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KSS BLACK BOOK

A CRITICAL QUARTER TO DIVIDEND CUT, AND EXTINCTION

OCT 19, 2016

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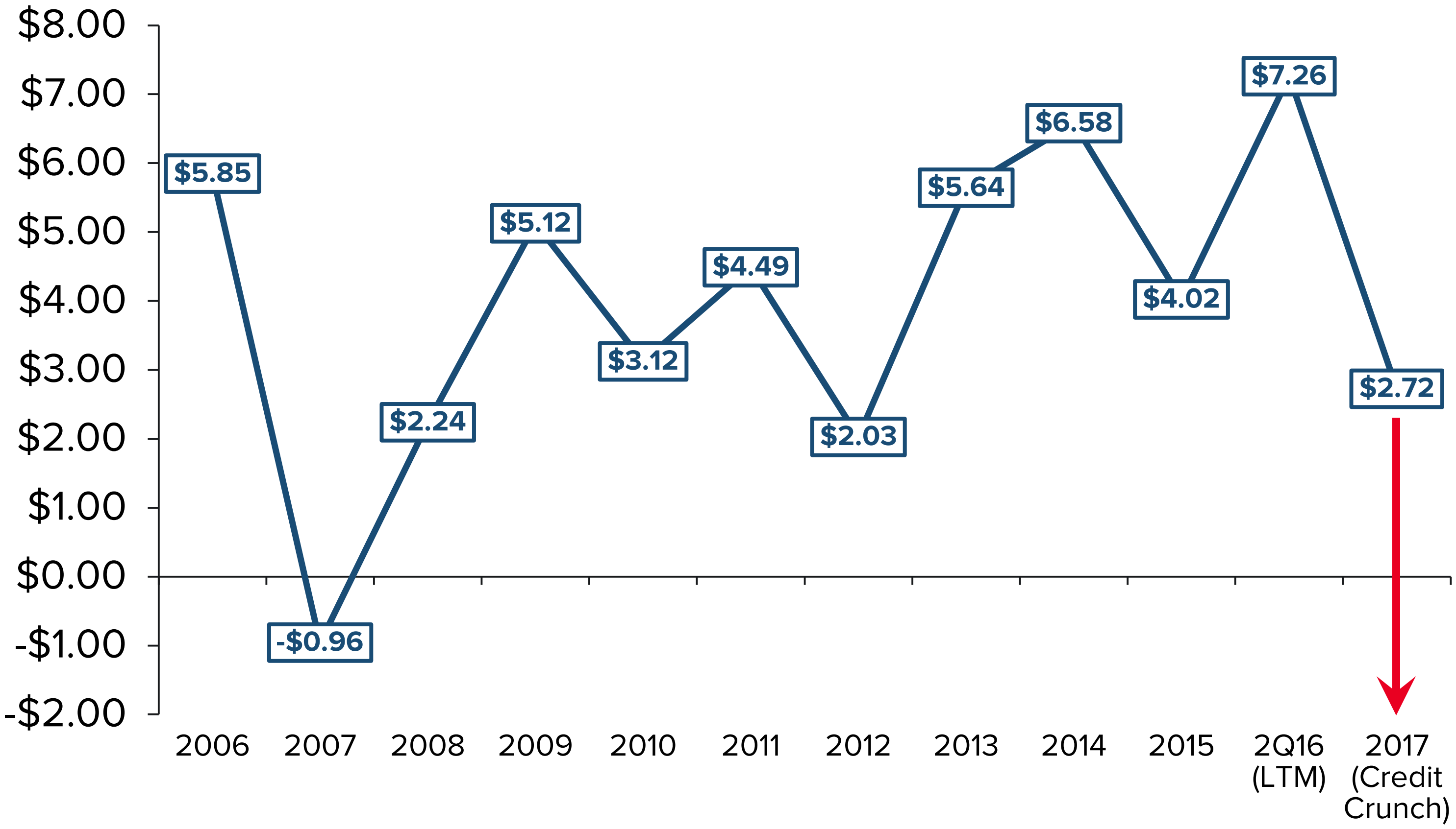
**ANSWERED AT THE END OF THE CALL*

ROADMAP TO A DIVIDEND CUT

FCF/SHR AT CONSIDERABLE RISK AS CREDIT STATS WEAKEN



On both the P&L and cash generation. Less access to credit dries up comps, hit to GM, and cost cutting on SG&A can't stop credit bleed.

Access to credit dries up with max leverage ratio at 3.75 Debt/EBITDAR. Next thing left to go is buyback and dividend.

Key Assumptions:
Comps: -4%
GM: -100bps
SG&A: +1% (core +0%, credit income back to 2014 levels)

Data Source: Hedgeye Risk Management, Company Reports

ROAD TO EXTINCTION

1

SET UP FOR 'BETTER THAN BAD' QUARTER

Inventories corrected. Growth and margin expectations are muted. Likely to pull the goalie on SG&A again — accelerating share loss in '17, but no one knows/cares now. Credit unlikely to spank KSS (hard) for another 2 quarters — and management won't guide to any credit pain. BUT...if KSS does not beat this quarter, it likely never will without a serious correction in expectations.

2

ROAD TO A DIVIDEND CUT AT CYCLE-TURN

There's simply not as much cash flow as people think when comps flat-line at –4%, and deflationary pressures increase. Then stock repo dries up. Then Mansell finally gets fired (though the best CEO in Retail can't fix this company). Then the dividend goes away.

3

ROAD TO EXTINCTION. SO MANY 'THEN'S

Then leverage increases. Then stores close after the economy stabilizes . Then more stores close. Then nobody takes it out — no call option on a deal (public or private). Then the equity stops trading. Then KSS ceases to exist

Not as much cash as everyone thinks. We're modeling CFFO going from $1.6bn in '16 to $650mm in 3 years.

Data Source:

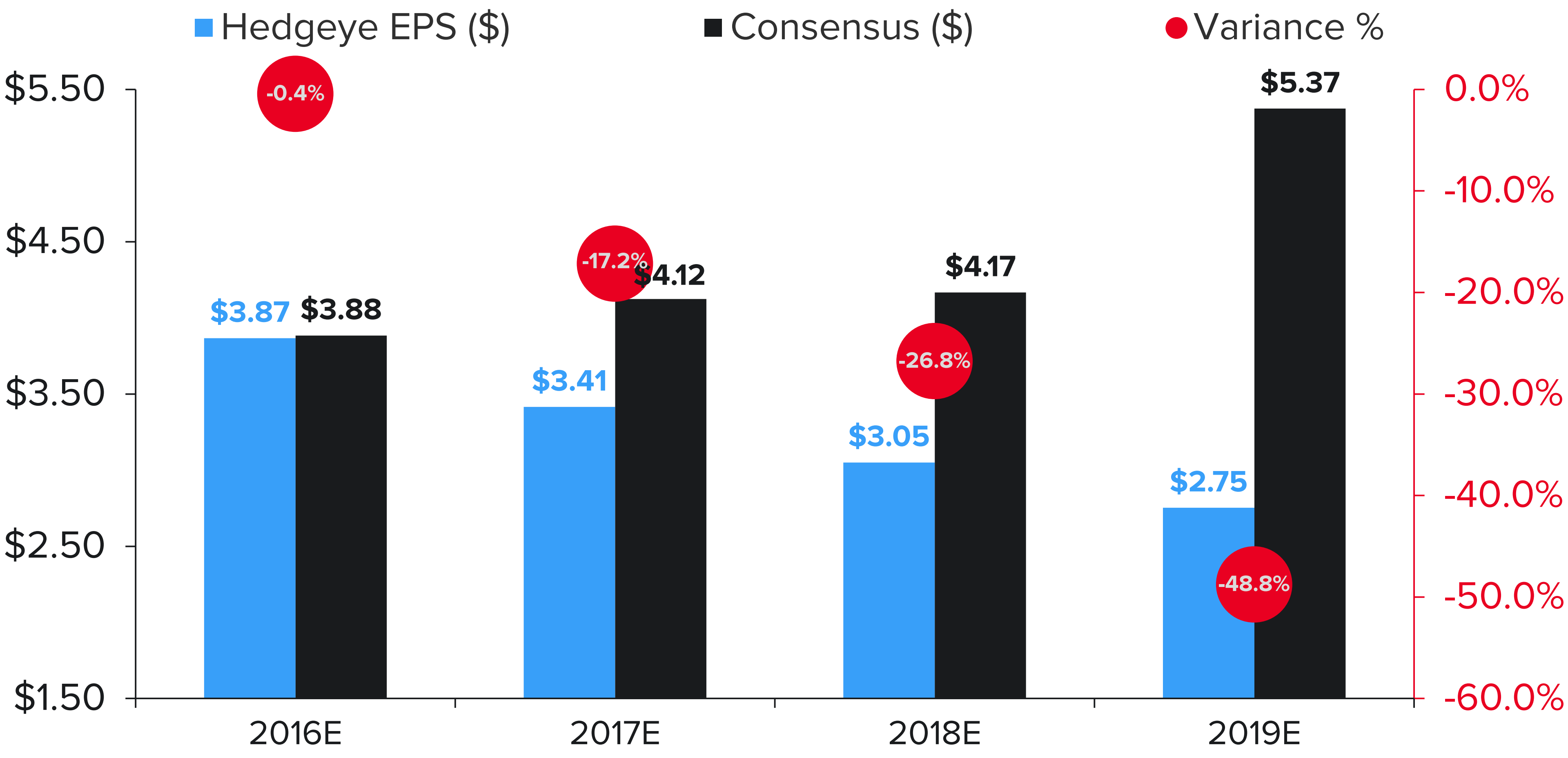
KSS EARNINGS TABLE

Kohl's $43.22

Financial and Valuation Summary					
FY16 ends Jan 2017	**3QE**	**2016E**	**2017E**	**2018E**	**2019E**
Hedgeye EPS ($)	**0.71**	**3.87**	**3.41**	**3.05**	**2.75**
Consensus ($)	0.71	3.88	4.12	4.17	5.37
Variance %	0.7%	-0.4%	-17.2%	-26.8%	-48.8%
Sales ($MM)		18,801	18,794	18,872	19,024
EBIT Margin		7.5%	6.7%	6.0%	5.3%
EBITDA ($MM)		2,348	2,209	2,099	2,013
FCF Per Share ($)		4.90	1.17	1.53	0.41
Book Value Per Share ($)		28.42	27.35	30.78	34.06
Net Debt to Total Capital		30.2%	37.2%	33.1%	31.1%
P/E		11.2 x	12.7 x	14.2 x	15.7 x
EV/EBITDA		4.4 x	4.5 x	4.9 x	4.9 x
Price/Book		1.5 x	1.6 x	1.4 x	1.3 x
Cash Yield		11.3%	2.7%	3.5%	0.9%

Data Source: Hedgeye Risk Management, Company Reports, FactSet

KSS ESTIMATES: EPS VS CONSENSUS

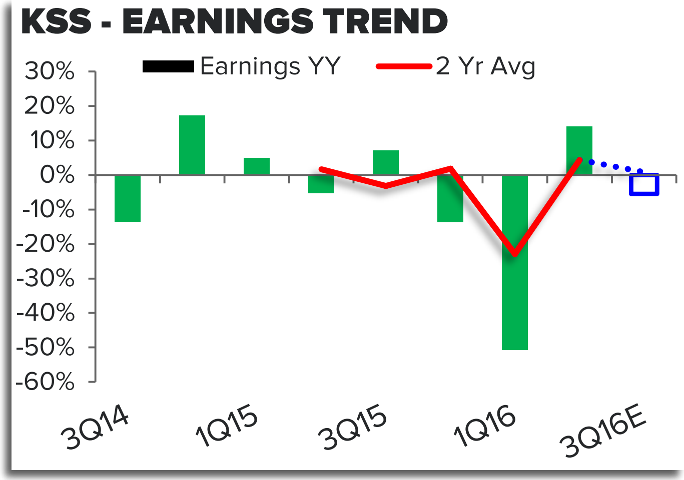


Data Source: Hedgeye Risk Management, Company Reports, FactSet

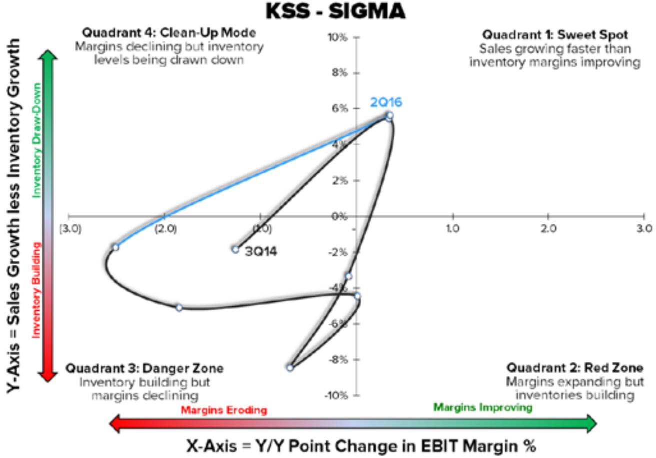
NEAR TERM CONSIDERATIONS

THIS QUARTER MATTERS

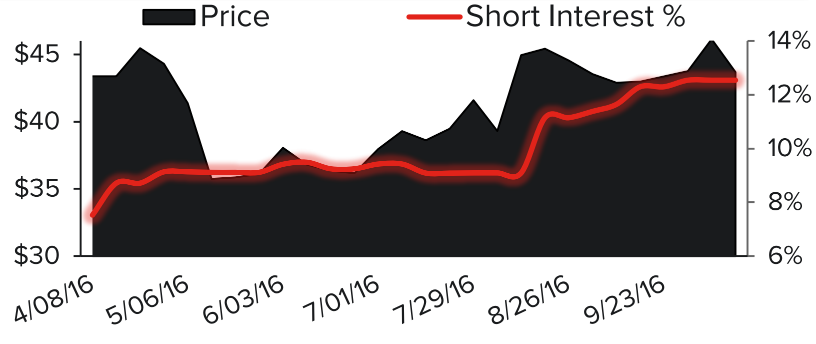
THIS QUARTER IS CRITICAL FOR THE KSS SHORT THESIS



2. On the flip side, the stock is up 33% since the June low of $34 with short interest nearly 2x April Levels.

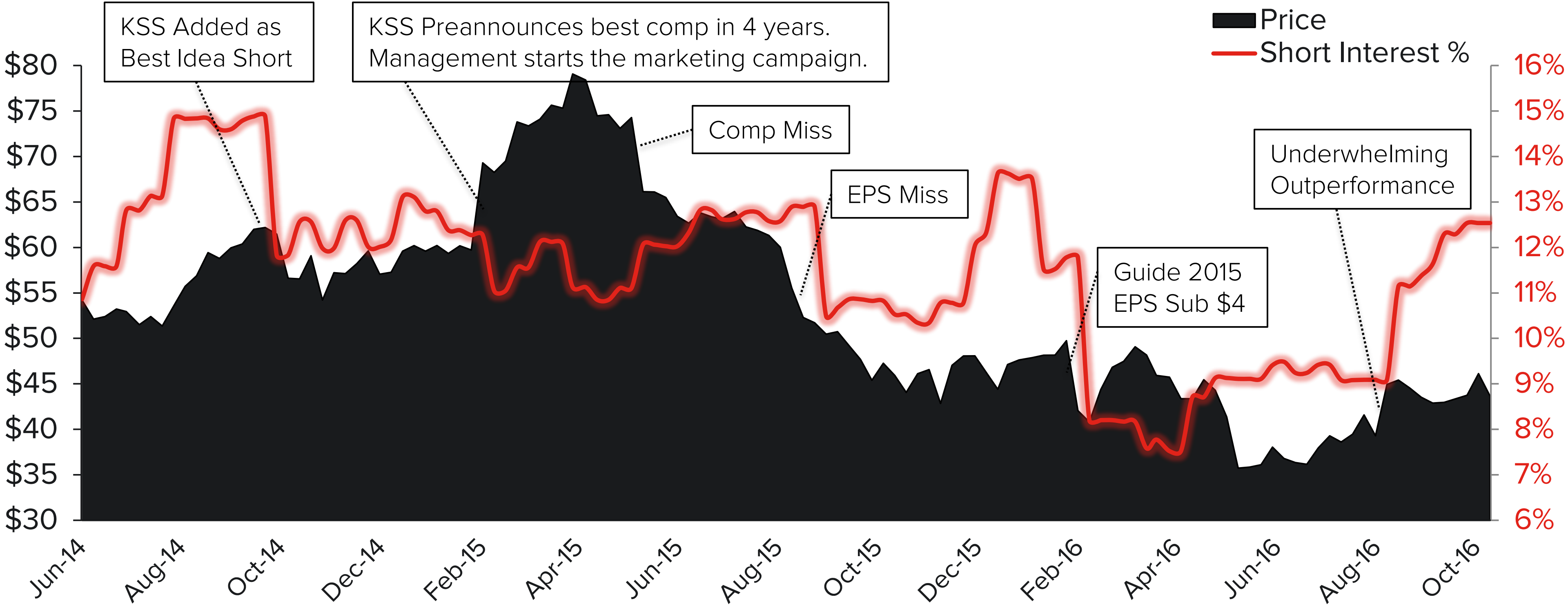


1. If ever a quarter for KSS to surprise on the upside, this is probably it.



3. KSS sales outgrew inventory for the first time in nearly 2 years. The channel is leaner.

KSS STOCK TIMELINE

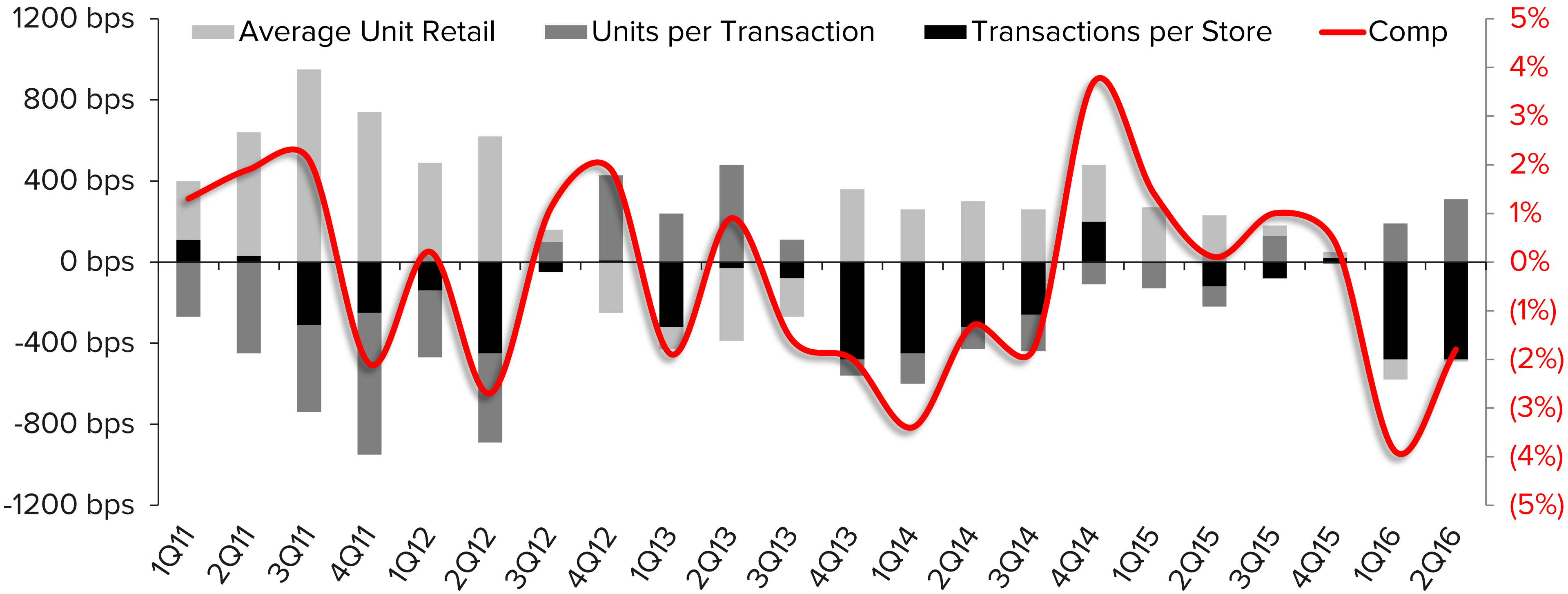


KSS PRICE VS. SENTIMENT SINCE JUNE 2014

KSS is up $10 off the lows, though short interest has followed it every step of the way. 12.5% is the third highest in three years.

Data Source: Hedgeye Risk Management, Company Reports, FactSet

IS -4% TRAFFIC SUSTAINABLE OVER TREND DURATION?

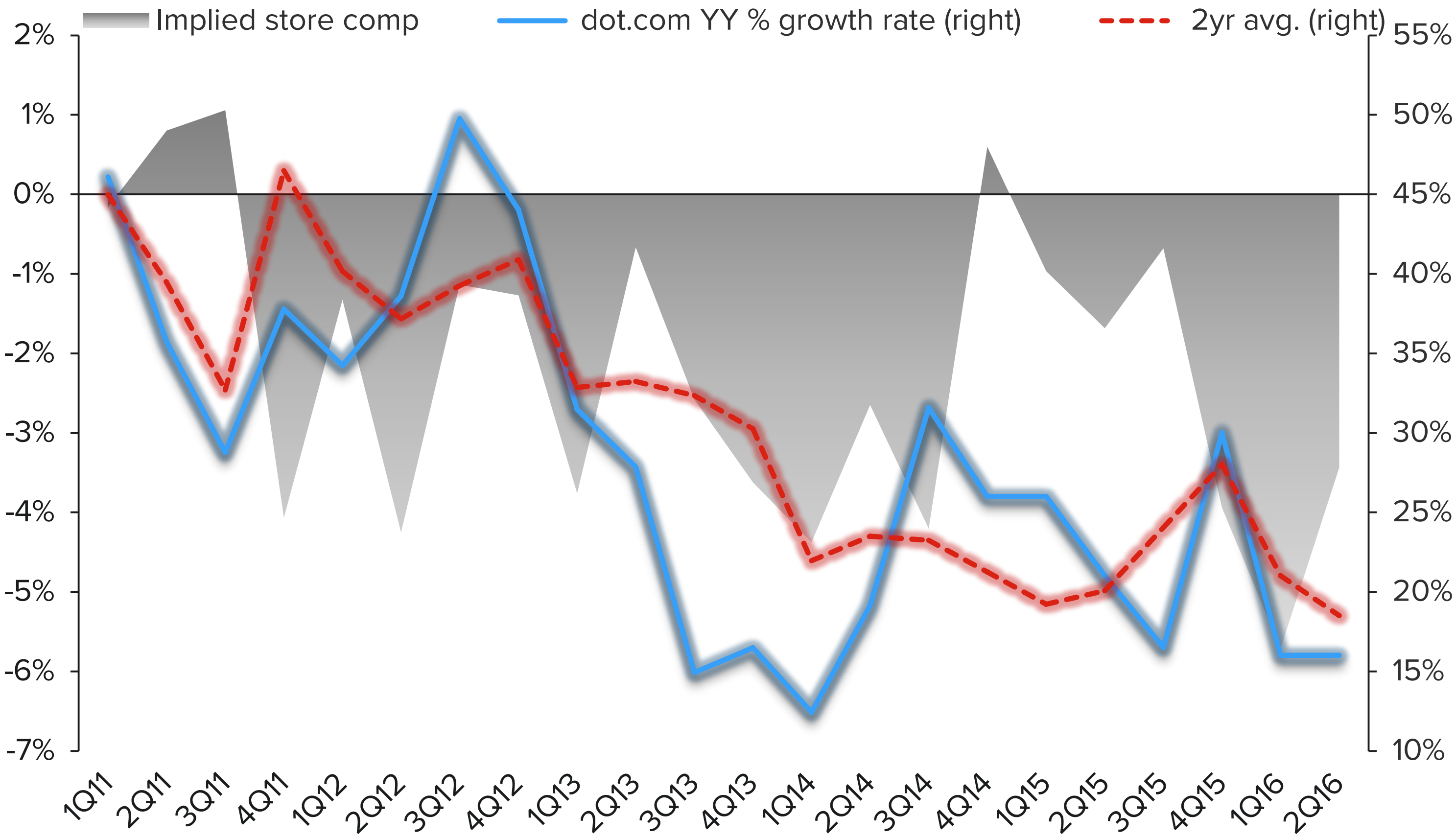


POSITIVE COMPS DEPENDENT OF FLAT OR BETTER TRAFFIC

‘Flat/+’ only happened 5 times in 5yrs. -4% in over the past two quarters and comps stay tough over next 6 months.

E-COMM NOT THE BUFFER IT ONCE WAS

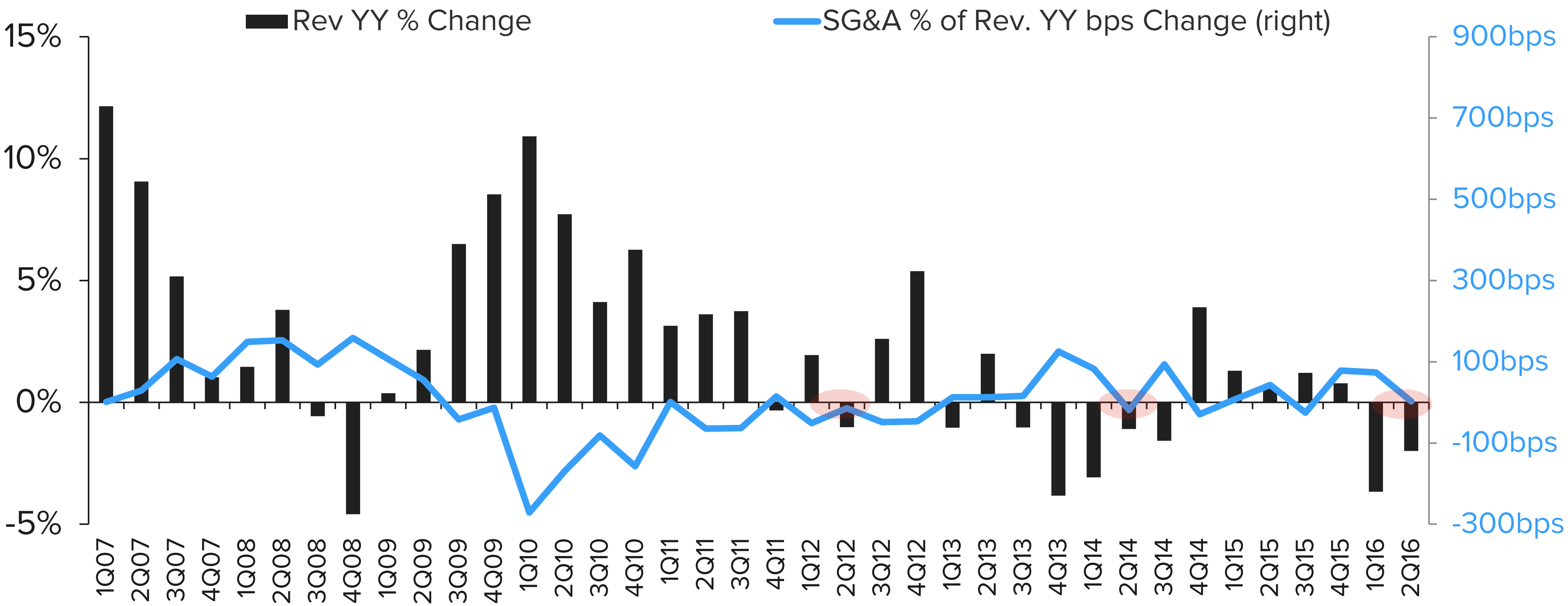
18 OF PAST 19 QUARTERS, STORE COMPS NEGATIVE



E-comm decelerating from high-20% growth rate to the mid-teens.

Not enough buffer to offset a store base that continues to deteriorate on the margin.

KSS NOT A STRANGER TO SG&A LEVERAGE ON NEG COMPS

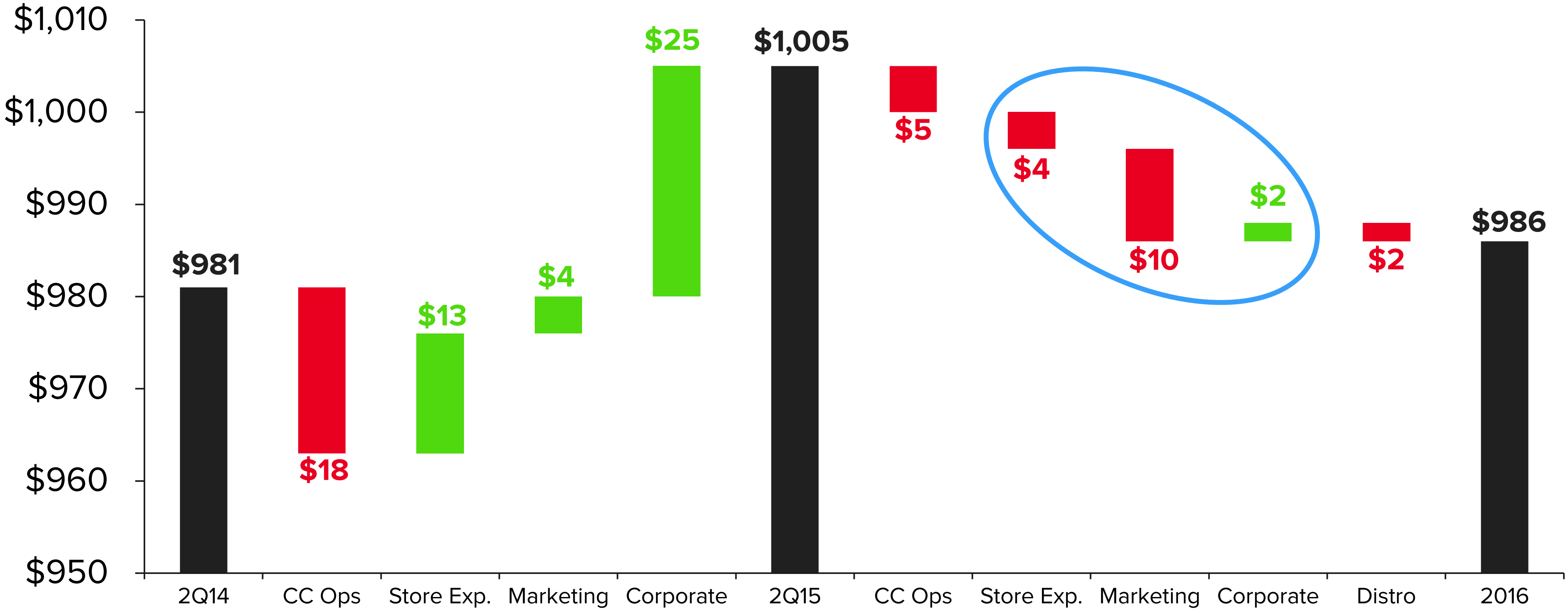


KSS HAS LEVERAGED SG&A ON NEGATIVE COMPS 3 TIMES IN 4 YEARS

This is both a risk and opportunity on the short side. 1. Lack of investment pressures top line and makes it near impossible for KSS to ‘comp the easy comp’. 2. Is there anything left to cut? But 3. We’d have asked this question in the past, and KSS still found a way to leverage SG&A. Most of that was credit (SG&A offset). One quarter left on that front.

Data Source: Hedgeye Risk Management, Company Reports

PULLING THE GOALIE WHERE IT SHOULDN'T

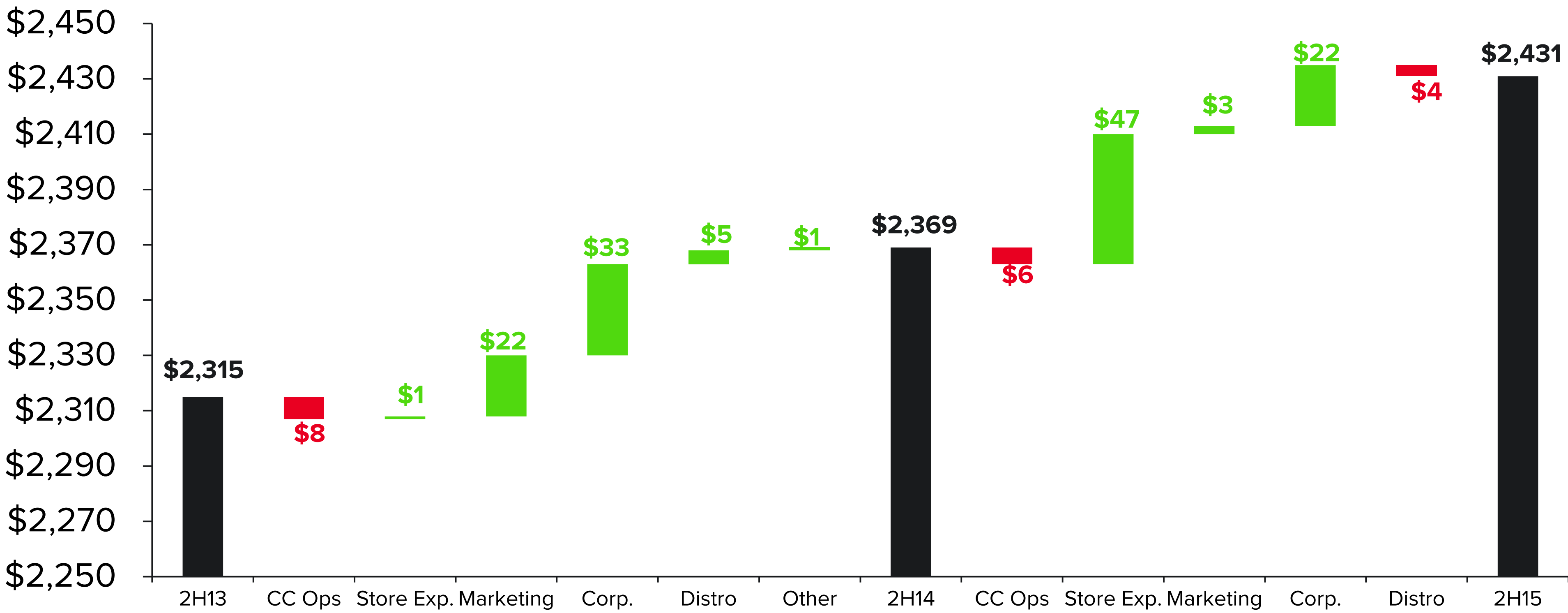


STORE EXPENSES, MARKETING, CORPORATE ALL PULLED BACK ON

Late cycle defense = more market share lost. CC operations still positive but softer on the margin.

Data Source: Hedgeye Risk Management, Company Reports

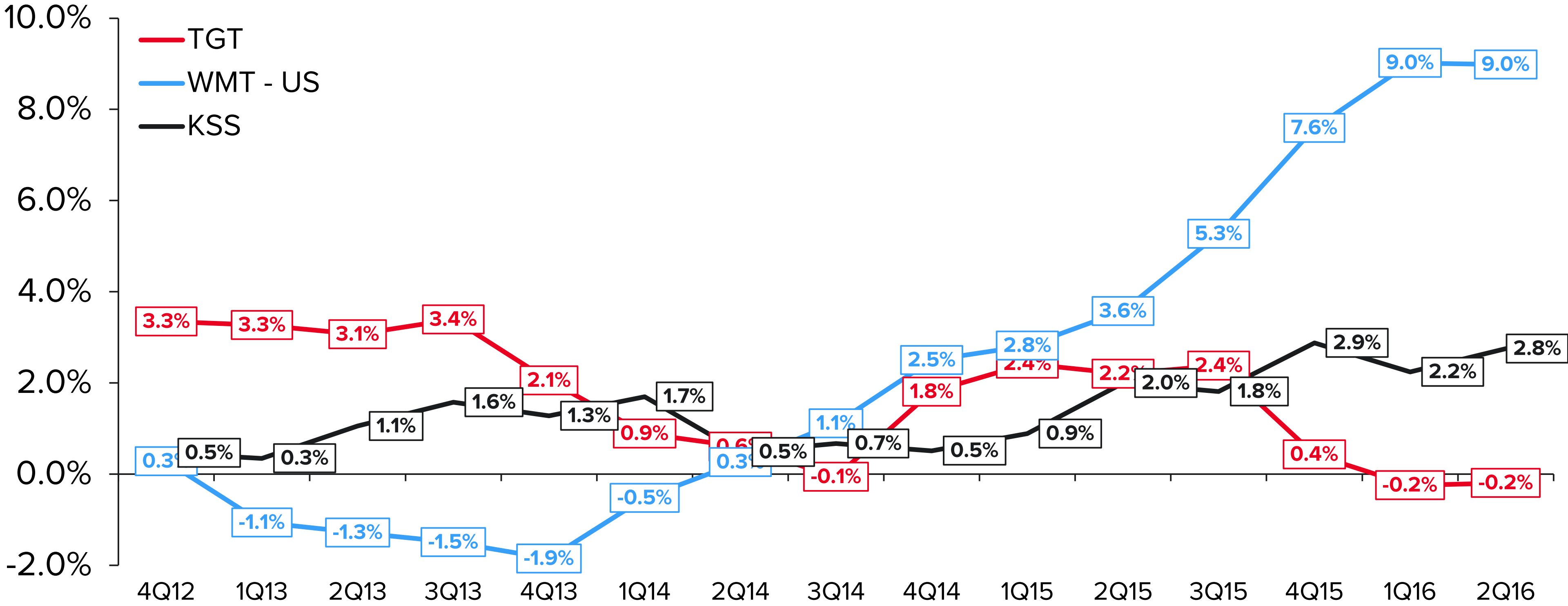
SG&A SETUP INTO 2H



CC Ops – continue to give a few pennies to the bottom line.
Store Expenses – hit primarily by wages. Negative comp pressure should continue to weigh against line. And WMT isn't backing off.
Marketing – 3Q should be a headwind, 4Q a tailwind, +- 25mm YY in each quarter, respectively.
Distro – slight efficiency savings in distro network, offset on the GM line.

Data Source: Hedgeye Risk Management, Company Reports

WATCH OUT FOR WMT

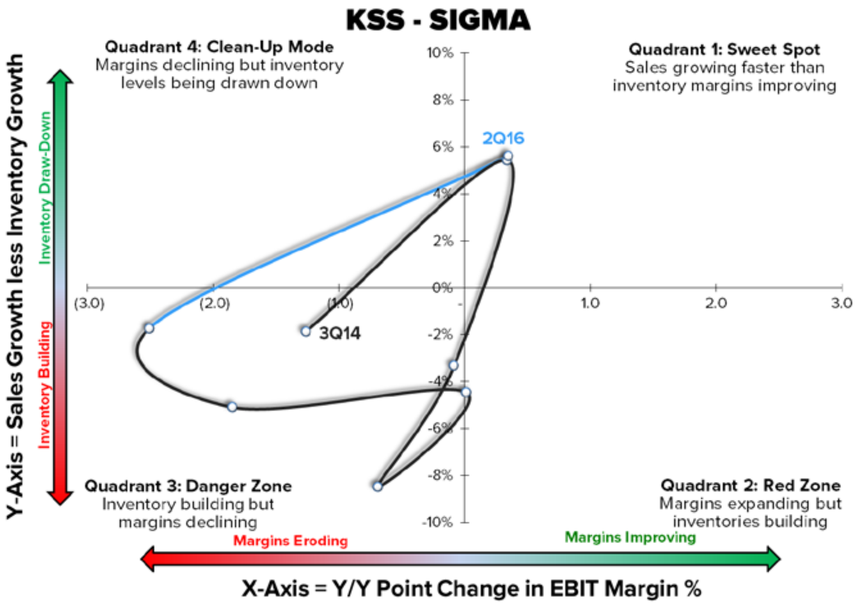


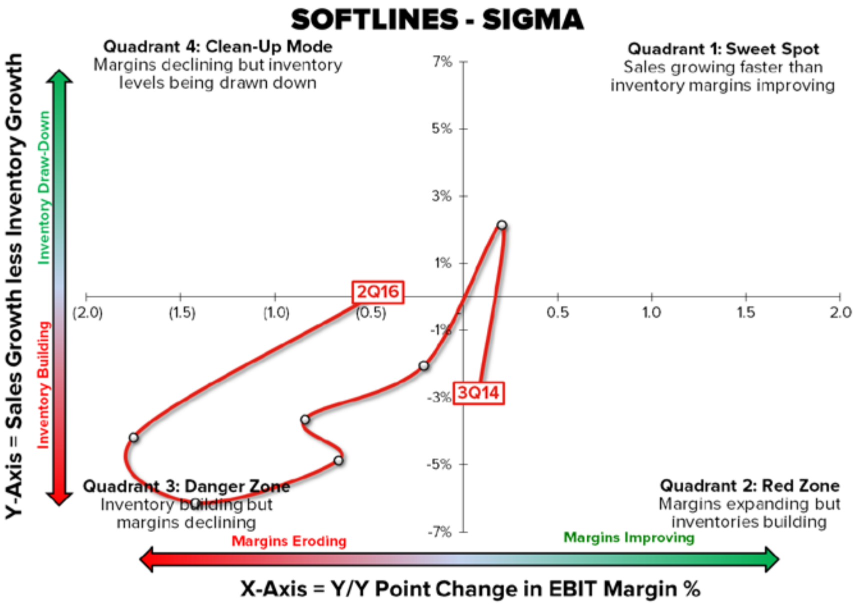
AND WE EXPECT THAT TO CONTINUE FOR KSS…

Not as big an offender as TGT – though D&A and Credit muddy the water. WMT is investing big time. There's a first, second and third derivative impact.

Data Source: Hedgeye Risk Management, Company Reports

GROSS MARGIN CATALYSTS FOR NOW





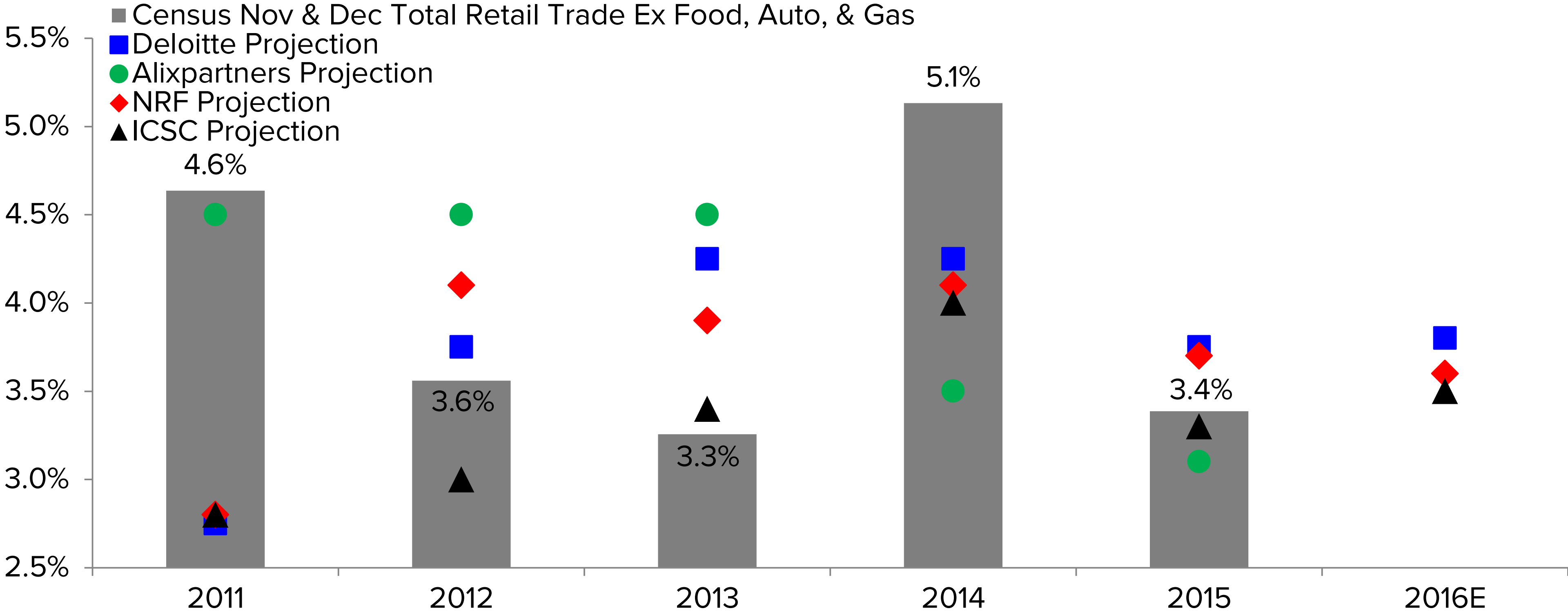
FAVORABLE GM SETUP

Inventory cleaned up sets up favorably for margins against easy Gross Margins compares in the back half. Particularly in 4Q.

FOR KSS, AND REST OF INDUSTRY

Rest of industry supports that, buying light ahead of Holiday.

HOLIDAY SALES PROJECTIONS



HOLIDAY SALES PROJECTIONS & DISCRETIONARY RETAIL ACTUAL

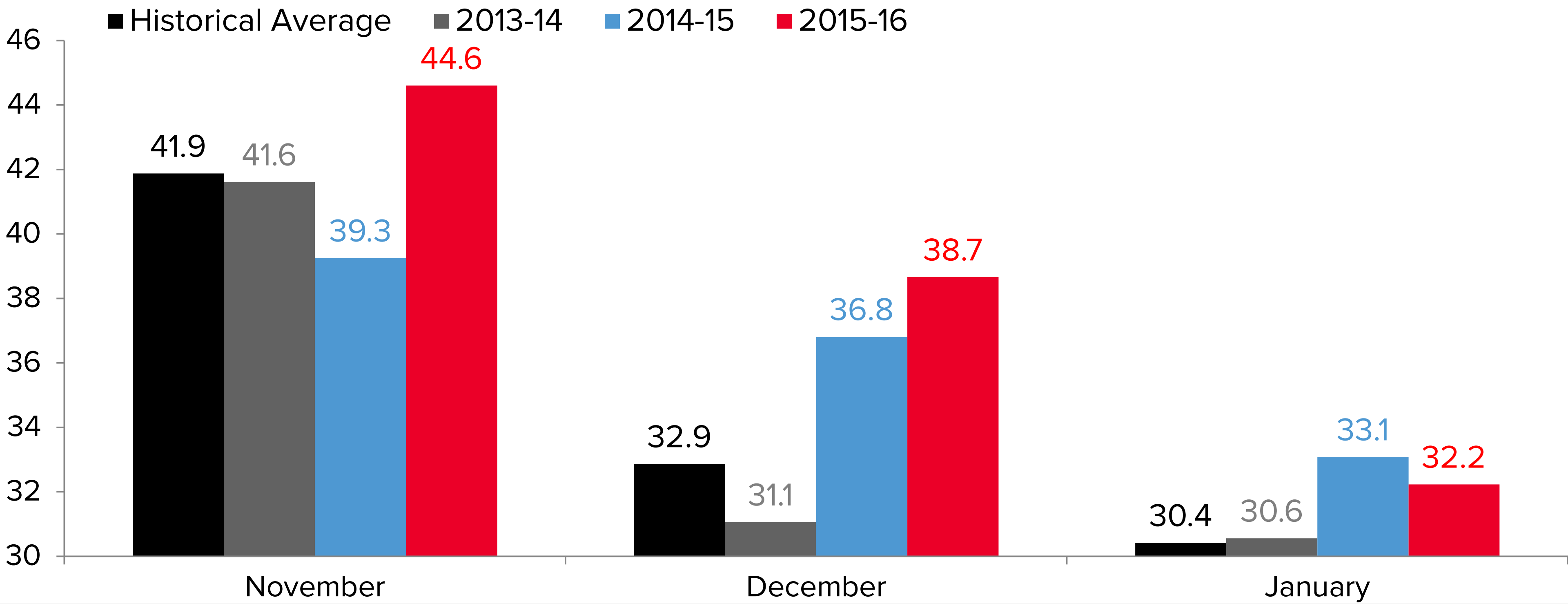
We don't give much credence to these projections.

They are generally deviate by +/- 1% from reality and tend to over shoot the real growth rate.

But this year, they're tight. In '11 and '14 equally tight, and big beat. Not this time.

Data Source: Hedgeye Risk Management, Census.gov, Alix Partners, Deloitte, ICSC,NRF

‘THE WEATHER CALL’ YES, IT WAS WARM LAST YEAR

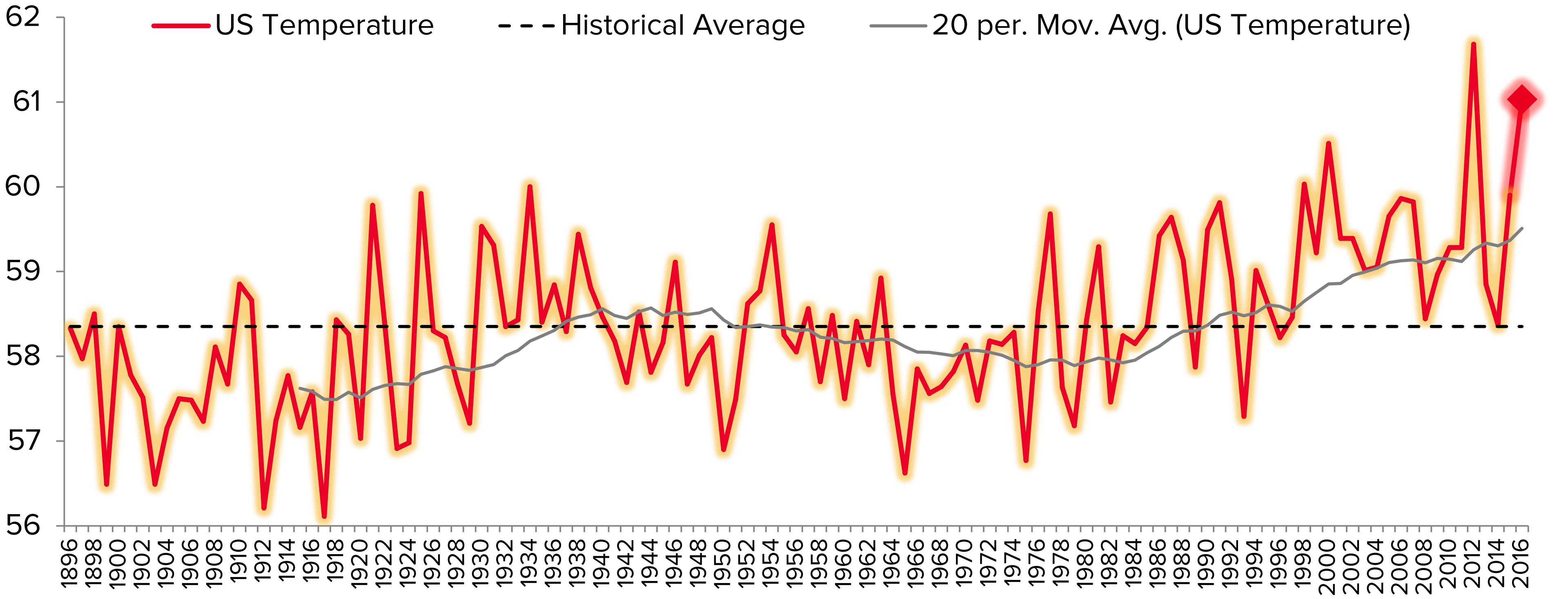


CONTIGUOUS US AVERAGE TEMPERATURE BY MONTH

Is everyone making the same “weather is good” call? Just MAYBE it’s consensus by this point?

Data Source: Hedgeye Risk Management, noaa.gov

KEEP IN MIND THAT THIS IS SECULAR, NOT CYCLICAL



1896-2016 CONTIGUOUS US AVERAGE TEMPERATURE FEBRUARY TO SEPTEMBER

Global warming, El Nino or whatever...believe what you want. But it's getting warmer. Period.

UA ISN'T THE ANSWER; BUT RAISES A KEY QUESTION

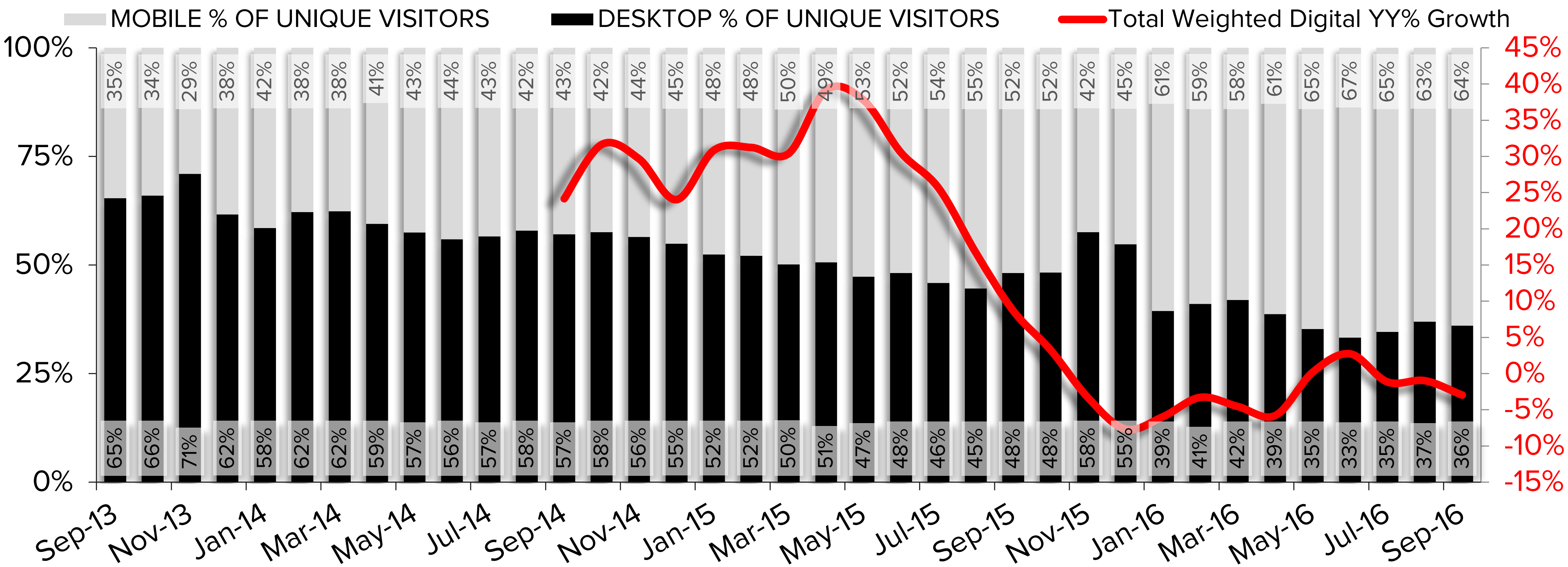
NKE Existing		UA Opportunity		Current Floor Set	
NKE Sales @ KSS	**$825**	**UA Sales @ KSS**	**$186**	**Legacy Prod @ KSS**	**$77**
# of KSS Doors	1,155	# of KSS Doors	866	# of KSS Doors	866
NKE $/Door	***$0.71***	***UA $/Door***	***$0.21***	***Legacy Prod $/ Door***	***$0.09***
KSS $	**19,204**	**KSS $**	**19,204**	**KSS $**	**19,204**
NKE % of sales	*4.3%*	*UA % of sales*	*1.0%*	*Legacy Prod % of Sales*	*0.4%*
KSS $/Avg Sq. Ft.	$191	KSS $/Avg Sq. Ft.	$191	KSS $/Avg Sq. Ft.	$191
Avg. Sq. Ft. (000)	100,397	Avg. Sq. Ft. (000)	100,397	Avg. Sq. Ft. (000)	100,397
NKE $/Avg Sq. Ft.	**$574**	**UA $/Avg Sq. Ft.**	**$344**	**Legacy Prod. $/Avg Sq. Ft.**	**$143**
NKE Premium	3.0x	UA Premium	1.8x	Legacy Prod. Premium	0.8x
NKE Sq. Ft. (000)	**1,438**	**UA Sq. Ft. (000)**	**539**	**Legacy Prod Sq. Ft. (000)**	**539**
NKE % of total sq. ft.	*1.4%*	*UA % of total sq. ft.*	*0.5%*	*Legacy Prod. % of total sq. ft.*	*0.5%*
NKE Sq. Ft./ Store	**1,245**	**UA Sq. Ft./ Store**	**622**	**Legacy Prod. Sq. Ft./ Store**	**622**
KSS Avg. Store Size	86,254	KSS Avg. Store Size	86,254	KSS Avg. Store Size	86,254
NKE % of Avg. Store	*1.4%*	*UA % of Avg. Store*	*0.7%*	*Legacy Prod. % of Avg. Store*	*0.7%*

=**$108mm** to KSS or **0.6%** comp lift in year 1

WE HEAR ABOUT NEW BRANDS AT KSS EVERY TIME THIS YEAR

Remember Juicy? Puma?
Just maybe the Athletic trend is getting long in the tooth when Nike accounts for 100% of KSS growth for 2-years, and then expands Athletic square footage for UA.

OK…THIS IS BAD

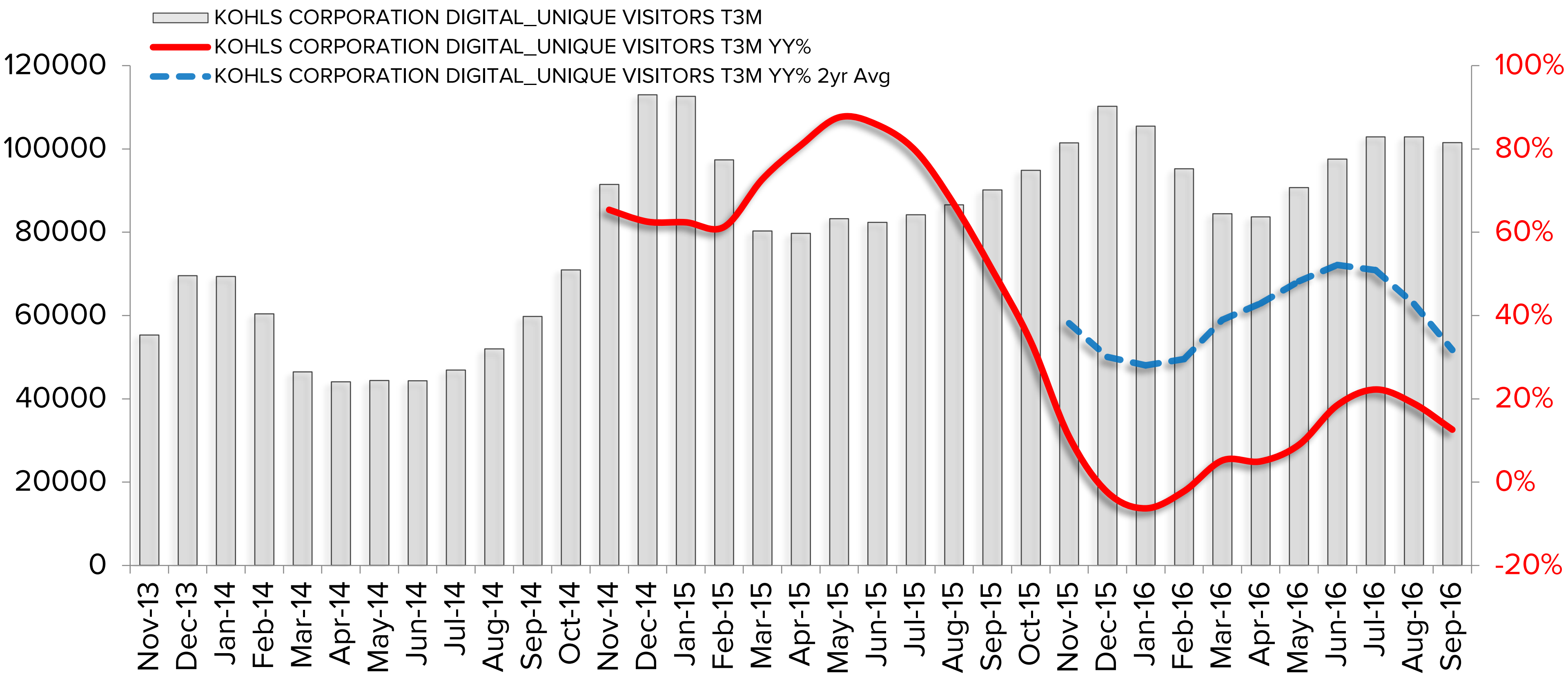


KOHL'S E-COMM TRAFFIC SLOWING

Mobile is gaining share of the total, but that's net negative (baskets are bigger on desktop). Also, for KSS the pie stopped growing this year.

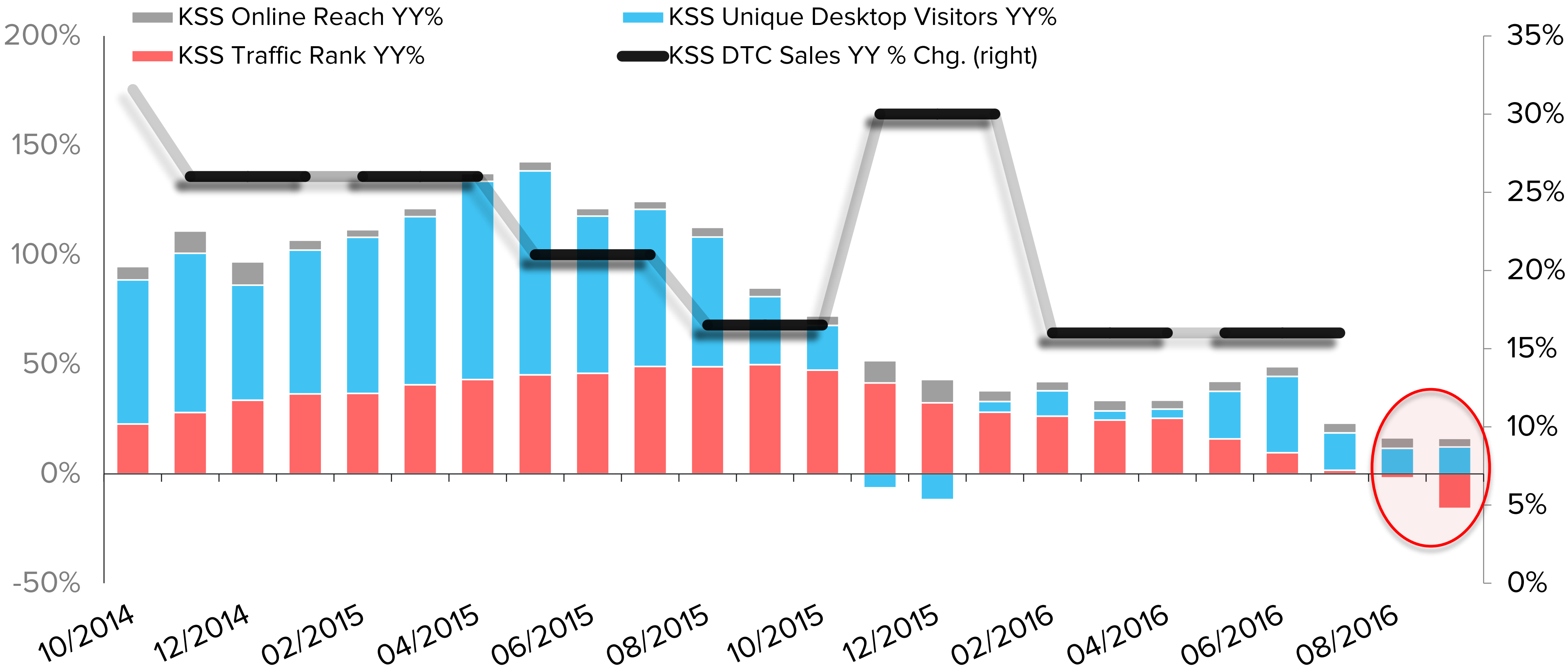
TOTAL DIGITAL/UNIQUE VISITORS SLOWING

KOHLS.COM DIGITAL TRAFFIC



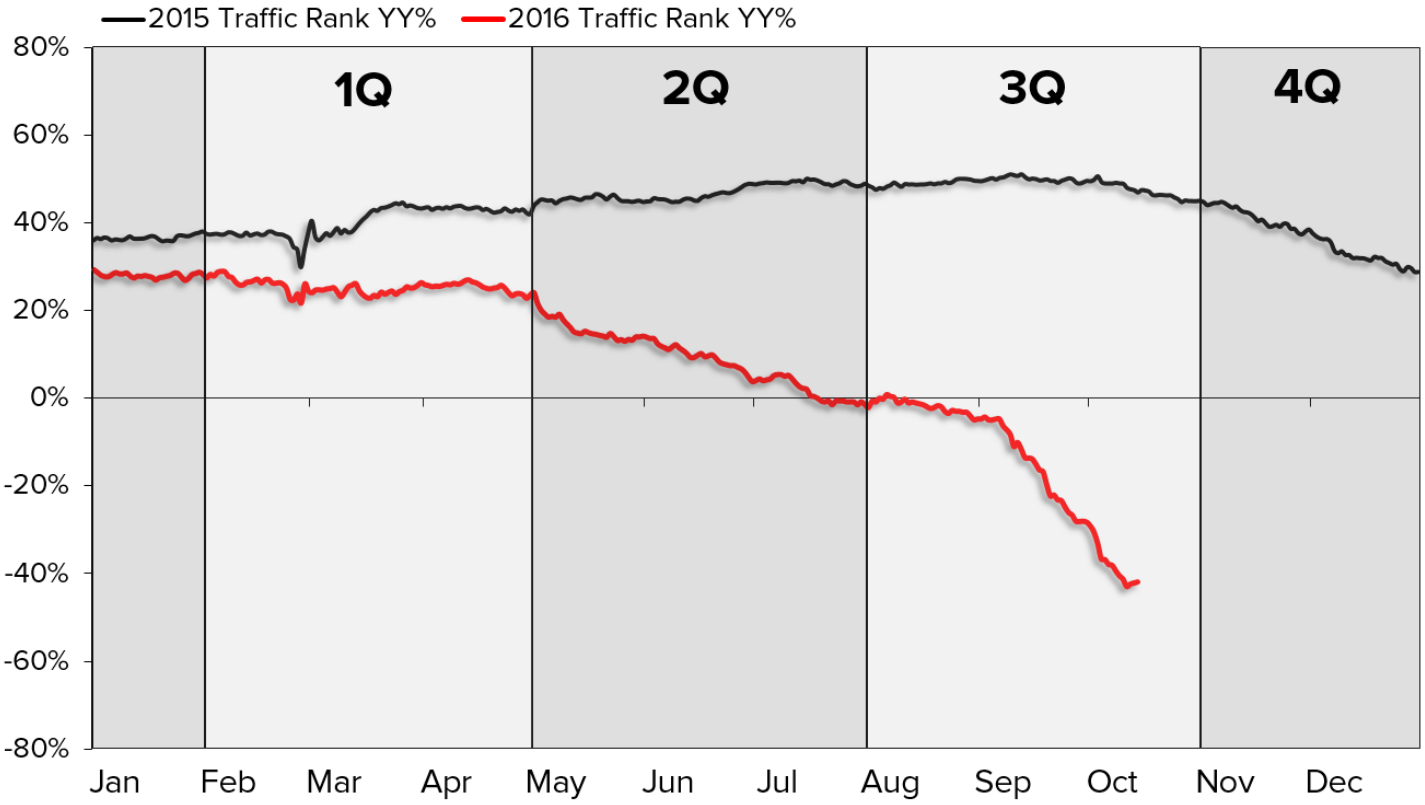
FIRST EVER NEGATIVE TRAFFIC RANK

KSS DTC SALES VS TRAFFIC GROWTH



GNARLY LOOKING TRAFFIC SLOPE

KOHLS.COM TRAFFIC RANK GROWTH

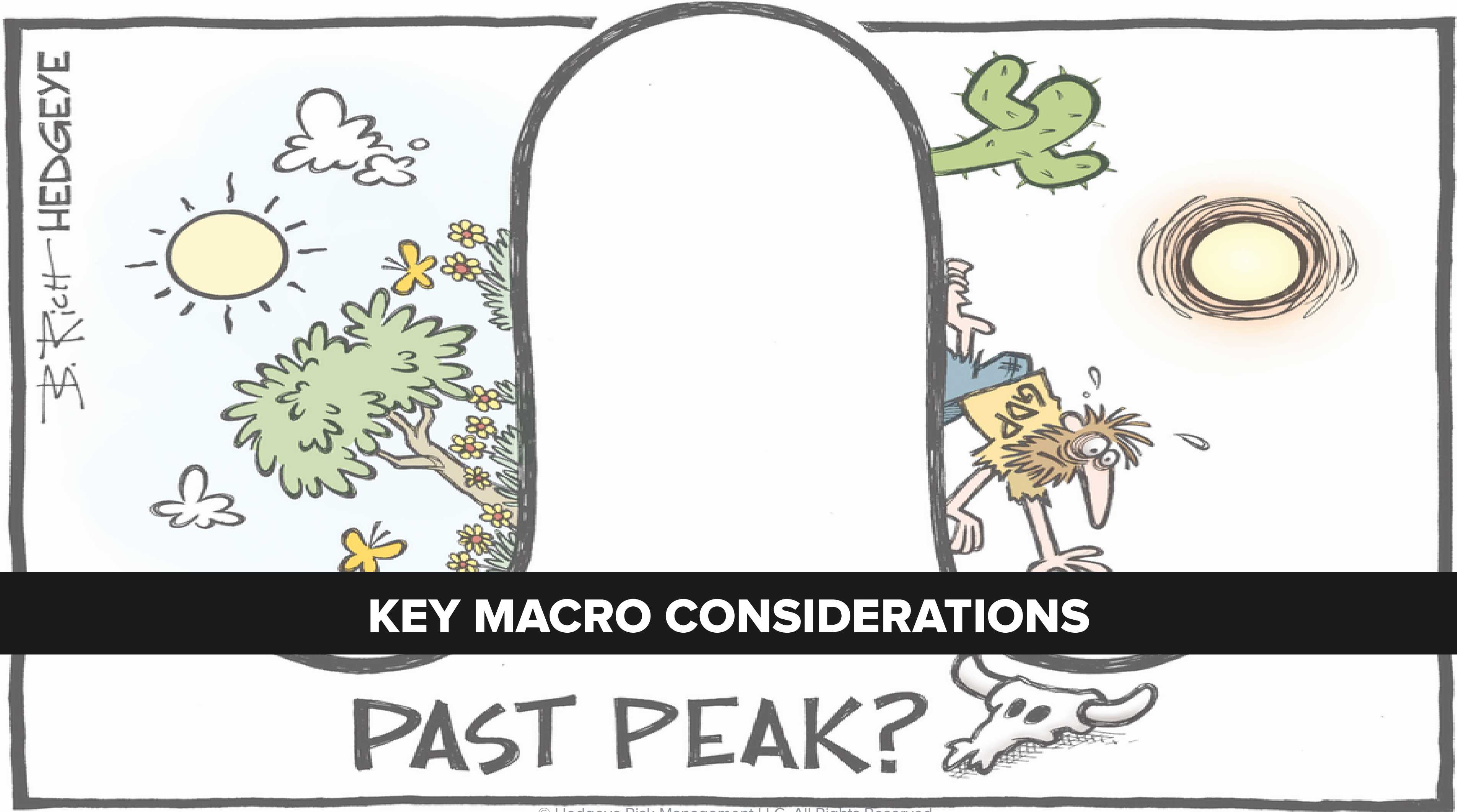


We've been in a downtrend all year.

But starting in late Summer we took another leg down.

Data Source: comScore, Compete, Alexa, Hedgeye Risk Management

KEY MACRO CONSIDERATIONS



MASSIVE BIFURCATION BY SUB-SECTOR

ONLINE ACCELERATING OFF HIGHER BASE

	2013	2014	2015	2016	CUM CHG	SHARE
Softline Retail	-29 bps	-29 bps	-13 bps	-34 bps	-104 bps	**6.9%**
Department Stores	*-28 bps*	*-16 bps*	*-17 bps*	*-20 bps*	*-81 bps*	***2.9%***
Home Furnishings	-1 bps	3 bps	7 bps	1 bps	9 bps	**2.0%**
Electronics & Appliances	-5 bps	-12 bps	4 bps	-13 bps	-25 bps	**1.9%**
Sporting Goods & Hobby	-7 bps	-7 bps	7 bps	5 bps	-2 bps	**1.7%**
Jewelry	2 bps	-1 bps	-4 bps	-1 bps	-4 bps	**0.6%**
Other GAFO	-12 bps	-34 bps	6 bps	-24 bps	-64 bps	**14.2%**
Home Improvement	34 bps	3 bps	4 bps	19 bps	61 bps	**6.3%**
Warehouse/Superstores	-5 bps	-8 bps	-6 bps	-14 bps	-33 bps	**8.1%**
General Merchandise	0 bps	-8 bps	-3 bps	-14 bps	-25 bps	**9.4%**
Food & Beverage	-30 bps	-3 bps	17 bps	-5 bps	-22 bps	**12.9%**
Restaurants/Food Service	-13 bps	15 bps	71 bps	36 bps	108 bps	**12.0%**
Online Only	17 bps	35 bps	34 bps	88 bps	174 bps	**10.2%**
Other	50 bps	46 bps	-125 bps	-44 bps	-72 bps	**13.7%**

LOSERS
- Softlines
- Gen Merch

WINNERS
- Home Improvement
- Restaurants
- Online ONLY

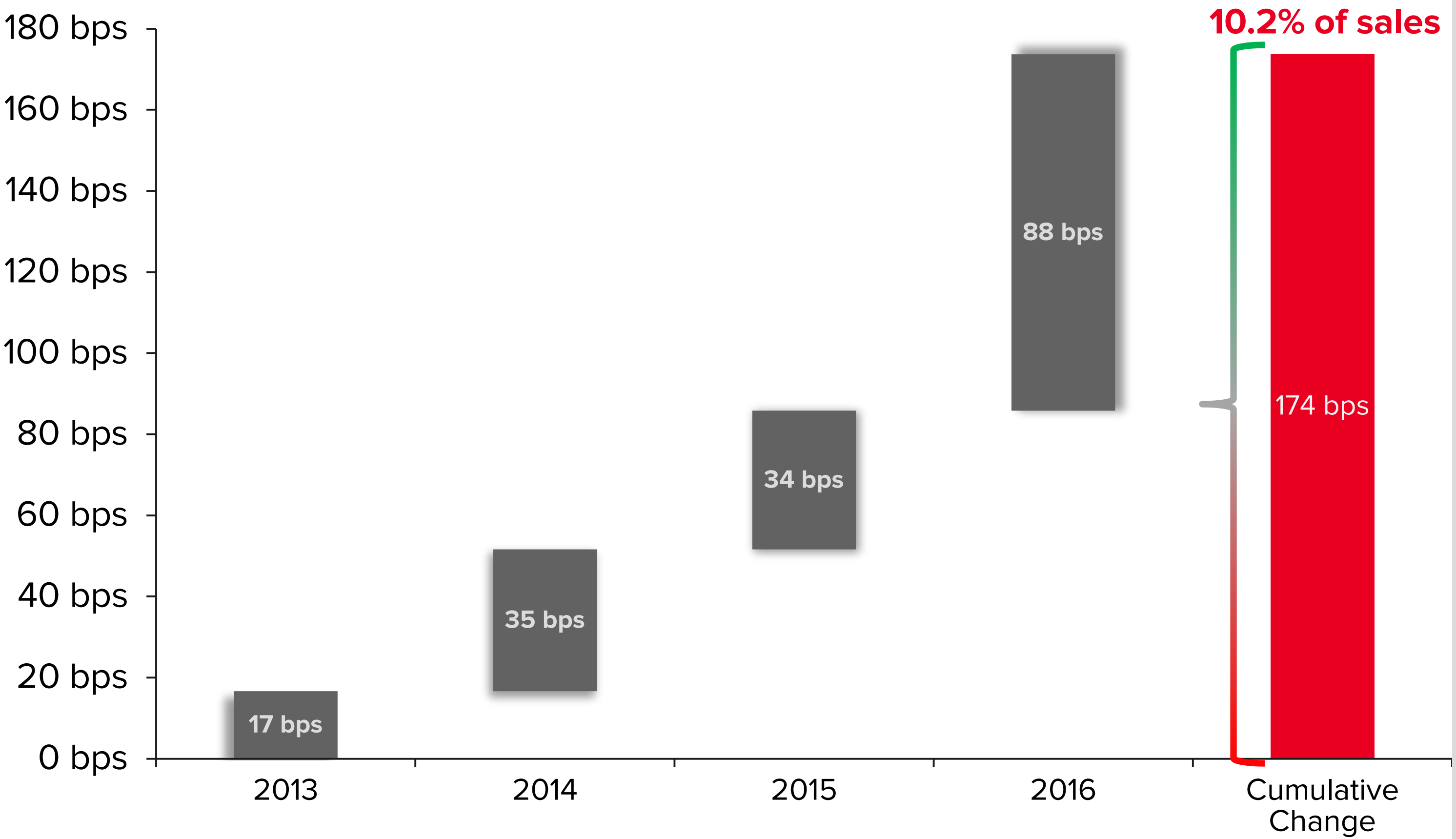
PUSH
- Home Furnish
- Restaurants
- Food
- SG

Note that the 2016 YTD change in 'online only' is equal to the cumulative change in the prior 3-years.

Accelerating of a Higher Base.

MOST MISUNDERSTOOD TREND IN RETAIL

ONLINE ONLY CARRYING RETAIL SALES GROWTH



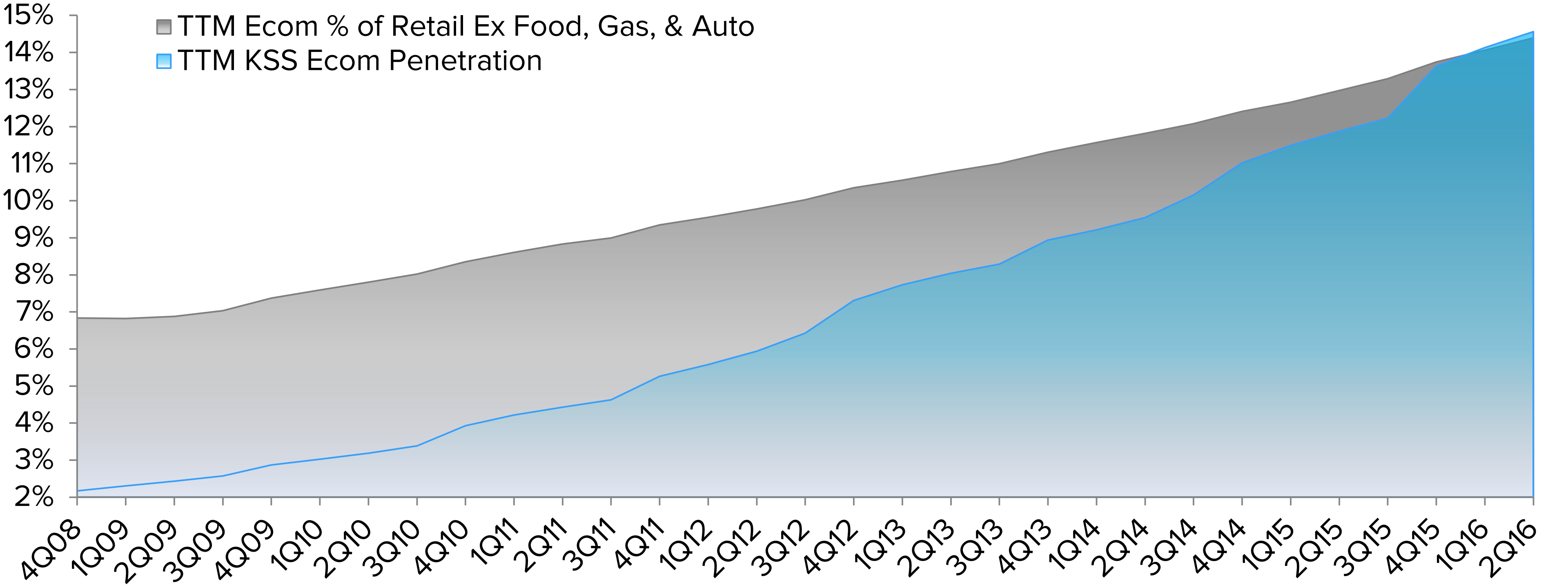
'Online Retailer' is accelerating…

SIGNIFICANTLY

…off a higher base

Data Source: Hedgeye Risk Management, Factset

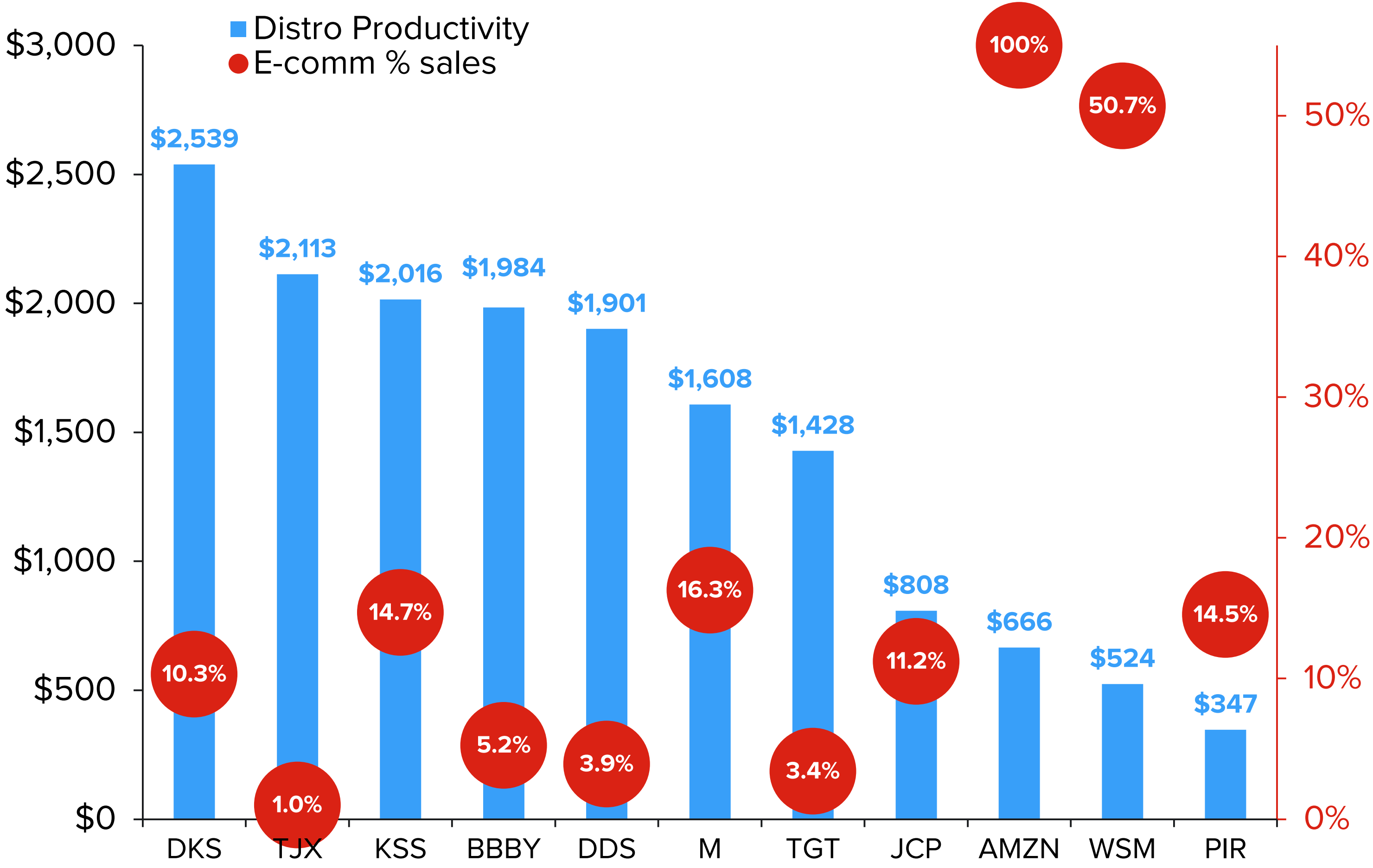
TO BE FAIR KSS HAS A ‘LESS THAN BAD’ E-COMM BIZ



KSS ECOMMERCE PENETRATION VS DISCRETIONARY RETAIL ECOMM PENETRATION

KSS’ e-comm is ‘Less Than Bad’, but it’s also ‘Less than Profitable’.

KSS – ONE OF MOST UNDERINVESTED IN E-COMM



Retailers, on the whole, are unprepared for the sea change we're seeing in changing purchasing patterns.

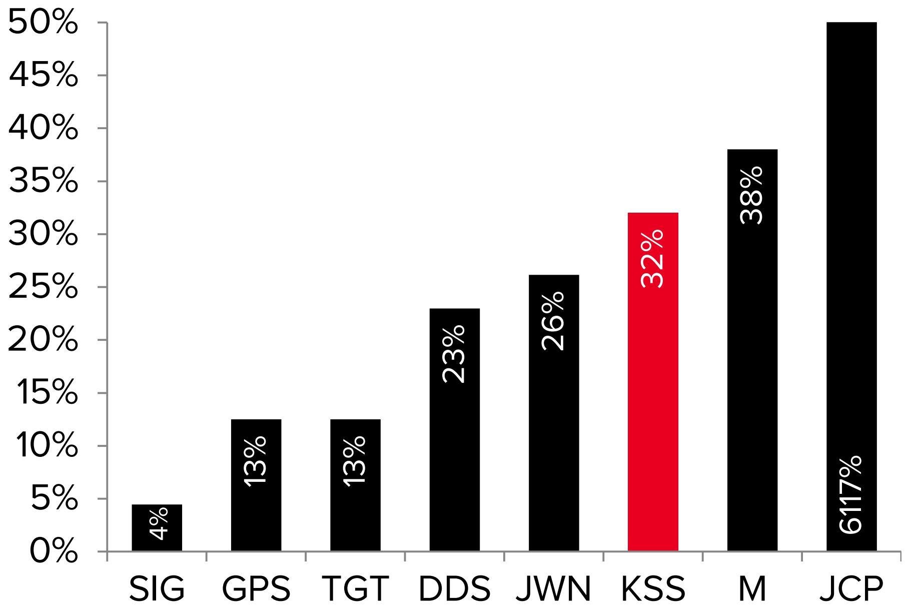
Good managements are investing. Most are not.

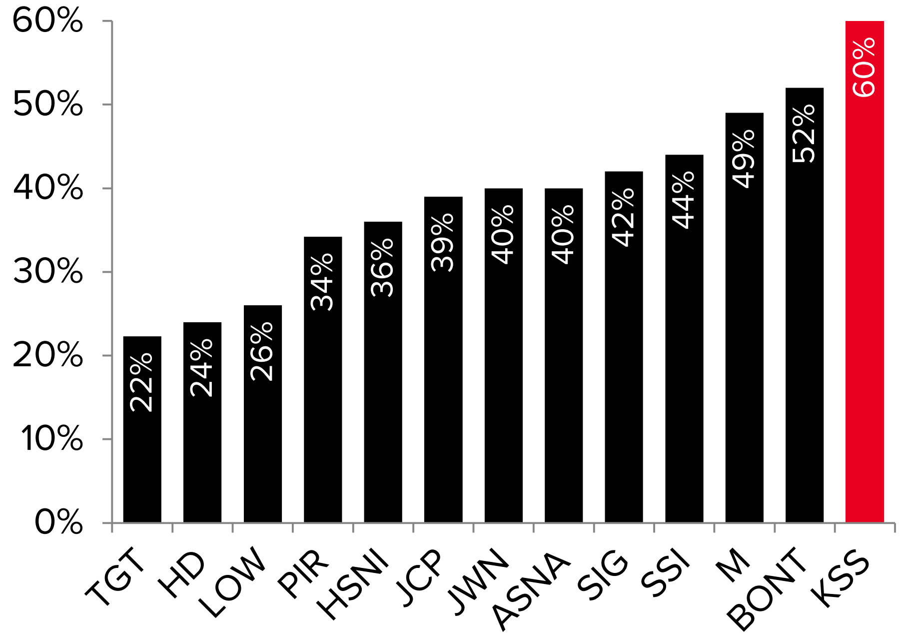
KSS – efficient distribution but need to invest to fill the gap. Hence new 1mm sq. ft. facility coming online in 2017.

Data Source: Hedgeye Risk Management, Company Reports, FactSet

CREDIT – WHY IT MATTERS

CREDIT PENETRATION IS MASSIVE





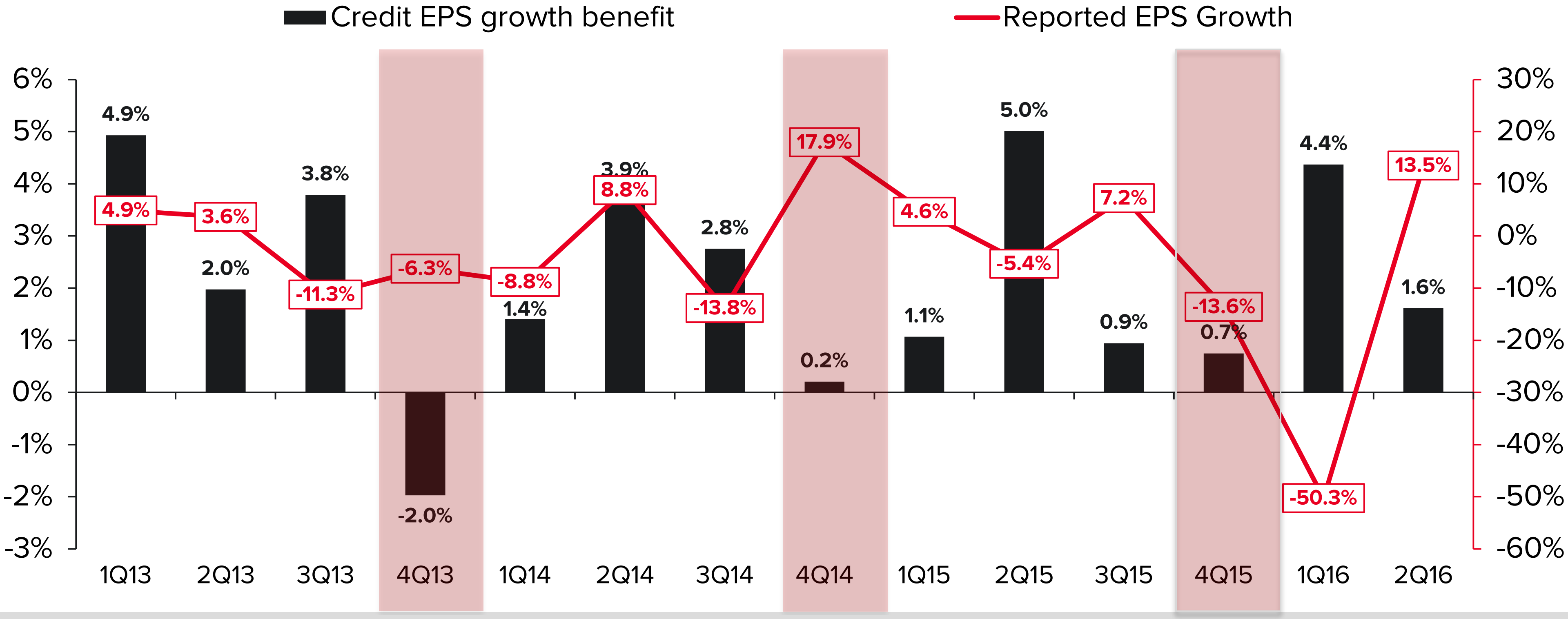
CREDIT CARD INCOME AS % OF EBIT

JCP just turned profitable again with the help of $367mm in Credit EBIT. KSS has been steadily growing as it switched from JPM to COF and the cycle progressed.

PRIVATE LABEL CARD SALES PENETRATION

KSS the highest sales leverage to its Private Label Card in all of retail.

STILL BENEFITING FROM CREDIT – WATCH 4Q



CONSISTENTLY AN EARNINGS BUFFER

That's a big deal for a company who hasn't grown net income in 5years.

4Q could be a big credit income quarter

ARE THERE ANY CUSTOMERS TO BE FOUND?

KOHL'S CUSTOMER PENETRATION

	TARGETED AGE RANGE		
	30-60 yrs	**61-80 Yrs**	**Total**
Total US Population (mm)	126.9	52.9	179.8
Female	64.7	27.0	91.7
Male	62.2	25.9	88.1
	30-60 yrs	**61-80 Yrs**	**Total**
Adjusted Target Market			
Female (75% = KSS Potential Market)	48.5	20.2	68.8
Male (15% = Potential Market)	9.3	3.9	13.2
Total in Core Demo	57.9	24.1	82.0
KSS Customers			**63.4**
Customer Penetration			**77.3%**

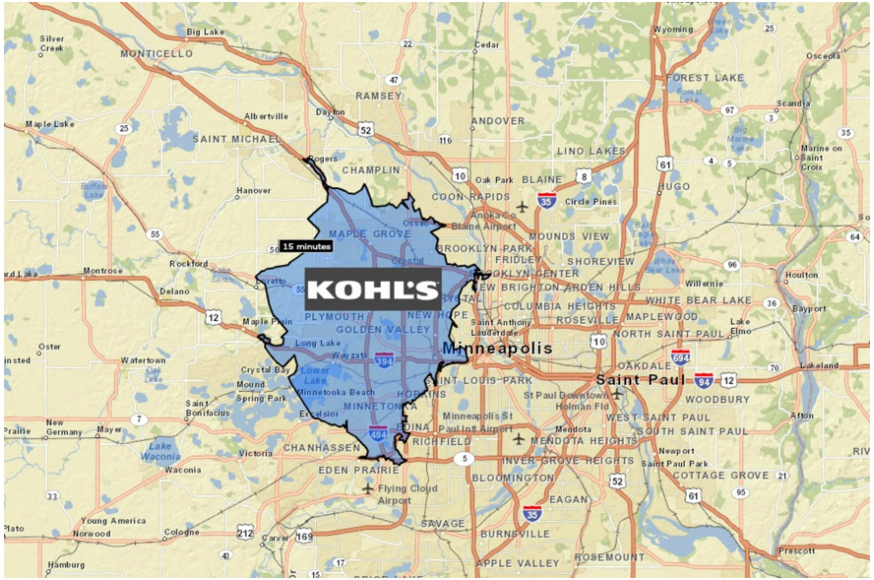
Kohl's is already over 75% penetrated into its potential customer base.

Data Source: Hedgeye Risk Management, Census.Gov & Company Reports

METHOD #2 = SAME RESULT

MARKET BY MARKET ANALYSIS

STILL 75% PENETRATED

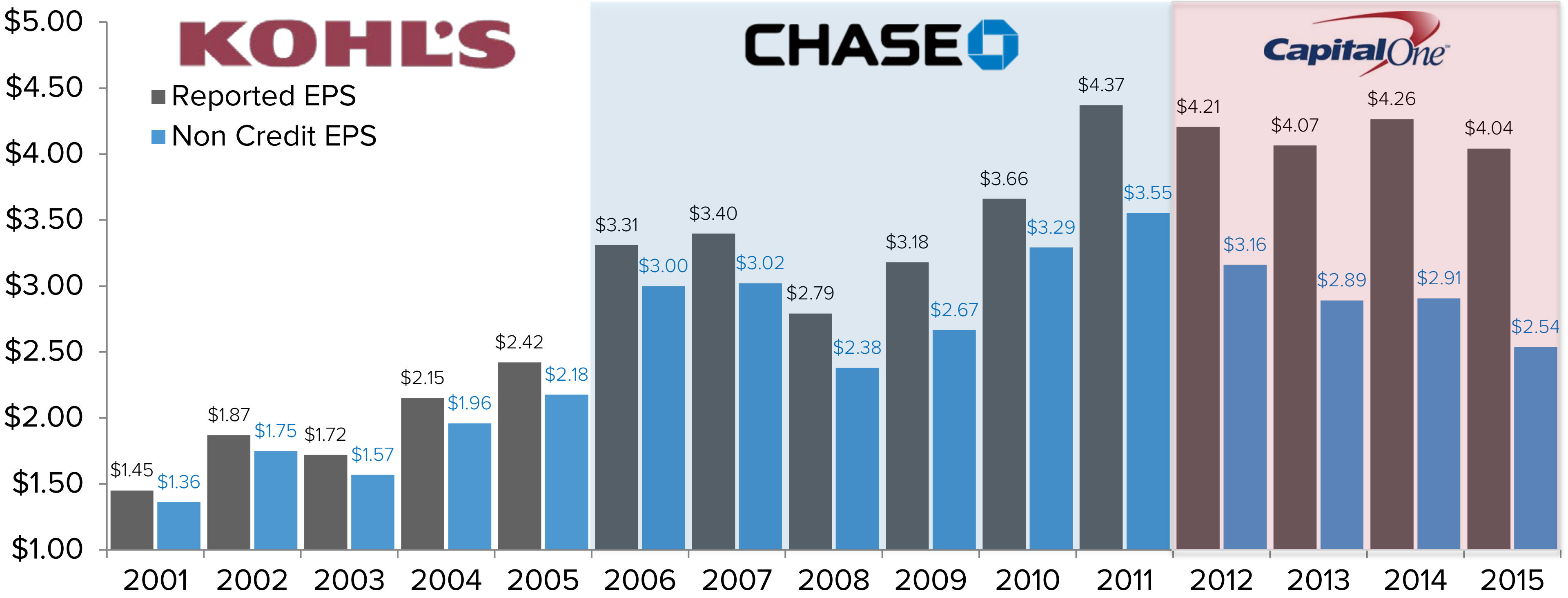


Total Stores	**1162**
Avg. HHs w/in 15 min drive of KSS location	**72,000**
Total Revenue (mm)	**19,023**
Avg. Basket	$75
Transactions (000)	**253,640**
Transactions/consumer	4.0
Customers (000)	**63,410**
Per Avg Store	54,570

HOUSEHOLD SHARE	
Potential Customers Per Avg Mkt	72,000
Realized Customers Per Mkt	54,570
Household Share	75.8%

CREDIT – WHY WE WERE WRONG, BUT THINK WE'LL BE RIGHT

KSS CREDIT EPS BENEFIT– A 15 YEAR LOOK BACK -- $1.50!



3 CREDIT OPERATIONS, 3 GROWTH PHASES, ONE MEANINGFUL SG&A TAILWIND

There are 3 different credit operations over 3 different periods of growth for KSS.
Net revenues from the credit operation are booked as an SG&A offset.
$1.50 in EPS FROM CREDIT!

Data Source: Hedgeye Risk Management, Credit Karma & Company Reports

3-HEADED REWARDS PROGRAM – WE WERE (VERY) EARLY

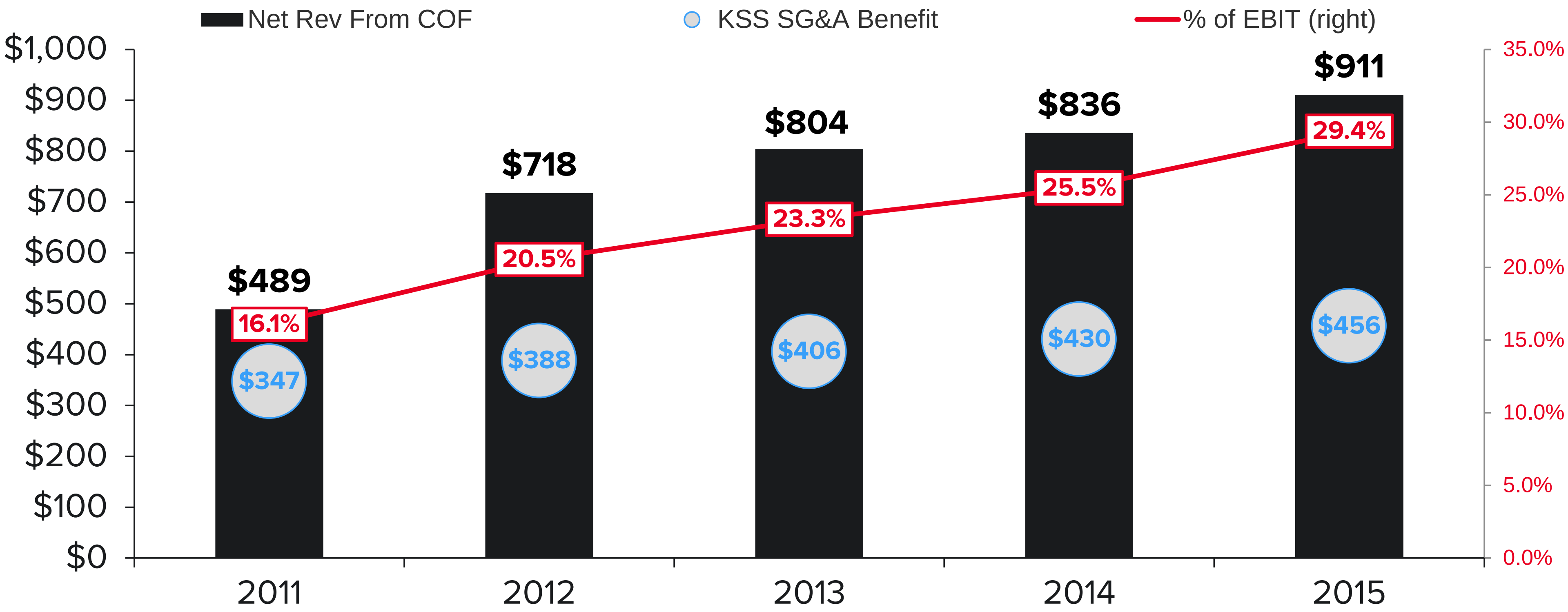
- Annual spend - $0-$600
- Benefits
  - 12 sales events/year
  - Advance Sales Notification

- Annual spend - $601+
- Benefits
  - 12 sales event/year
  - 6 pick-a-day offers
- Additional discounts in specific departments

- Tender agnostic
- Benefits
  - 5% KSS rewards rebate
  - 8 offers/year, + 1 additional birthday offer

- Tender agnostic
- Bi-monthly earning and redemption periods
- Benefits
  - $10 in Kohl's Cash for every $50 spent
  - 10-15 day redemption window

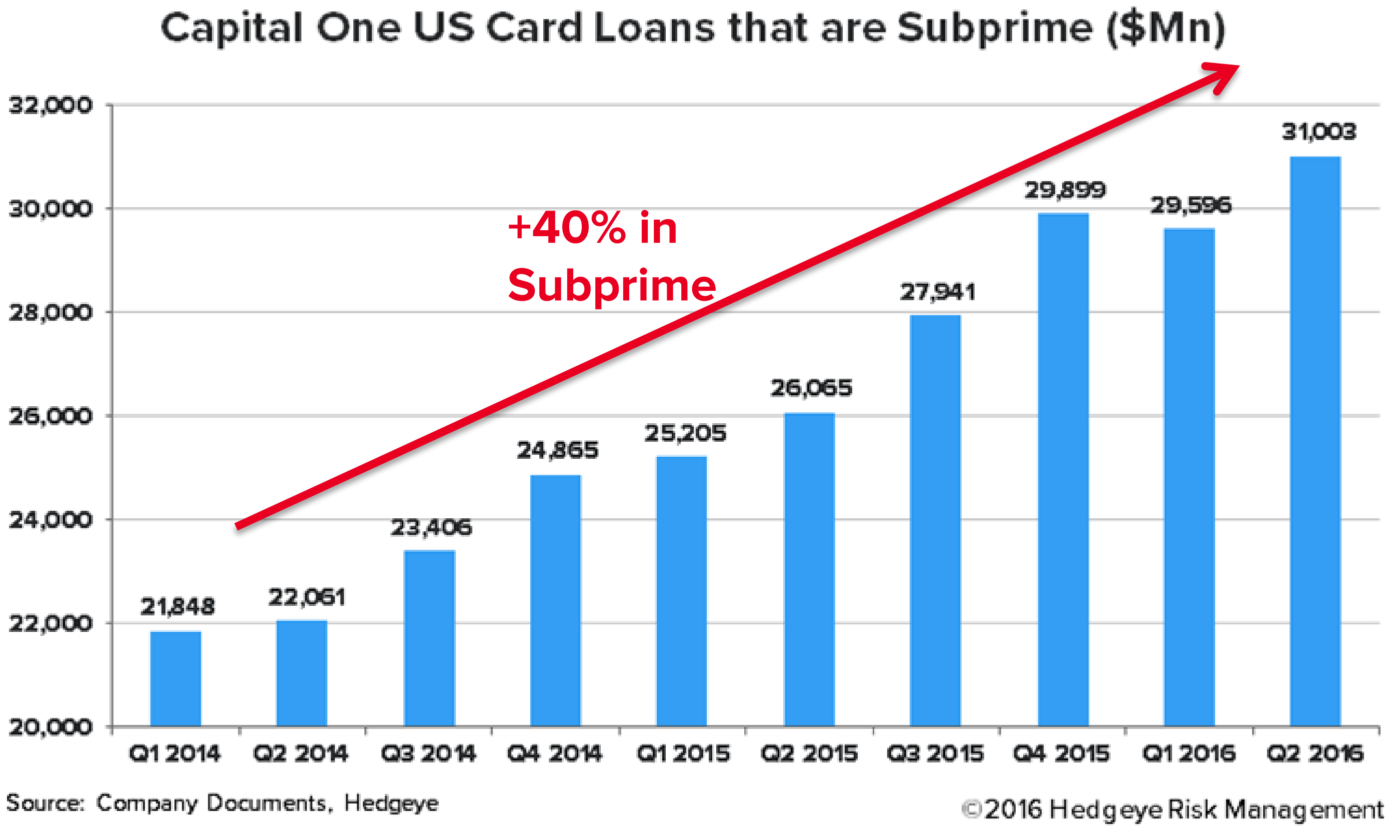
HOW CREDIT AFFECTS THE P&L



DOUBLE LEVERED TO THE CONSUMER

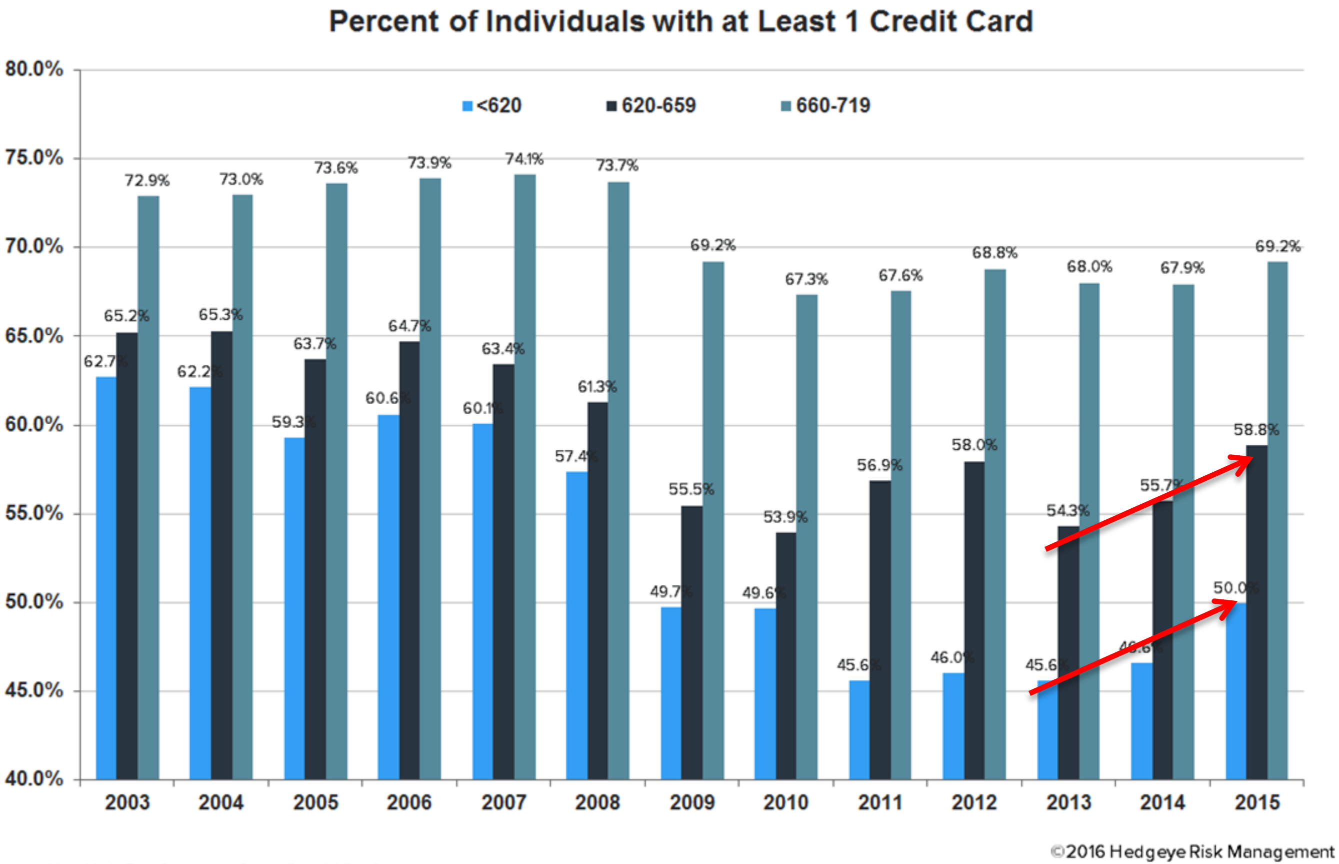
Credit as a % of EBIT has climbed from 16% in 2011 to 30% in 2015. Sales on the credit card up 600bps to 60% of sales.

COF WILLING TO GO LOWER THAN WE EXPECTED



The stark reality is that Capital One has gone from $21Bn in subprime US card loans in 1Q14 to $31Bn in 2Q16. That's $10Bn in growth in two years. Said differently, the **company has grown its US subprime book 40% in the last two years.**

THIS IS NOT UNIQUE TO COF

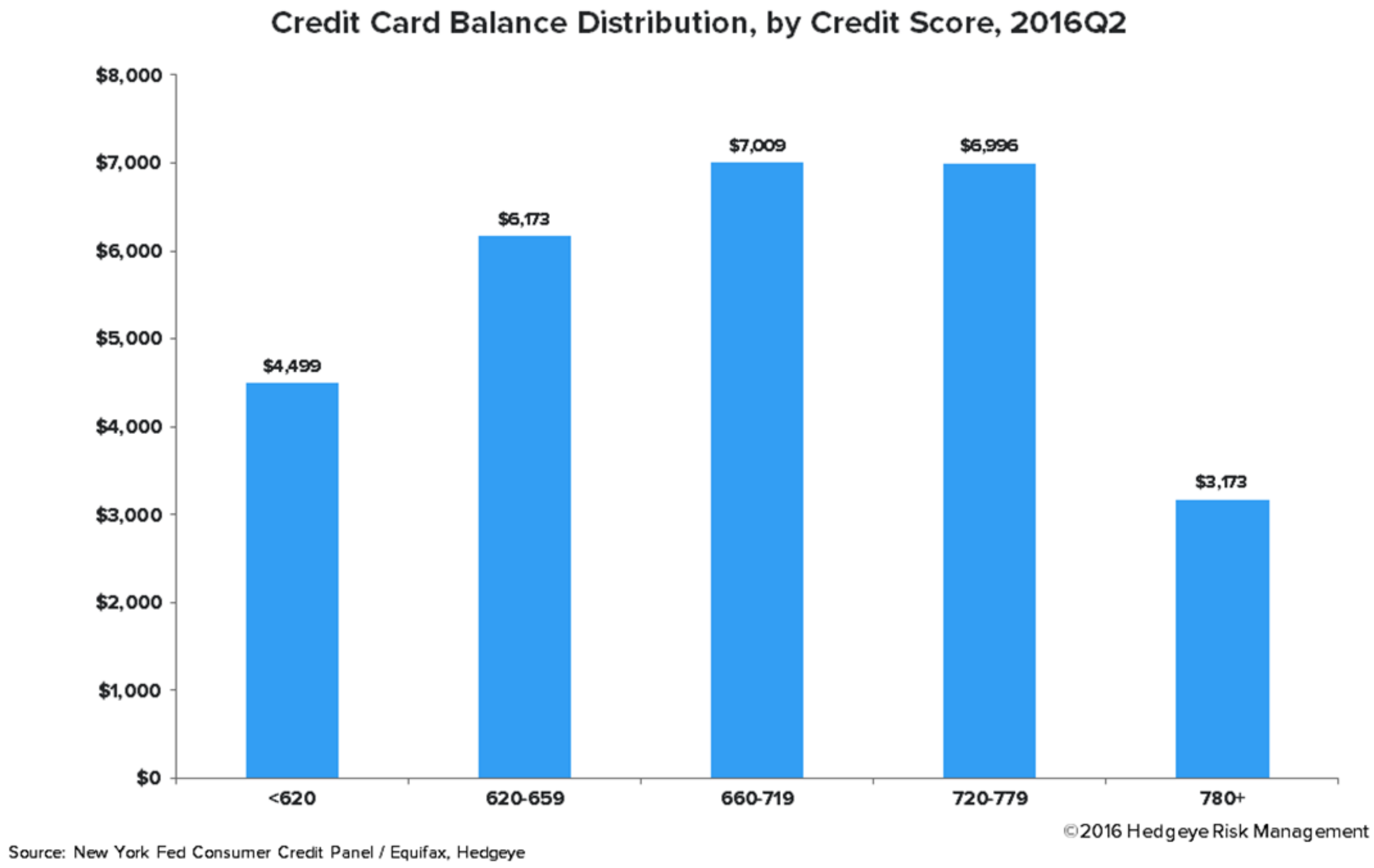


Source: New York Fed Consumer Credit Panel / Equifax

The last 2 years have shown an increase in card issuance to subprime segments of the credit market.

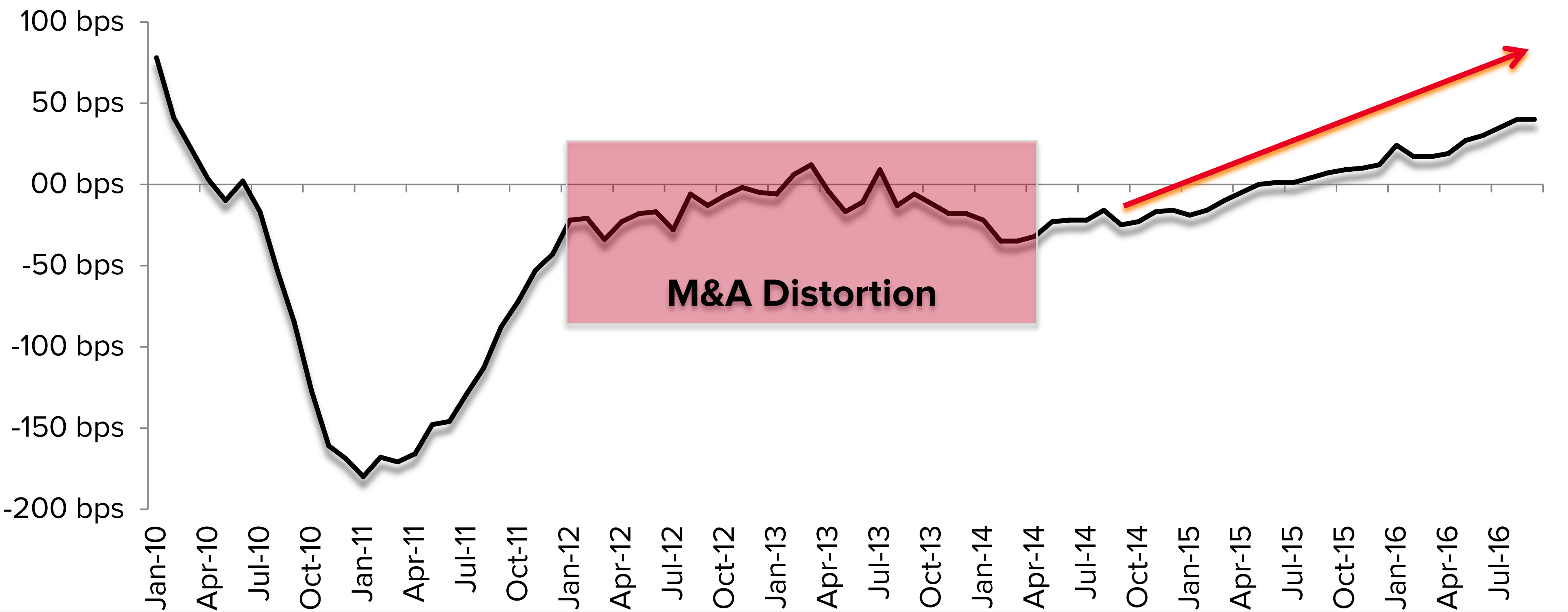
This includes all card lenders.

HIGH RISK WITH HIGH BALANCES IN LOW CREDIT QUALITY



We've interpolated the Fed's histogram to try and understand average balances by credit score bucket. Surprisingly, the deep subprime bucket (sub-620) and the traditional subprime bucket (620-659) carry average balances not dissimilar from prime borrowers. This means the risk of these borrowers is greater than what's generally understood.

COF DELINQUENCIES ARE ACCELERATING



YY CHANGE IN CAPITAL ONE DELINQUENCY RATE

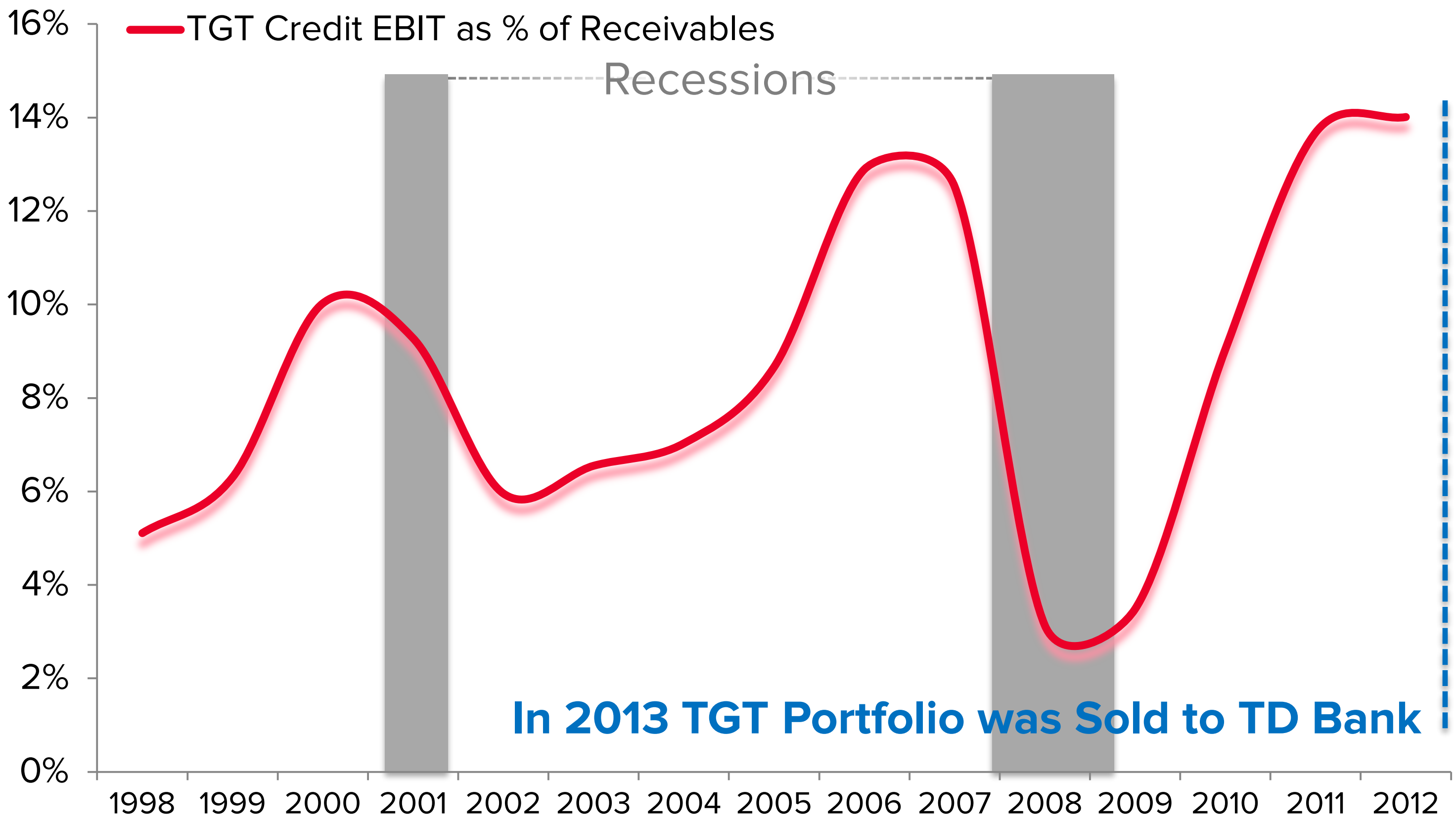
Delinquencies have increased YY for 17 straight months.

And don't forget the denominator affect: Delinquencies are accelerating as portfolio growth is accelerating, so the higher denominator masks the magnitude of the delinquency increase.

Data source: Company Reports

PROFITABILITY RISES JUST BEFORE THE CYCLE ROLLS

EXAMPLE TGT CARD PORTFOLIO PROFITABILITY '98-'12

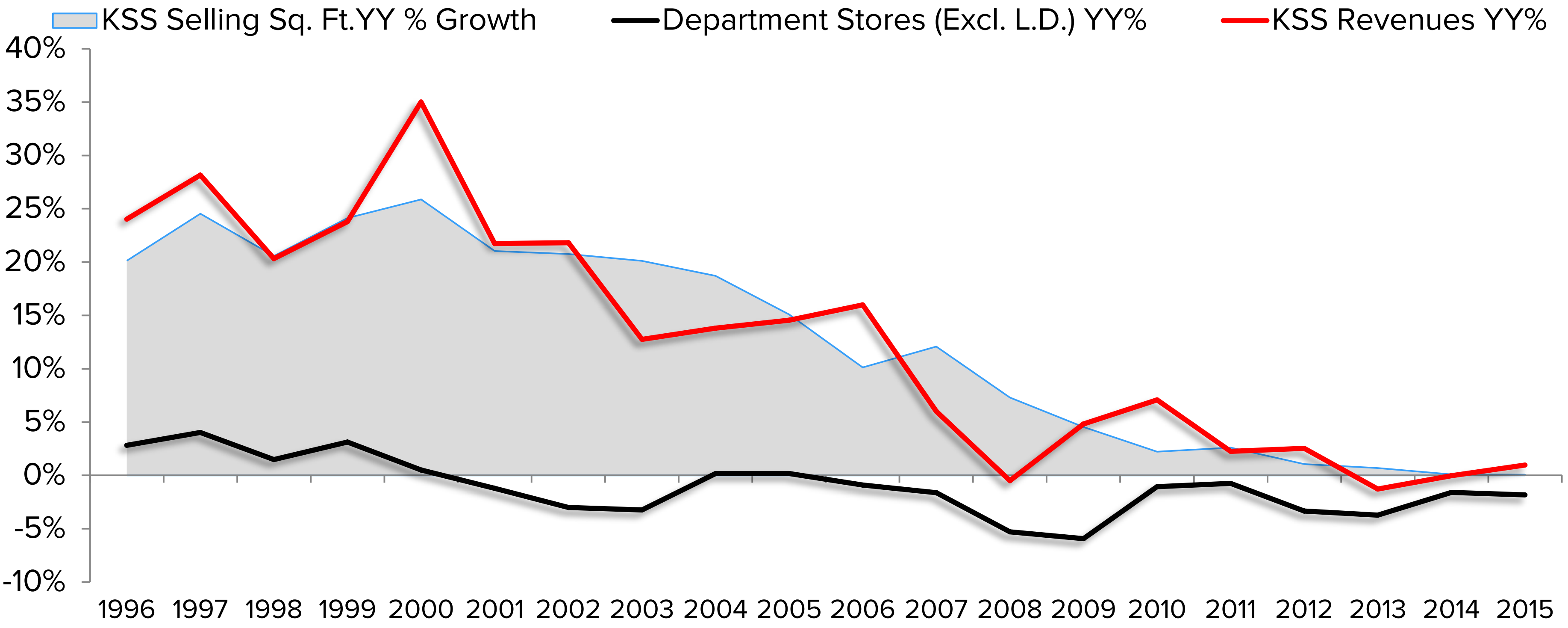


Lenders get overly comfortable late in the cycle. Credit is extended to higher risk, higher return customers causing profitability to spike until the cycle rolls and delinquencies accelerate.

Data source: NY Fed, Equifax, Hedgeye Financials

HOW IT PLAYS OUT

KSS – 100% LEVERED TO SECULAR TREND

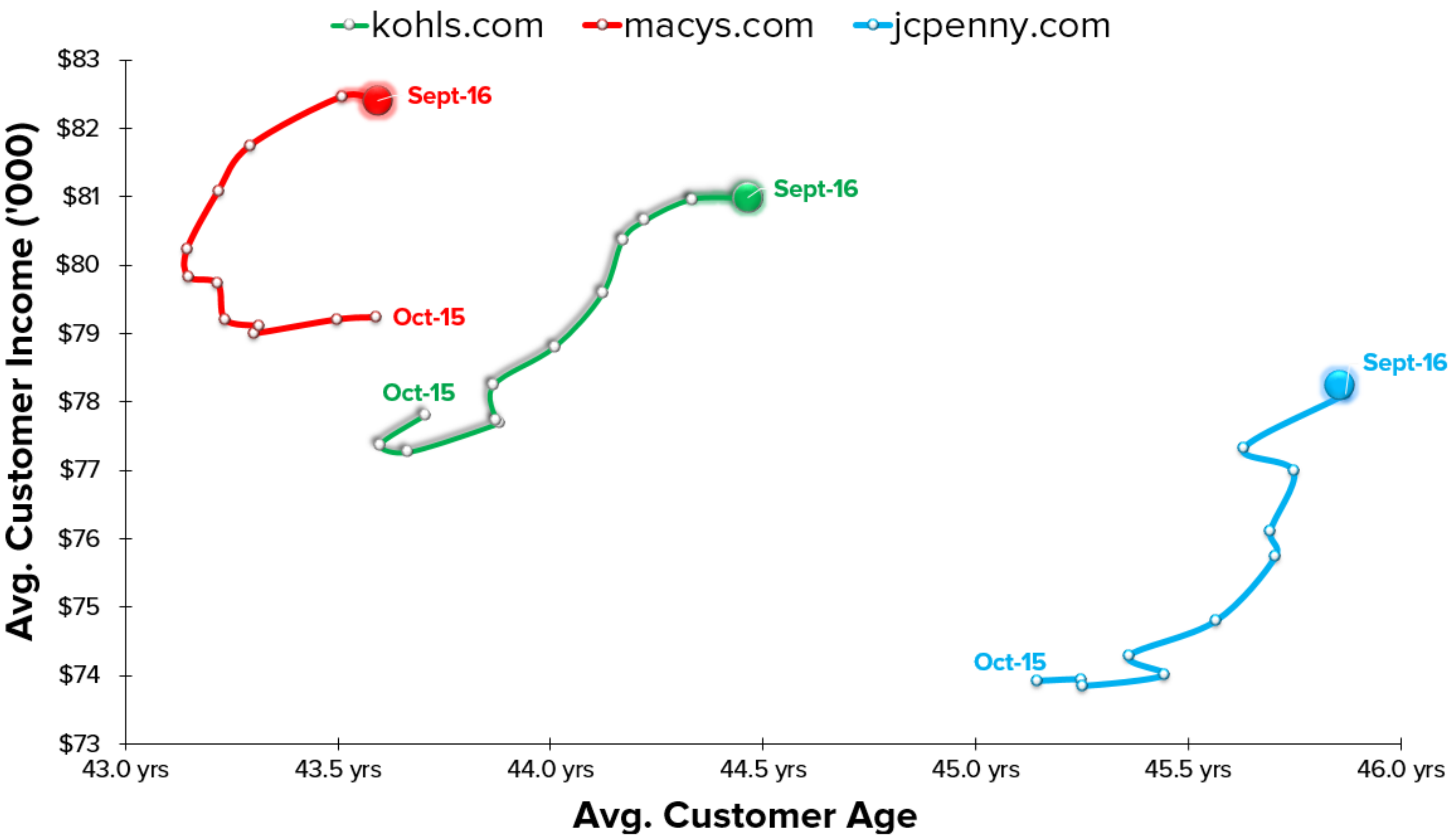


AWAY FROM DEPARTMENT STORES

No square footage growth means it's all organic this time around.
Industry has grown at a –1% CAGR over the past 20yrs.

DEPT STORE CUSTOMER - 'OLD GETTING OLDER'

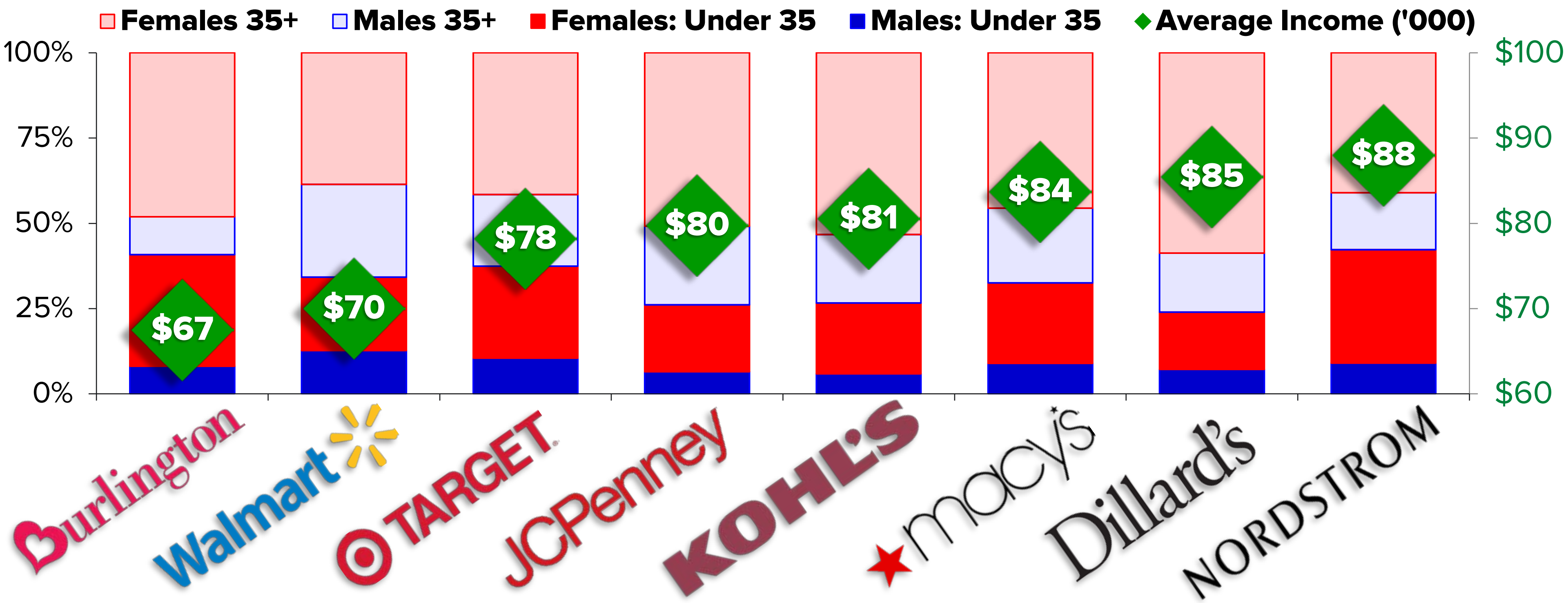
AVG. CUSTOMER AGE VS INCOME TRAILING 6-MON



On the plus side, traditional Dept Store customers are getting wealthier.

But they're also getting closer to the age where they simply don't buy clothes anymore.

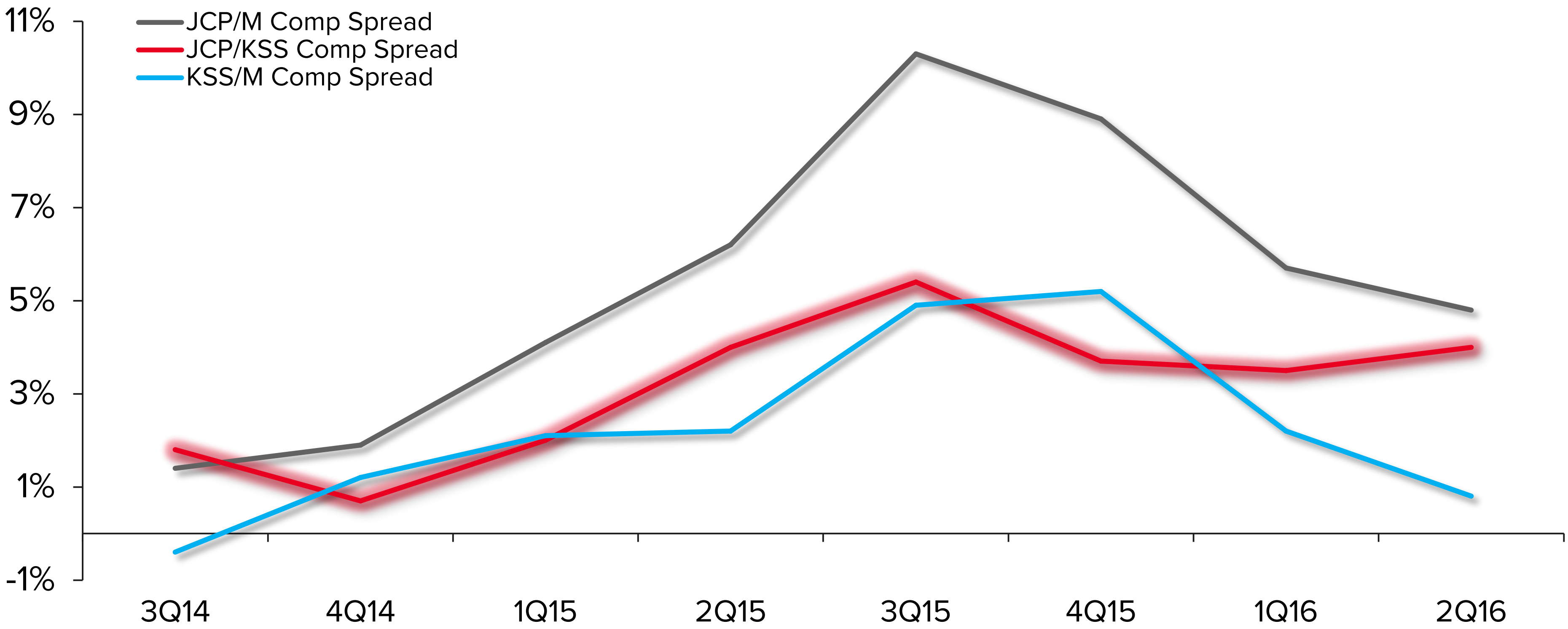
CUSTOMER DEMOGRAPHIC BY RETAILER



KSS HAS THE GREATEST PROPORTION OF OLDER SHOPPERS – AFTER DILLARD'S

Data Source: Hedgeye Risk Management, comScore

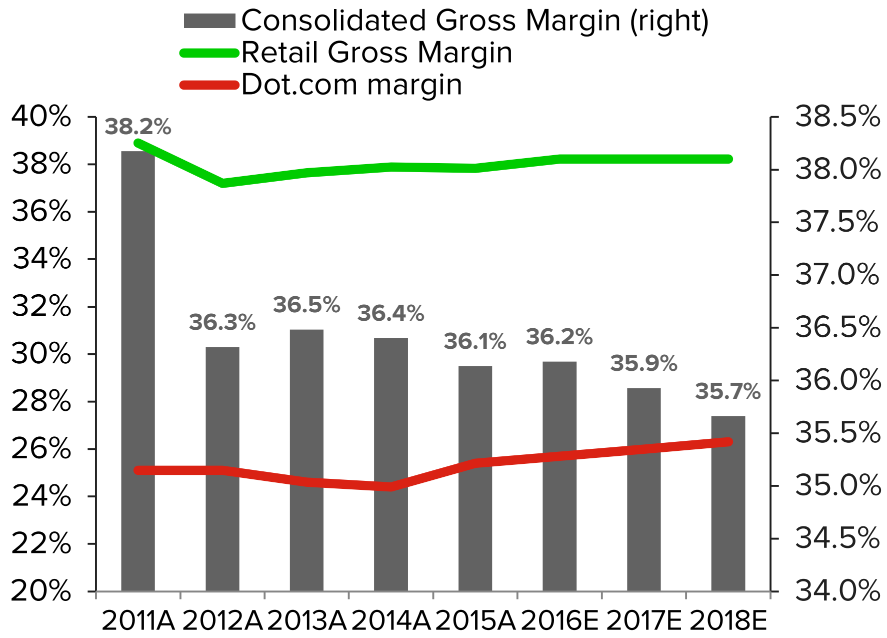
JCP STILL A $4.5 BILLION REVENUE THREAT



SPREAD BETWEEN JCP AND KSS STAYING STEADY AT 3-4%.

KSS by our math was the biggest beneficiary of JCP $5.2bn share lost. JCP won't get nearly all of that back – it's gotten about $760mm so far – and it'll continue to make KSS' life difficult in the process

E-COMM CANNIBALIZATION HAS CONSEQUENCES



	Stores	E-Commerce	Total
2012			
Merchandise margin	**37.2 %**	**35.4 %**	**37.1 %**
Shipping impact	—	**(10.3)**	**(0.8)**
Gross margin	**37.2 %**	**25.1 %**	**36.3 %**
2011			
Merchandise margin	38.9 %	36.4 %	38.8 %
Shipping impact	—	(11.3)	(0.6)
Gross margin	38.9 %	25.1 %	38.2 %
Increase (Decrease)			
Merchandise margin	(176) bp	(95) bp	(166) bp
Shipping impact	—	88	(26)
Gross margin	(176) bp	(7) bp	(192) bp

EVEN ASSUMING FLAT MERCH MARGINS

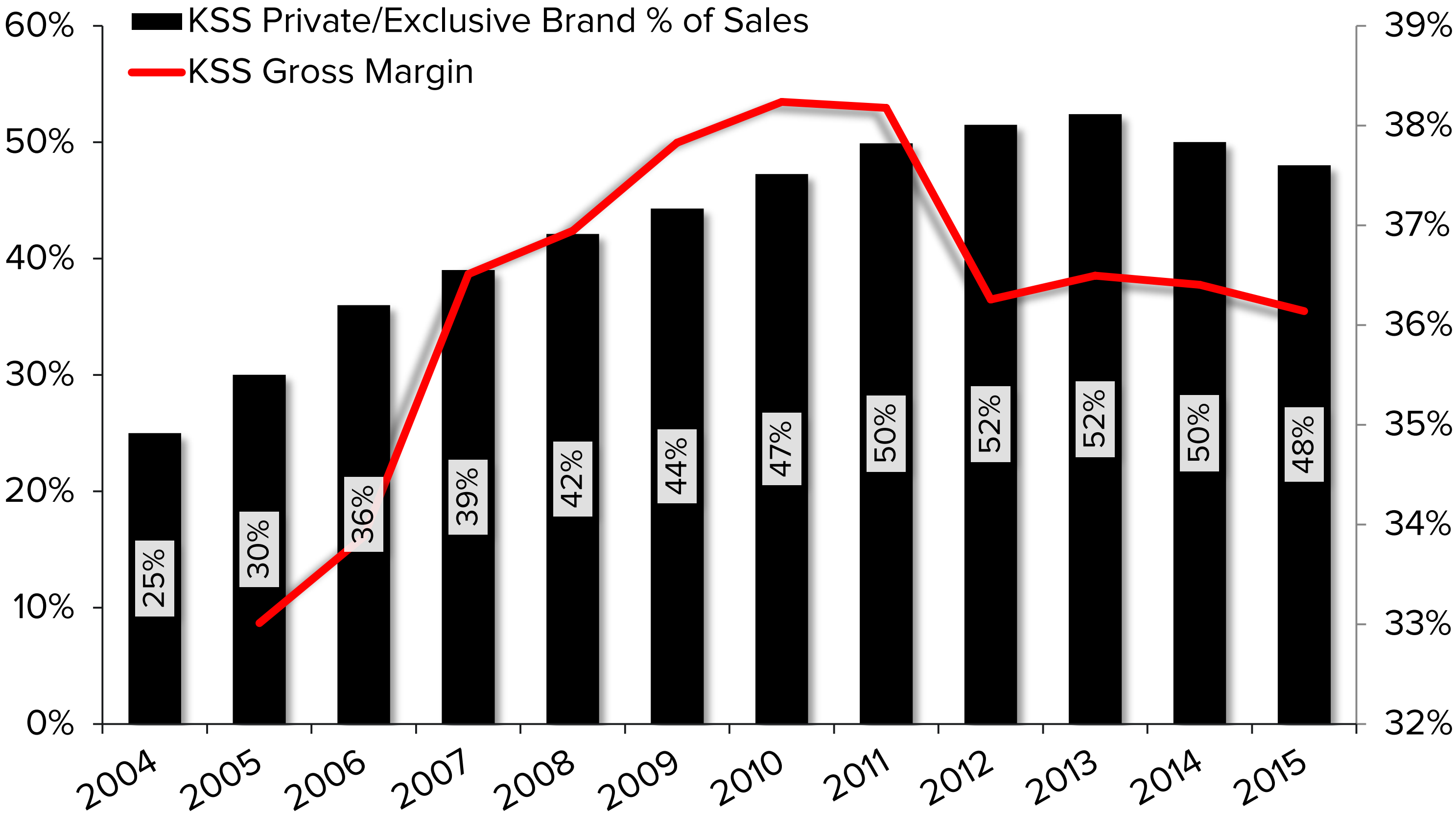
E-comm cannibalization takes consolidated merchandise margins down 25-30bps for year. That's assuming well managed inventory balance. Team in WI has only hit internal merch margin targets 2x in 5yrs

E-COMM 1000BPS DILUTIVE

This is dated disclosure, but still a fair representation of the spread between in store and online margins. KSS one of the least efficient e-comm operations in retail.

BRANDED APPAREL SHIFT = HEADWIND

KSS PRIVATE/EXCLUSIVE BRAND PENETRATION VS GM%



Continued move away from National Brands, in a meaningful way.

10-15bps of GM pressure per year. Not huge, but no levers to pull in order to offset the drift, and traffic isn't there to offset the difference.

E-Comm + Private Label = 40-50bps of pressure per year.

Data Source: Hedgeye Risk Management, Company Reports

U.S. SQUARE FOOTAGE AT CAPACITY

RETAIL SQUARE FOOTAGE DECISIONS		
Walmart	Jan/2016	WMT planning 269 store closures, 154 in the US. Including all 102 Walmart express stores. Most closures in this economic cycle and first Super Center closures
kmart sears	Apr/2016	Kmart/Sears announces closing 78 stores after closing 50 stores at start of the year.
OLD NAVY BANANA REPUBLIC BR	May/2016	GPS closing 75 stores across Old Nacy and Banana Republic Brands after announcing plans to close 25% of N.A. Gap stores in 2015
SPORTS AUTHORITY	May/2016	Sports Authority files Chapter 11, shutting down 460 stores after originally planning to close only 160.
macy's	Aug/2016	Macy's announced closing 100 doors across NA after saying it planned to close 40 earlier in the year. Has closed 90 and built 13 over last 6 yrs
TARGET	Sep/2016	Cornell announces Target plans to focus on smaller store formats to drive growth - expects to add 9 more <50k sq. ft. format stores by end of 2016, 16 more next year.

OTHERS BEING PROACTIVE, KSS CONTENT WITH STATUS QUO

"…we honestly don't expect any store closures next year, as of right now." (Kevin Mansell)
Yet, operating model is under pressure.

Data Source: Hedgeye Risk Management, Company Reports, Factset

MGMT ONLY LOOKING AT 1 OF 3 DERIVITIVES OF CHANGE

1. KSS Competes in Tough Categories

KSS Categories	2015	2014	2013
Home	18%	18%	18%
Men's	20%	20%	19%
Women's	30%	30%	31%
Accessories	10%	10%	10%
Children's	13%	13%	13%
Footwear	9%	9%	9%

TGT Categories	2015	2014	2013
Household Essentials	26%	25%	25%
Hardlines	17%	18%	18%
Appareal and Accessories	19%	19%	19%
Food and Pet Supplies	21%	21%	21%
Home Furnishings and Décor	17%	17%	17%

WMT Categories	2015	2014	2013
Grocery and Consumables	59%	57%	56%
Fuel and Other Categories	20%	23%	23%
Home and Apparel	9%	8%	8%
Tech, Office, & Entertainment	7%	7%	8%
Health and Wealthness	5%	5%	5%

2. Will Feel Pressure from Competitor Discounting

3. Proactive Retailers will pressure Vendors, who will make it up elsewhere (KSS)

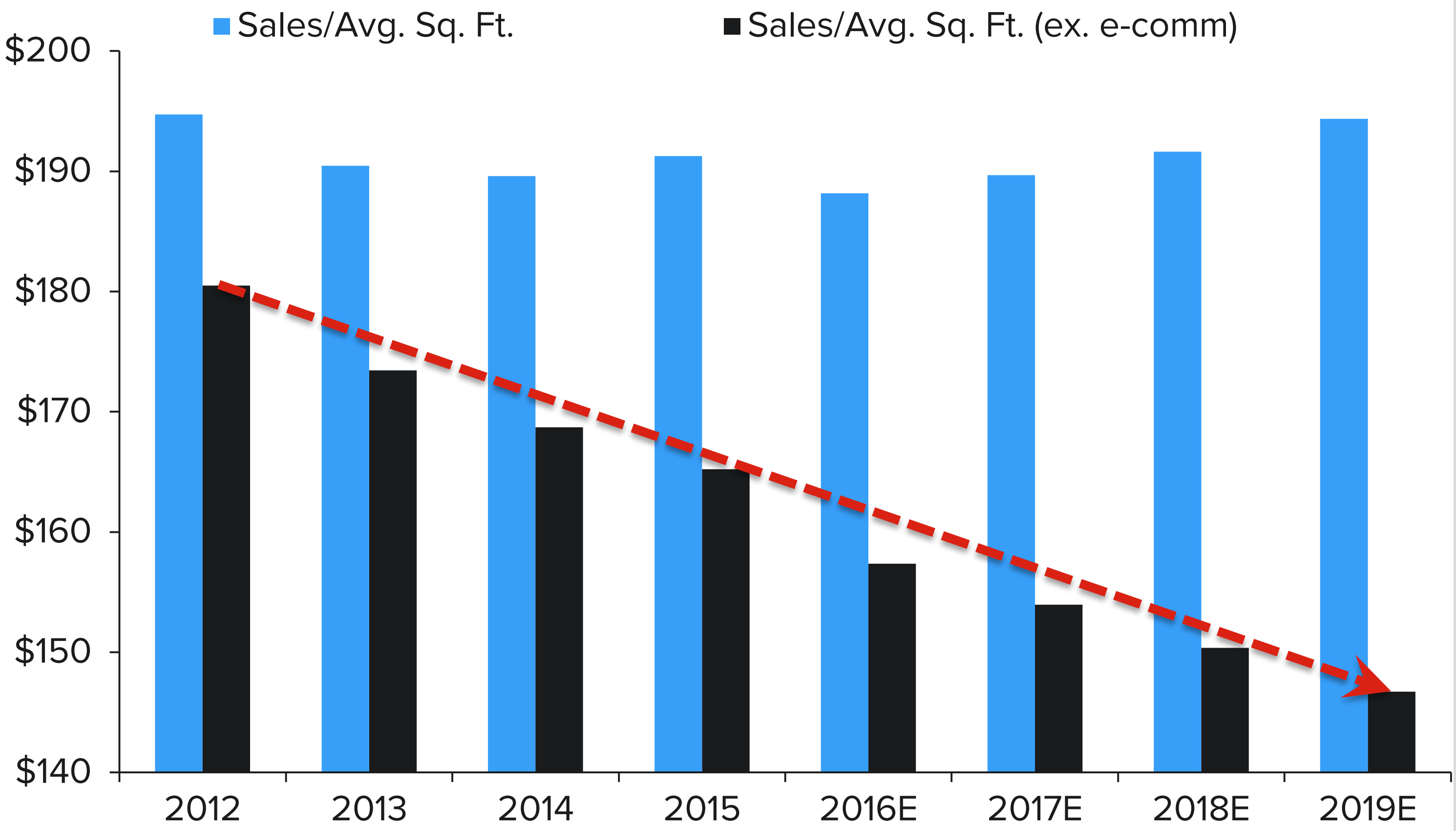
Walmart

TARGET

KOHL'S expect great things

THE CASE FOR MORE STORE CLOSURES

E-COMM CANNIBALIZATION, LOOKING A GIFT HORSE IN THE MOUTH

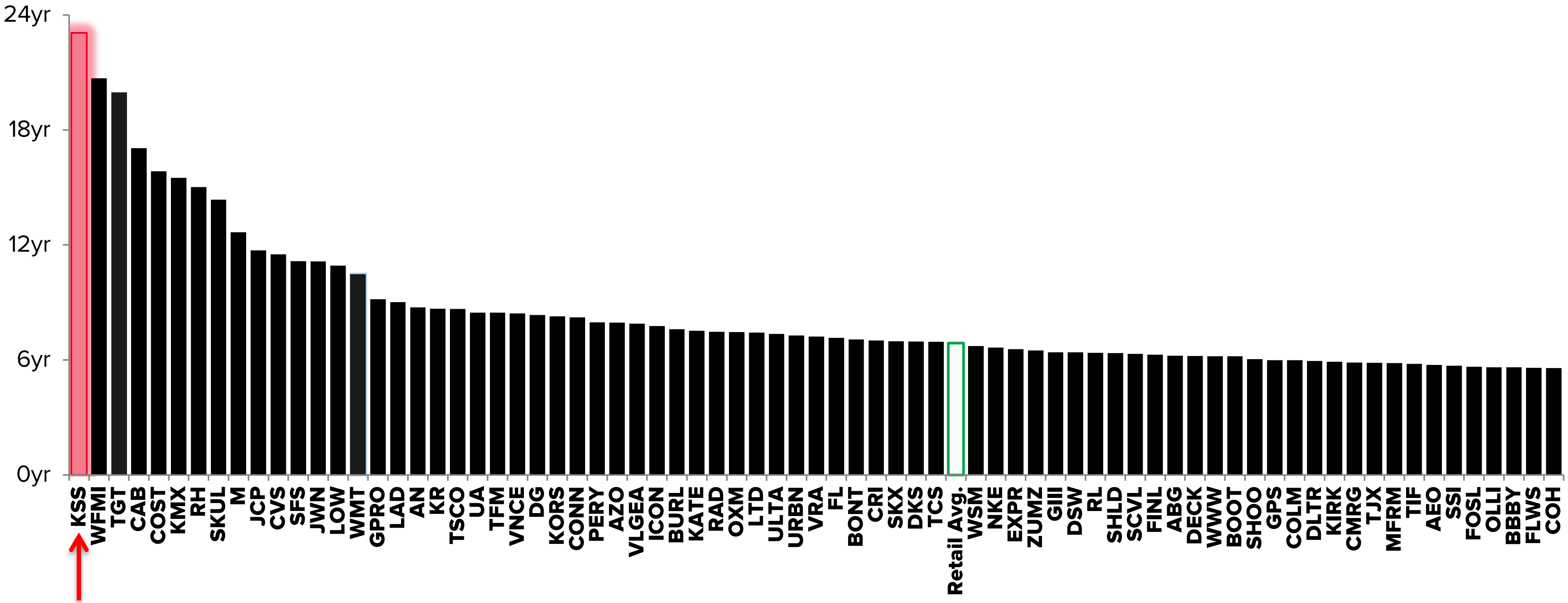


This model doesn't work when stores continue to leech sales to the internet.

4-wall margins come under pressure and incremental cost associated with fulfilling orders to consumers drags margins lower.

Data Source: Hedgeye Risk Management, Company Reports, EuroMonitor

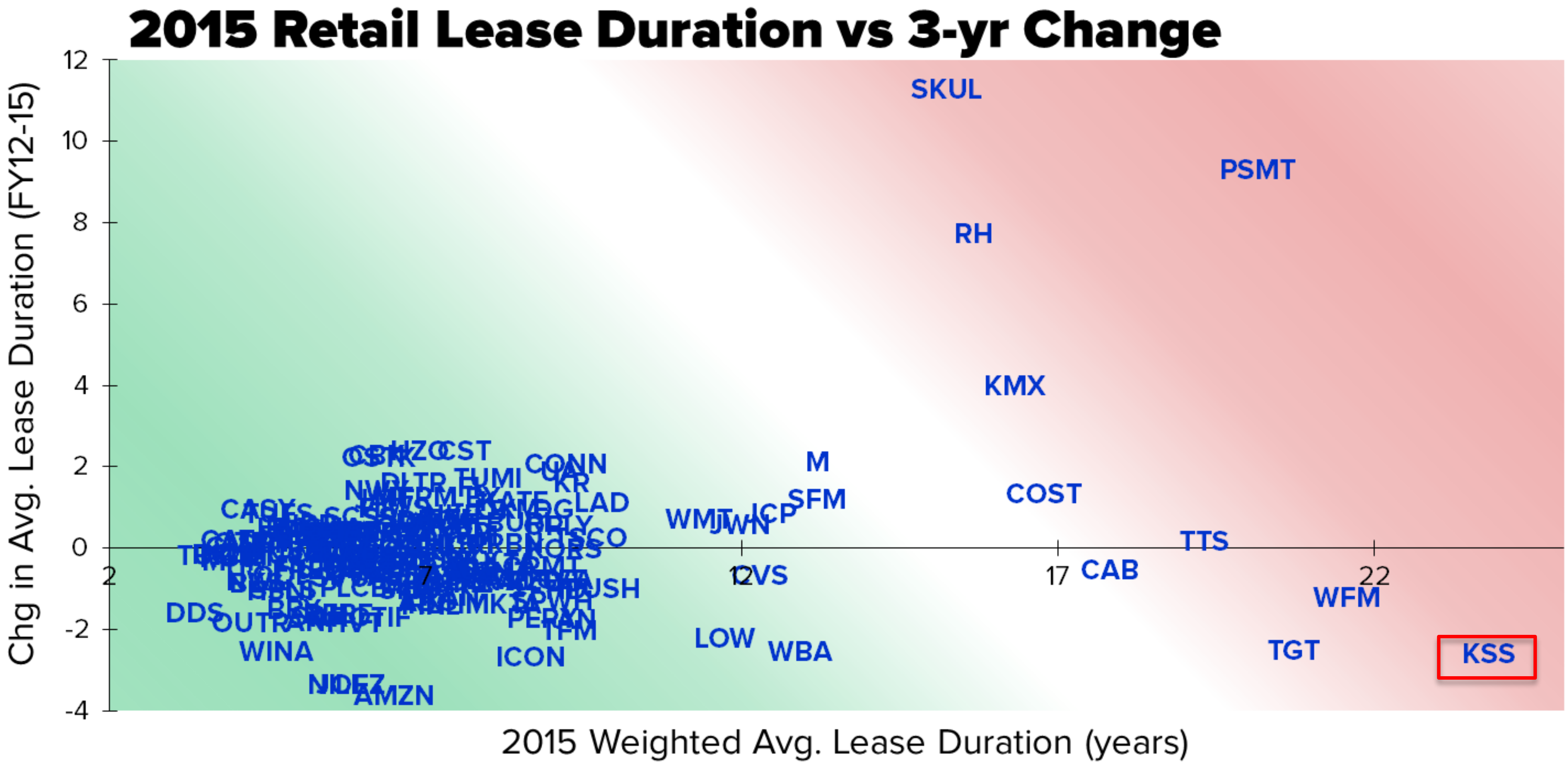
DON'T FORGET THE REAL ESTATE INFLEXIBILITY



LIMITED FLEXIBILITY WITH LEASES

Longest average lease duration in retail = special charges becoming the new norm

LONGEST LEASE DURATION IN RETAIL



WHY THERE IS NO REAL ESTATE PLAY

THEORY VS. ACTUAL

REIT Value

Cap Rate	Rent/Sq. Ft. $6.00	$7.00	$8.00	$9.00	$10.00	$11.00	$12.00
8.0%	2,678	3,125	3,571	4,017	4,464	4,910	5,356
7.5%	2,857	3,333	3,809	4,285	4,761	5,237	5,713
7.0%	3,061	3,571	$4,081	$4,591	$5,101	5,611	6,122
6.5%	3,296	3,846	$4,395	$4,944	$5,494	6,043	6,592
6.0%	3,571	4,166	$4,761	$5,356	$5,952	6,547	7,142
5.5%	3,896	4,545	5,194	5,843	6,493	7,142	7,791
5.0%	4,285	4,999	5,713	6,428	7,142	7,856	8,570

REIT Value Per Share

Cap Rate	Rent/Sq. Ft. $6.00	$7.00	$8.00	$9.00	$10.00	$11.00	$12.00
8.0%	$15	$17	$20	$22	$25	$27	$30
7.5%	$16	$19	$21	$24	$27	$29	$32
7.0%	$17	$20	$23	$26	$29	$31	$34
6.5%	$18	$22	$25	$28	$31	$34	$37
6.0%	$20	$23	$27	$30	$33	$37	$40
5.5%	$22	$25	$29	$33	$36	$40	$44
5.0%	$24	$28	$32	$36	$40	$44	$48

*Assumuing 179mm shares outstanding

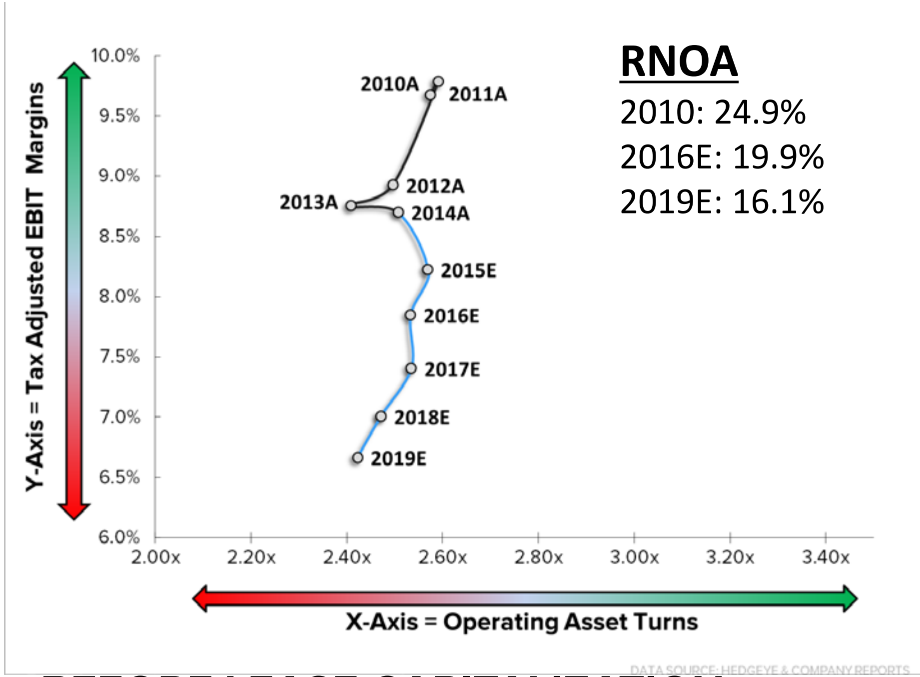
There might be $20+/share locked away in real estate value assuming that KSS has a liquid market.

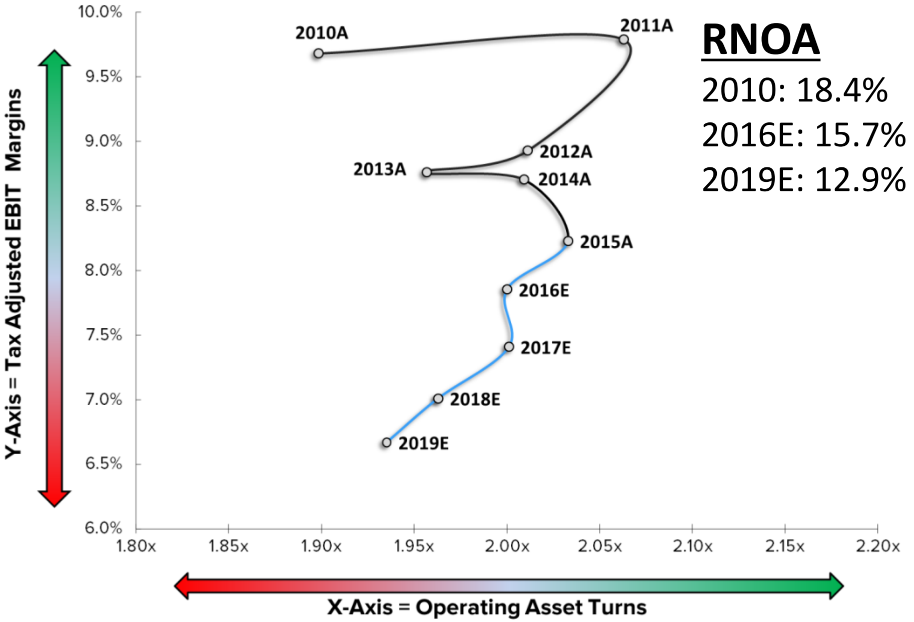
The only problem is it's **NOT** a liquid market. At least not for strip center/freestanding properties which are 93% of the KSS portfolio

Macy's real estate hype valued portfolio north of $20bn.

Data Source: Hedgeye Risk Management, Company Reports

KSS RNOA WITH FULL LEASE CAPITALIZATION





BEFORE LEASE CAPITALIZATION

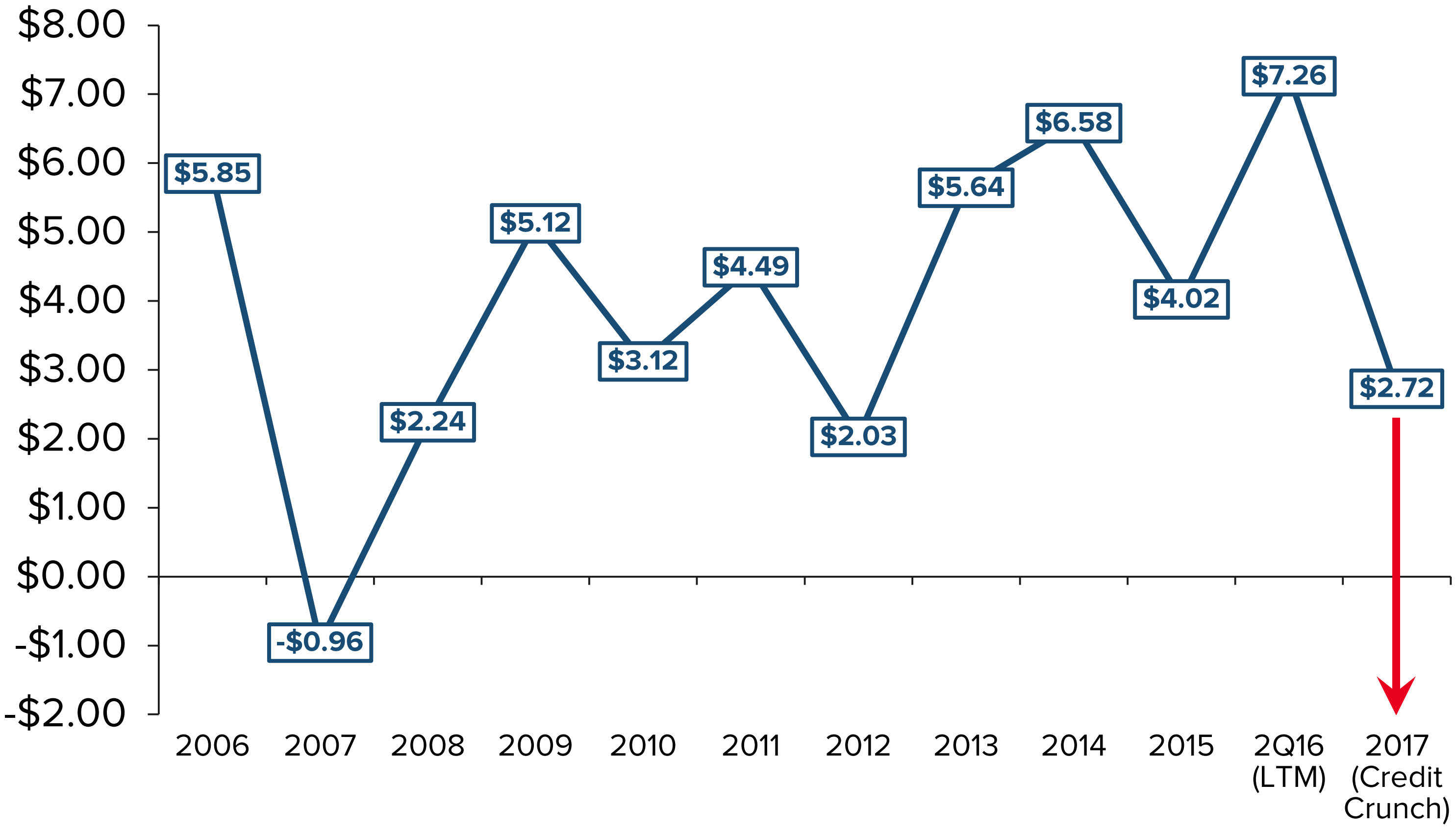
FASB has decided that all leases will have to be capitalized on the balance. Lease accounting change takes place in year following Dec ‘18.

AFTER LEASE CAPITALIZATION

Lease Value Assumptions: Discount Rate = 5%, Lease Duration Calc = Lease Term, Annual Rent = Lease Payment, Duration and Lease Expense Constant 2015-2019.

ROADMAP TO A DIVIDEND CUT

FCF/SHR AT CONSIDERABLE RISK AS CREDIT STATS WEAKEN



On both the P&L and cash generation. Less access to credit dries up comps, hit to GM, and cost cutting on SG&A can't stop credit bleed.

Access to credit dries up with max leverage ratio at 3.75 Debt/EBITDAR. Next thing left to go is buyback and dividend.

Key Assumptions:
Comps: -4%
GM: -100bps
SG&A: +1% (core +0%, credit income back to 2014 levels)

Data Source: Hedgeye Risk Management, Company Reports

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