | 250 |
| Total revenue | 4,208 | 4,065 |
| Cost of merchandise sold | 2,496 | 2,428 |
| Operating expenses: | | |
| Selling, general and administrative | 1,259 | 1,214 |
| Depreciation and amortization | 243 | 238 |
| Operating income | 210 | 185 |
| Interest expense, net | 71 | 76 |
| Loss on extinguishment of debt | 42 | — |
| Income before income taxes | 97 | 109 |
| Provision for income taxes | 22 | 43 |
| Net income | \$75 | \$66 |
| Net income per share: | | |
| Basic | \$0.46 | \$0.39 |
| Diluted | \$0.45 | \$0.39 |

(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

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KOHL'S CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

| | Common Stock | | Treasury Stock | | Paid-In Capital | | Accumulated Other Comprehensive Loss | | Retained Earnings | Total |
|--|-----------------|--------|----------------|-------------|--------------------|--------|---|--|----------------------|----------|
| (Dollars in Millions, Except per Share Data) | Shares | Amount | Shares | Amount | Shares | Amount | Loss | | | |
| Balance at February 3, 2018 | 373 | \$ 4 | (205) | \$ (10,651) | | | \$ (11) | | \$ 13,006 | \$ 5,426 |
| (previously reported) | | | | | | | | | | |
| Change in accounting standard (a) | — | — | — | — | — | — | — | | (7) | (7) |
| Balance at February 3, 2018 | 373 | 4 | (205) | (10,651) | | | (11) | | 12,999 | 5,419 |
| (as adjusted) | | | | | | | | | | |
| Comprehensive income | — | — | — | — | — | — | 3 | | 75 | 78 |
| Stock options and awards, net of tax | 1 | — | 47 | (17) | — | — | — | | — | 30 |
| Dividends paid (\$0.61 per common share) | — | — | — | 1 | — | — | — | | (102) | (101) |
| Treasury stock purchases | — | — | (1) | (70) | — | — | — | | — | (70) |
| Balance at May 5, 2018 | 374 | \$ 4 | (206) | \$ (10,737) | | | \$ (8) | | \$ 12,972 | \$ 5,356 |

(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

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KOHL'S CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

| | Three Months Ended | |
|---|-----------------------|-----------------------|
| | May 5, | April 29, |
| (Dollars in Millions) | 2018 | 2017 |
| Operating activities | | As Adjusted (a) |
| Net income | \$75 | \$66 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 243 | 238 |
| Share-based compensation | 30 | 10 |
| Deferred income taxes | (12) | 13 |
| Loss on extinguishment of debt | 42 | — |
| Other non-cash revenues and expenses | 2 | (12) |
| Changes in operating assets and liabilities: | | |
| Merchandise inventories | (181) | (193) |
| Accrued and other long-term liabilities | (107) | (117) |
| Accounts payable | 183 | (27) |
| Other current and long-term assets | 68 | 42 |
| Income taxes | 44 | 26 |
| Net cash provided by operating activities | 387 | 46 |
| Investing activities | | |
| Acquisition of property and equipment | (133) | (216) |
| Other | — | 13 |
| Net cash used in investing activities | (133) | (203) |
| Financing activities | | |
| Treasury stock purchases | (70) | (156) |
| Shares withheld for taxes on vested restricted shares | (17) | (10) |
| Dividends paid | (101) | (94) |
| Reduction of long-term borrowings | (500) | — |
| Premium paid on redemption of debt | (35) | — |
| Capital lease and financing obligation activity | (33) | (32) |
| Proceeds from stock option exercises | 16 | — |
| Net cash used in financing activities | (740) | (292) |
| Net decrease in cash and cash equivalents | (486) | (449) |
| Cash at beginning of period | 1,308 | 1,074 |
| Cash at end of period | \$822 | \$625 |
| Supplemental information | | |

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| | | |
|--|------|------|
| Interest paid, net of capitalized interest | \$58 | \$46 |
| Income taxes paid | 15 | 5 |
| Non-cash investing and financing activities | | |
| Property and equipment acquired through additional liabilities | \$— | \$13 |

(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

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KOHLS CORP.

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) | 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. |
| Issued February 2016 | | |
| Effective Q1 2019 | | |

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 three months ended May 5, 2018, we made no adjustments to the previously recorded provisional amounts related to the Act. Additional work is needed to finalize the income tax effects of the Act and we do not expect subsequent adjustments to be material. Any such adjustments will be recorded as income tax expense in the period in which the adjustment is finalized.

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 eliminates the transaction- and industry-specific revenue recognition guidance under current U.S. GAAP and replaces 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 include 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.

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KOHL'S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table summarizes net sales by line of business for the quarters ended May 5, 2018 and April 29, 2017:

| | May (Dollars in Millions) 5, 2018 | April 29, 2017 |
|-------------|--------------------------------------|-------------------|
| Women's | \$1,255 | \$1,224 |
| Men's | 790 | 754 |
| Home | 691 | 641 |
| Children's | 454 | 471 |
| Footwear | 426 | 399 |
| Accessories | 337 | 326 |
| Net Sales | \$3,953 | \$3,815 |

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 totaled \$380 million as of May 5, 2018 and \$368 million as of April 29, 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, unused gift 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 unused gift cards (breakage) is recorded in proportion and over the time period gift cards are actually redeemed.

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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 April 29, 2017 (Dollars in Millions, Except per Share Data) | As Previously Reported | New Standard Adjustment | Adjusted |
|---|------------------------------|-------------------------------|----------|
| Net sales | \$ 3,843 | \$ (28) | \$3,815 |
| Other revenue | | 250 | 250 |
| Total revenue | | 222 | 4,065 |
| Cost of merchandise sold | 2,445 | (17) | 2,428 |
| Gross margin | 1,398 | | |
| Operating expenses: | | | |
| Selling, general and administrative | 975 | 239 | 1,214 |
| Depreciation and amortization | 238 | - | 238 |
| Operating income | 185 | - | 185 |
| Interest expense, net | 76 | - | 76 |
| Income before income taxes | 109 | - | 109 |
| Provision for income taxes | 43 | - | 43 |
| Net income | \$ 66 | \$ - | \$66 |
| Net income per share: | | | |
| Basic | \$ 0.39 | \$ - | \$0.39 |
| Diluted | \$ 0.39 | \$ - | \$0.39 |

| April 29, 2017 (Dollars in Millions) | As Previously Reported | New Standard Adjustment | Adjusted |
|---|------------------------------|-------------------------------|----------|
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 625 | \$ - | \$625 |
| Merchandise inventories | 3,991 | - | 3,991 |
| Other | 328 | 50 | 378 |
| Total current assets | 4,944 | 50 | 4,994 |
| Property and equipment, net | 8,069 | - | 8,069 |
| Other assets | 231 | - | 231 |
| Total assets | \$ 13,244 | \$ 50 | \$13,294 |
| Liabilities and Shareholders' Equity | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 1,480 | \$ - | \$1,480 |
| Accrued liabilities | 1,088 | 59 | 1,147 |
| Income taxes payable | 137 | - | 137 |

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| | | | |
|--|-----------|-------|-----------|
| Current portion of capital lease and financing obligations | 134 | - | 134 |
| Total current liabilities | 2,839 | 59 | 2,898 |
| Long-term debt | 2,795 | - | 2,795 |
| Capital lease and financing obligations | 1,657 | - | 1,657 |
| Deferred income taxes | 285 | (2) | 283 |
| Other long-term liabilities | 674 | - | 674 |
| Total shareholders' equity | 4,994 | (7) | 4,987 |
| Total liabilities and shareholders' equity | \$ 13,244 | \$ 50 | \$ 13,294 |

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KOHL'S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

| February 3, 2018 (Dollars in Millions) | As Previously Reported | New Standard Adjustment | Adjusted |
|--|------------------------------|-------------------------------|-----------|
| Assets | | | |
| Current assets: | | | |
| 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 |
| Liabilities and Shareholders' Equity | | | |
| Current liabilities: | | | |
| 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 quarter ended May 5, 2018:

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| (Dollars in Millions) | |
|----------------------------|-------|
| Balance - February 3, 2018 | \$ 87 |
| Payments | (3) |
| Balance - May 5, 2018 | \$ 84 |

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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 Rate | Coupon Rate | Outstanding | | |
|-----------------------------------|-------------------|----------------|-------------|---------------------------------|----------------|
| | | | May 5, 2018 | February 3, & April 29, 2018 | April 29, 2017 |
| 2021 | 4.81 % | 4.00 % | \$426 | \$ 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 % | 450 | 450 | |
| | 4.76 % | | \$2,315 | \$ 2,815 | |

Long-term debt is net of unamortized debt discounts and deferred financing costs of \$14 million at May 5, 2018, \$18 million at February 3, 2018, and \$20 million at April 29, 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 May 5, 2018, \$2.9 billion at February 3, 2018 and \$2.8 billion at April 29, 2017.

In April 2018, we completed a cash tender offer for \$500 million of senior unsecured debt. We recognized a \$42 million loss on extinguishment of debt in the first quarter of 2018 which includes \$35 million of premiums paid to holders as a result of the tender offer, a \$4 million non-cash write-off of an interest rate hedge on tendered debt, and a \$3 million non-cash write-off of deferred financing costs and original issue discounts associated with the extinguished debt.

5. Stock-Based Compensation

The following table summarizes our stock-based compensation activity for the three months ended May 5, 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 | — | — | 710 | 63.08 | 147 | 65.34 |
| Exercised/vested | (582) | 51.30 | (644) | 48.18 | (38) | 78.35 |
| Forfeited/expired | (2) | 53.14 | (33) | 48.62 | — | — |
| Balance - May 5, 2018 | 555 | \$ 49.91 | 2,844 | \$ 49.37 | 769 | \$ 47.23 |

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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 | |
|--|--------------------------|--------------|
| | May 5, | April 29, |
| (Dollar and Shares in Millions, Except per Share Data) | 2018 | 2017 |
| Numerator—Net income | \$75 | \$66 |
| Denominator—Weighted average shares: | | |
| Basic | 165 | 170 |
| Impact of dilutive stock-based awards | 2 | 1 |
| Diluted | 167 | 171 |
| Antidilutive shares | — | 3 |
| Net income per share: | | |
| Basic | \$0.46 | \$0.39 |
| Diluted | \$0.45 | \$0.39 |

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

For purposes of the following discussion, all references to "the quarter" and "the first quarter" are for the three fiscal months (13 weeks) ended May 5, 2018 and April 29, 2017. References to "2018" are for the quarter ended May 5, 2018. References to "2017" are for the quarter ended April 29, 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 May 5, 2018, we operated 1,158 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 private label, exclusive 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:

- Positive comparable sales results
- 50 basis point increase in gross margin as a percent of net sales
- 7% reduction in inventory per store
- SG&A as a percent of total revenue deleveraged 6 basis points
- \$500 million reduction in outstanding debt
- 15% increase in GAAP diluted earnings per share ("EPS") and 65% increase in adjusted EPS

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

Results of Operations

Net Sales

Net sales increased \$138 million, or 3.6%, to \$4.0 billion for the first quarter of 2018. Comparable sales increased 3.6% on a fiscal basis. The fiscal basis compares the 13 week periods ended May 5, 2018 and April 29, 2017. Comparable sales increased 0.4% on a shifted basis. The shifted basis compares the 13 week periods ended May 5, 2018 and May 6, 2017, adjusting for the 53rd week in fiscal 2017. 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%.

Average transaction value increased, driven by a strong increase in average unit retail. Transactions were relatively flat on a fiscal basis and were lower on a shifted basis.

From a line of business perspective, Home, Footwear, and Men's were the strongest performers while the Children's business was the most challenging.

From a regional perspective, the West, Midwest, and South Central outperformed the Company. The Northeast and Mid-Atlantic, which were negatively impacted by weather, as well as the Southeast underperformed the Company.

Other Revenue

Other revenue increased \$5 million, or 2%, to \$255 million for the first quarter of 2018. The increase was primarily due to higher credit card revenue as a result of higher interest and late fees.

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Cost of Merchandise Sold and Gross Margin

| (Dollars in Millions) | Quarter | | |
|--|----------|----------|--------|
| | 2018 | 2017 | Change |
| Net sales | \$3,953 | \$3,815 | \$ 138 |
| Cost of merchandise sold | 2,496 | 2,428 | 68 |
| Gross margin | \$ 1,457 | \$ 1,387 | \$ 70 |
| Gross margin as a percent of net sales | 36.9 % | 36.4 % | 50 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. Cost of merchandise sold increased \$68 million, or 3%, in the first quarter of 2018.

We calculate gross margin as net sales less cost of merchandise sold. Our gross margin rate increased 50 basis points to 36.9% of net sales for the quarter. The increase was driven by our clean inventory position at the start of the quarter. As a result, we drove an improvement in full-price and clearance sell-throughs resulting in fewer markdowns.

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

| (Dollars in Millions) | Quarter | | |
|-------------------------------|---------|---------|--------|
| | 2018 | 2017 | Change |
| SG&A | \$1,259 | \$1,214 | \$ 45 |
| As a percent of total revenue | 29.9 % | 29.9 % | 6 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.

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".

SG&A increased \$45 million, or 3.7%, to \$1.3 billion in the first quarter of 2018. As a percentage of total revenue, SG&A deleveraged 6 basis points. Substantially all of the increase was driven by higher technology spending as we make investments in programs like cloud migration and omni channel growth and by corporate costs related to our recent executive leadership changes. Store expenses were flat for the quarter; despite the increase in sales as savings from our operational excellence initiatives offset wage pressures.

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Other Expenses

| (Dollars in Millions) | Quarter | | |
|--------------------------------|---------|-------|--------|
| | 2018 | 2017 | Change |
| Depreciation and amortization | \$243 | \$238 | \$ 5 |
| Interest expense, net | 71 | 76 | (5) |
| Loss on extinguishment of debt | 42 | — | 42 |

Depreciation and amortization increased as a result of the opening of our fifth E-commerce fulfillment center in 2017 and technology investments.

Interest expense decreased due to lower interest on capital leases as the store portfolio matures, as well as increased interest income due to higher yield and investment balances.

In April 2018, we completed a cash tender offer for \$500 million of senior unsecured debt. We recognized a \$42 million loss on extinguishment of debt in the first quarter of 2018 which includes \$35 million of premiums paid to holders as a result of the tender offer, a \$4 million non-cash write-off of an interest rate hedge on tendered debt, and a \$3 million non-cash write-off of deferred financing costs and original issue discounts associated with the extinguished debt.

Income Taxes

| (Dollars in Millions) | Quarter | | |
|----------------------------|---------|-------|----------|
| | 2018 | 2017 | Change |
| Provision for income taxes | \$22 | \$43 | \$ (21) |
| Effective tax rate | (1640) | | |
| | 22.8% | 39.2% | bps |

The decreases in the provision for income taxes and the effective tax rate were primarily due to tax reform. Favorable audit settlements in 2018 and stock-based compensation also contributed to the decrease.

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

| | Quarter | | 2017 | |
|--|-----------|-------------|-----------|-------------|
| | 2018 | | Income | Earnings |
| | Income | Earnings | Income | Earnings |
| | beforeNet | Per Diluted | beforeNet | Per Diluted |
| (Dollars in Millions, Except per Share Data) | Income | Per Share | Income | Per Share |
| GAAP | \$97 | \$ 0.45 | \$109 | \$ 0.39 |

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| | | | | | | |
|--------------------------------|--------|--------|---------|--------|-------|---------|
| Loss on extinguishment of debt | 42 | 32 | 0.19 | — | — | — |
| Adjusted (Non-GAAP) | \$ 139 | \$ 107 | \$ 0.64 | \$ 109 | \$ 66 | \$ 0.39 |

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.

Although we expect that our operations will be influenced by general economic conditions, including food, fuel and energy prices, and by costs to source our merchandise, we do not believe that inflation has had a material effect on our results of operations. However, there can be no assurance that our business will not be impacted by such factors in the future.

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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) | | | Increase/(Decrease) | | |
|---------------------------------|-------|-------|---------------------|-------|---|
| | 2018 | 2017 | in Cash | | |
| | | | \$ | % | |
| Net cash provided by (used in): | | | | | |
| Operating activities | \$387 | \$46 | \$341 | 741 | % |
| Investing activities | (133) | (203) | 70 | 34 | % |
| Financing activities | (740) | (292) | (448) | (153) | % |

Operating Activities

Operating activities generated \$387 million of cash in the first quarter of 2018, an increase of \$341 million from the first quarter of 2017. The increase was primarily due to changes in accounts payable.

Investing Activities

Investing activities used cash of \$133 million in the first quarter of 2018, a decrease of \$70 million from the first quarter of 2017. The decrease was primarily due to prior year spending on our 5th E-commerce fulfillment center.

Financing Activities

Financing activities used cash of \$740 million in the first quarter of 2018, an increase of \$448 million from the first quarter of 2017.

During the first quarter of 2018, we completed a cash tender offer for \$500 million of senior unsecured debt and recognized a \$42 million loss on extinguishment of debt. This resulted in an 8 basis point reduction in our weighted-average coupon rate and extended the remaining weighted-average maturity of the portfolio by an additional 6 months. The debt tender is expected to reduce interest expense by approximately \$25 million on an annual basis.

We paid cash for treasury stock purchases of \$70 million in the first quarter of 2018 and \$156 million in the first quarter 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 \$101 million (\$0.61 per share) in the first quarter of 2018 and \$94 million (\$0.55 per share) in the first quarter of 2017. On May 16, 2018, our Board of Directors declared a quarterly cash dividend on our common stock of \$0.61 per share. The dividend is payable on June 27, 2018 to shareholders of record at the close of business on June 13, 2018.

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As of May 5, 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:

| | May | April |
|-----------------------|---------|----------|
| (Dollars in Millions) | 5, 2018 | 29, 2017 |
| Working capital | \$2,153 | \$2,096 |
| Current ratio | 1.76 | 1.72 |
| Debt/capitalization | 42.7 % | 47.9 % |

Our working capital and current ratio increased despite the cash tender offer for \$500 million of our senior unsecured debt in April 2018. Our debt/capitalization ratio reflects the benefit of lower debt outstanding.

Inventory per store decreased 7% from the first quarter of 2017. Accounts payable as a percent of inventory increased to 39.0% at May 5, 2018. Both were driven by our inventory management initiatives.

Debt Covenant Compliance

As of May 5, 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 extinguishment of \$500 million of our long-term debt as a result of the debt tender offer 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 May 5, 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

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disclosure controls and procedures (the "Evaluation") at a reasonable assurance level as of the last day of the period covered by this report.

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 May 5, 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 May 5, 2018, which were not registered under the Securities Act of 1933, as amended.

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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 May 5, 2018:

| | Total Number | | Approximate | |
|----------------------------|------------------|----------|--------------|-------------|
| | of Shares | | Dollar Value | |
| | Purchased as | | of Shares | |
| | Part of | | that May Yet | |
| | Average Publicly | | Be | |
| | Announced | | Purchased | |
| | Under the | | Plans | |
| (Dollars in Millions) | Total Number | Price | Announced | Under the |
| | of Shares | Paid Per | Plans or | Plans |
| | Purchased | Share | Programs | or Programs |
| February 4 - March 3, 2018 | 26,162 | \$64.89 | - | \$ 1,602 |
| March 4 - April 7, 2018 | 811,209 | 63.72 | 591,700 | 1,564 |
| April 8 - May 5, 2018 | 512,014 | 61.66 | 511,283 | 1,533 |
| Total | 1,349,385 | \$62.96 | 1,102,983 | \$ 1,533 |

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Item 6. Exhibits

| Exhibit | Description |
|---------|---|
| 10.1 | <u>Form of SEVP Employment Agreement*</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 |

*A management contract or compensatory plan or arrangement.

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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: June 8, 2018 /s/ Bruce Besanko
Bruce Besanko

On behalf of the Registrant and as Chief Financial Officer

(Principal Financial Officer)