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Introduction

Good afternoon and welcome to our lunch presentation today. I am delighted to have with us today as our keynote luncheon speaker, Kevin Mansell, the Chairman, CEO and President of Kohl's. Kevin joined Kohl's in 1982, has been president since 1999, CEO since 2008 and chairman of the board since 2009. While Kevin may be retiring from Kohl's in May, his focus on and commitment to excellence will always be felt throughout the organization.

His ability to speak with employees, with customers and with shareholders is exactly that, it is {muffled}. It is engaging, and it drives everyone to winning, delivering on the Greatness Agenda that he set forth just a few years ago.

As the retail world has changed, Kevin also focused on enhancing the business model, and most importantly, one of the most essential elements of leadership is succession planning. Kevin has developed and led a team that is well aligned. Kevin, thank you very much for being with us today at the TAG Conference as you prepare {muffled}. There is an open invitation for you to join us any time. Thank you so much.

Kevin's Opening

Thanks Dana. You'll see the presentation we have today is aligned around the two kind of key components of momentum, which those of you who follow our specs know that we have a certain amount of momentum in our business, and then innovation from the perspective that most of the things that are driving our business right now have centered on innovation the way we think about our business.

Our business has been driven though by two priorities. We fundamentally aligned the organization around two big ideas. The first one is pretty straightforward, and that is the importance of driving traffic, so you know that the bulk of our business is still transacted in our store portfolio. 90% of all the transactions we do with customers, 85% of our business is in our stores. Driving traffic to our stores is the number one priority we have. The second piece though is around what we call operational excellence. Fundamentally, what operational excellence is about is saying look, if we're going to be successful in the long term, we know we have to be successful as an Omni channel retailer. To do that, and to compete with successful retailers like Amazon, we are going to have to invest in the business.

Operational excellence is sort of predicated on the idea that we have to find ways to manage our business that are more effective than the ways we have done in the past in order to allow us to make the investments we need for the future and to maintain profitability as a result.

Let's go first with what I'll cover. I'm going to spend a little bit of time and talk to you about 2017. We won't spend a lot of time on that, but I just want to cover off those key results in 2017 that have something to do with the importance that we're placing on certain ideas in 2018. We'll do that in two sections. As I said, one is around the priority of driving traffic, so a lot of that is going to be filtered through the lens of our Greatness Agenda. There's certain pillars in our Greatness Agenda, product, not surprising – experience, both Omni channel experience, the combination of physical and digital, and

then personalization and savings. Because as you know, we're a very promotional store that we drive traffic to our store. Driving traffic – number one priority will go through those key initiatives through the lens of the pillars. The second big priority, operational excellence I'll just talk about what's behind operational excellence and what are the key things that we're doing in that regard. We'll end up spending a couple minutes at the end on some financial considerations – everything from guidance, give you some clarity and color on guidance, our capital investment plan for 2018, how we see deploying capital during the course of the year.

We have a new implication in our financial reporting which is revenue recognition. I'll give you a glimpse into what revenue recognition will do in terms of the appearance of our results, and hopefully, at the very end we've got a few minutes left over for Q&A.

Momentum

Let's talk about momentum. We've had a lot of momentum in 2017. As you can see on the slide, sales steadily increased. It was driven by traffic increases. You can see traffic sort of followed sales, but really traffic drove sales. The change in the trend of our traffic both online and in store is what changed our sales result.

Both store traffic and store sales were positive. Online traffic and online sales were positive as well. They accelerated dramatically in the fourth quarter. We'll be the first to acknowledge that there were some I think tailwinds from last year that helped overall performance in retail in the fourth quarter. Whether the better sentiment that consumers have post the presidential election last year, and even weather as a factor I think was positive in November.

But as time has gone on and more of our competitors reported, I think you can see we actually accelerated quite a bit more than they did, and we outperformed quite a bit more.

We'll get into some of the details of what drove that. As I said, we'll kind of cover that in the review of the pillars. The things I do want to touch on before that are the real drivers from our standpoint aren't these initiatives. We'll talk about some of the initiatives around product or personalization or easy experience. They're the longer term drivers.

The longer term drivers are what we're really betting on for the future. They're not quarter drivers or even annual drivers. They're multiyear drivers. They're things like speed. You're going to hear me talk about speed throughout our business. Technology – you know we're investing a lot in technology. We have been investing a lot in technology in the last 3 years. We have spent over two billion dollars from a technology spend perspective to drive the future of our business. The usage of data and analytics to make decisions, and both of those two, drive product relevancy and to drive customer acquisition. We'll get into that when we talk about personalization and savings. There's been a step change in terms of our customer acquisition rates. I think both the bar chart and the graph kind of give you the signal there's a lot of momentum.

From a key performance metric, I can give you two insights. The one on the left sort of shows you the relative improvement and performance of our national brand part of the business and then our private

brand, our proprietary brand part of the business. The one on the right shows you the six major categories of business that we report. As you can see in both cases, there's a marked step up.

National brands were positive all year for sure. They accelerated though into a double digit increase in the fourth quarter. The more important step change to me is our proprietary brand performance. Proprietary brands, particularly early in the year were quite negative. They went flat in the fourth quarter which was a big change. The drivers of that were really two things. Number one, most of the year we had a big headwind as it related to efforts we had around inventory productivity and editing out proprietary brands in parts of the company, regions of the company, stores in the company where they weren't as successful, and doing the same thing on an individual brand basis across the company.

As those headwinds lessen, the headwind of this editing process in the fourth quarter is we came up on annualizing that. It started to turn the business a little more positive. The second thing is at the same time, I'll give you a little color on this in a minute. At the same time, the impact of speed stared to accelerate. The combination of the speed effort and localization relative to editing is really what made the difference I think on the proprietary brand performance. They accelerated more in the fourth quarter than our national brands growth did.

Then, on the category basis you can see – men's, home, footwear were positive all year long. That continued to be positive in the fourth quarter. But the big change and the important change from our standpoint was the business in women's. Women's apparel is our biggest business. It's almost 30% of our penetration. For that to move into positive really lifted the total sales, but also I think is a very positive indicator as we directionally look into 2018.

Beyond the sales aspect though, we had really good performance in all of our other metrics. As you know, often when sales accelerate, it comes at a cost. It might come at a cost from a merchandise margin standpoint, a gross margin standpoint. It might come up from a cost on an investment standpoint, let's say in marketing. We got positive results across the board. Even though sales accelerated a lot, even though our digital penetration and our digital sales accelerated dramatically, we were up 25% online demand in the fourth quarter, and as a result, digital was 25% penetrated to the total business in the fourth quarter.

National brands which would typically be a little bit lower absolute margin rate than proprietary brands grew faster, but in spite of those two things, margins still improved. We had a 15 bases points improvement the last year.

Number two, we leveraged SG&A. As I alluded to earlier, often you'll see growth or acceleration in sales come into cost. Sometimes that cost is in marketing. Both marketing and store payroll – two biggest expense centers we have in the company, both leveraged in the fourth quarter and for the year as well. We had 11 bases points improvement in SG&A as a result for the year.

Inventory – in spite of the increase in sales, we managed an increase in sales with less inventory. We finished the year down in inventory well below what we had forecasted. We ran all year with less inventory. That's a key element as we look forward to managing our business more productively. And then as you can imagine, that resulted in a really strong position on a yearend cash basis -- $1.3 billion dollars and an operating cash flow basis of $1.7 billion dollars. Really strong performance across the board.

Sales, very positive. But I think the thing that makes us happiest in the business is if it came with really good performance in all of our other key indicators as well.

Looking Forward

I said earlier to the 101 group – I think generally, retail had a better 2017. Particularly apparel retail had a better 2017 and a better fourth quarter for sure. I don't think any of us at Kohl's believe that's a permanent scenario. I think retail is still stressed. There's still probably too many stores. There's too much square footage, and the industry is still going through the changes driven by consumer behavior about how people buy. Buying more online, expecting fulfillment quickly and easily, and so I think our perspective as we look forward is that retail is going to continue to be disrupted. We really believe that this effort around driving traffic gives us an opportunity to maintain the momentum that we had in 2017 and to gain share.

We'll get into a little bit of reason for that, but a lot of it is around this effort to be more agile, to be faster in our decision making in order to become more productive and as a result, be more profitable. Let's talk about the two priorities.

Driving Traffic, Operational Excellence

I talked about at the beginning these two big ideas – driving traffic, operational excellence. I think driving traffic is pretty self-evident why we need to do that. The reason our sales have been flat lining over the last few years is that we have been fighting a headwind on traffic. Changing that headwind and driving traffic became our number one priority. We'll go through some of the details on what's happening there in just a second. It's fundamentally focused on this idea that our stores are our biggest asset. We're not moving away from stores. We're anchored in stores.

We know we can run them more productively. We know we have to be more profitable in our stores, but we think we can drive traffic to our stores and amplify the role and relevancy of our stores in our overall business. That's still, to me, our biggest opportunity. At the same time, we recognize that customers are buying more online. If you compare our average store volume to 5 of 6 years ago, an average Kohl's store does less business than it used to do. For the most part, it's the same size box. It's got the same components of expense inside the box. We need to find a better way to operate our stores, and find better ways throughout the company to manage our expenses in order we can make the investments be successful long term.

Operational excellence, this other priority is really about giving us the flexibility to invest in the business for the long term, while at the same time we take expense out of the business so it doesn't hurt profitability. We're looking at this as how do we get to net neutral? Or at the very least, as you'll hear in the guidance that we gave for 2018, we have to run expenses in a range of 1-2% increase per year.

Operational excellence, while not the biggest priority is a really important aspect of our strategy.

Let's talk about driving traffic. That's the biggest thing. As I said, I'll go through this in the pillars. We'll start with product. We'll go into experience which is a lot about the stores, but also how the stores in the digital business engage with one another, and then we'll finish off with personalization and savings which is a really important component part as well.

Back when we launched the Greatness Agenda, we recognized based on the analytics and research that we had done that there was a certain amount of relevancy that was had lost over time with consumers. That happened as we built dramatically the size of a proprietary brand business.

As part of this long term plan, we put a stake in the ground. We're going to make a bigger commitment to both amplify the brands, national brands that we have today, but also thoughtfully and important parts of the business, add brands where we can drive incremental traffic. It's a key component part of this effort to acquire new customers.

In all of Kohl's growth years, the one thing that was constant was we were every year gaining more new customers than we lapsed in old customers. We always are going to lose customers. Customers are going to lapse for lots of different reasons. Life cycle, age reason, economic reasons. Every year, we gain more new customers than we lost. That changed 4 or 5 years ago. We started to lose more. We didn't gain as many new customers as we lost.

Building our national brand portfolio – a key component part of that was to change that, to become really more relevant. That's working. As you know, national brands increased for the year. We were up 7% for the year. We were up 11% the fourth quarter. We reached 58% of our business for the year and 62% of our business in the fourth quarter.

We'll get to the outcome on customer acquisition and what that meant for new customers in a minute. The important takeaway on this national brand's effort was the core idea that we need to be more relevant to consumers in order to get more customers into our brand.

The other key component is as part of this national brand effort is this belief that active and wellness is a permanent part of the American landscape. We want to be the destination for active and wellness. And a key part of that, of course, is the importance of national brands in that area. The importance or brands like Nike, brands like Adidas. The new acquisition last year of Under Armour, those are all key drivers.

I think it's a driver of the acquisition numbers. Beginning in the second quarter, post the launch of Under Armour and this real effort to drive active and wellness, our customer acquisition number started to turn. And in the fourth quarter alone, new customer acquisition was up 16%. It was the biggest number of the year. Completely turned a trend around that we had in place for at least 2-3 years before.

The other aspect of product that's important of course is our proprietary brands is half of our business. There are really two things that are driving proprietary brands. The most important thing is the impact of speed. We started on a journey in speed two and a half years ago. We recognized that the supply chain cycle that we had in place for proprietary brands was not fast enough and needed to accelerate. We started to put in place all the pieces to make that happen. We created this notion of speed brands.

Speed brands are essentially at their simplest forms. Those kinds of brands that would benefit the greatest from a shorter supply chain cycle. Naturally, it's brands that have a tendency to be younger. They're more contemporary. A lot of them live in our women's apparel space, and so that's where we started this effort. The effort has grown, and it grew to 40% of our receipts in the holiday season – over 40% in the holiday season. 40% for the year. We have a longer term goal of reaching 60% of our overall penetration looking down the road a little bit.

Again, the idea here is just create more relevancy for consumers by providing them choices closer to when they need them. Speed brands are outperforming, and so speed brands in the fourth quarter when the proprietary brand business was essentially flat, speed brands were actually up, low single digits. We definitely see the trend working, and it's a component part of why we're more optimistic as we go into 2018 on proprietary brands generally.

The second one I alluded to this in the beginning, but localization is a big initiative when it comes to proprietary brands. We recognized that we need to be more thoughtful about editing proprietary brands. All of our private brands don't belong in all of our stores, and they don't belong in all of the categories in all of our stores. That initiative began about a year and a half ago to start to identify where we could pull out of certain categories, certain markets, certain stores in some of our proprietary brands to make the offering uniquely relevant for that customer.

As a result of that, it's a long term positive. It's definitely a positive for inventory management. It's definitely a positive for profitability, but it has a short term negative, and it's a headwind from a sales standpoint. As we're editing out, we're also pulling out inventory and we'll pull out fixtures. That space, that inventory is what some of that growth in national brands.

As I said when we got to the fourth quarter, some of that headwind started to annualize. And so we're starting to see a trend turn I think positively from the aspect and impact of localization. Speed and localization is what's driving proprietary brands, relevancy is really what's driving our focus in national brands.

Beyond Pillars of Product

Second, beyond pillars of product. We're a retailer so we start with product. The second most important thing of course is experience, and the most important aspect of our experience is our stores. Stores are really important to us. We think we have a strategy in place that we call store optimization to help improve our store performance. Fundamentally when we sat back the beginning of this and thought about where we wanted to go in stores, they're kind of two directions to go.

Direction number one is you see a lot of retailers make the decision to close stores. I think the thinking there is some of their stores have become less profitable or not profitable. Better to pull out of a market or move out of a trade area in response to that. Some cases I think they literally couldn't afford to continue to invest in their stores, so it was really a function of capital access. They didn't have the ability to keep their stores fresh. They were making deployment decisions. We have to put more money in these stores over here. They're really not making any money, but we also need that same

money over here to say in the right spot on technology or wages, whatever other investment alternative they have.

I think internet's been driven differently. If you believe the future of our success in the Omni channel world is to have a seamless experience between digital demand, digital experience and physical demand and physical experience, then you need to have a really strong portfolio of stores. And being more convenient to customers is better than being less convenient to customers. If you believe you can leverage your stores optimally to fulfill customers' demand online, then again, having more stores is better than having fewer stores.

Now, at the same time though, our stores are less profitable. They do less business than they did a few years ago. You can't just ignore that fact. It's fine for us to say we have 1,200 stores, and we feel like that's the right number of stores, and maybe even more stores is the right number of stores. You can't ignore the fact that they're less profitable. Running them more productively becomes the priority. As we have thought about this, our strategies are driven by this idea to maintain our store portfolio. Maybe even have more stores, but they're going to be smaller. They're going to have to be more productive than they are today.

The side you see is to try to sort of simplify this idea. The first step is to move from our standard store size of 90,000 square feet. We have about 950 to 1,000 of those kinds of stores and operationally change the way those stores are managed to become operated like a small store. Physically, there's still a 90,000 square foot store. But inside the store, there are fewer fixtures. There's less inventory. The experience is a little bit better. The floorplans are allocated differently based on localization. Some stores might have more space in women. Some stores have more space in men's or kids. It depends on what the trade area dictates.

That graphic is to kind of say hey, we have 950 to 1,000 stores that are standard stores, two front entrances, mostly single level. They're strip centers and freestanding stores across the country. Just less inventory in them. Literally more space between the fixtures. You operate them like a small store.

Then the second step is to say okay, if we're successfully operated them as a small store, what are the results? The results were fantastic. We ran those stores with 10% less inventory. We rolled this out to about 300 stores last year. The sales results were essentially identical to the rest of the company that ran the same kind of sales increases the rest of the company did. Their gross margin was better. You saw gross margin improve for the company. The gross margin and the standard to small 300 stores improved more than they did.

We used less inventory obviously as a result of that. And not surprisingly, we got a little bit better customer engagement. People liked the experience inside the store. It was easier to navigate around. We're going to take that idea which was super successful last year, and we're going to roll it out to another 200 stores this year. The plan is to make standard to small stores, not 300 but by the end of the year, 500 stores.

Naturally, those stores then become the idea for the right size which is what we call right sizing. Right sizing is really simple. Now the stores have operated as a small store, functionally – inventory wise, productivity wise, space wise. We're going to literally make the stores physically smaller by demising – actually creating, taking one of those entrances and making it the only Kohl's entrance. Making that

store one of our small stores. We have about 200 stores that are around 65,000 square feet. These standard to small stores are candidates for right sizing. That would then create an opportunity for us to identify high traffic, well capitalized retailers who could move in next to use, demised store. We basically become the landlord in most cases. Some of those stores we own. Certainly, we could become the landlord or sell as a result.

We piloted that idea last year very successfully. We returned a couple stores to a landlord for a new tenant. We negotiated with a new retailer in another couple stores. We now know we can do this efficiently. We can do it for the right cost. We can get the right return.

This year what we have moved on to is starting to really engage with potential partners. The first one we announced happened to be Aldi. Aldi definitely checks the box on the two most important things for us. Number one, it is a well-capitalized company. At the end of the day, you want to make sure you're next to somebody who is going to pay the bills all year. Number two, traffic drivers. Grocery stores for sure drive a lot of traffic. We think that's a key component of this success.

There's a ton of other potential partners. But again, they're going to be filtered through this idea of hey, are they well capitalized? We see them as long term partners. Are they going to drive more traffic to our location? As a result, maybe we benefit from that. Yeah, oh, by the way, we are going to get a revenue stream on the rent, but honestly, that's really the third issue down at the bottom. The big idea is let's operate our stores more efficiently. Let's maintain our store portfolio. Let's bring in a new tenant who can drive more traffic and make our location that much better. High traffic, strong retailers.

That gets to the last part of store optimization. We launched about 18 months ago a new prototype, an even smaller Kohl's store. That's a 35,000 square foot store. This idea of hey, the core work horse of the company at 90,000 square feet will still be maintained in very dense populated areas. This new idea of those stores that might transition to the smaller size and be more productive as a result and hopefully get more traffic as a result of new partners, but then can we run and operate a much, much smaller store effectively? It becomes a candidate for the future. It becomes a fill in opportunity for us where we see opportunities in the trade area, and the economics and the big store just don't pay out.

It's not something frankly 5 years ago we could do. We didn't have the technology in place to do the assortment planning and supply chain in place to differentiate these different size stores. We didn't have the localization aspects of the business in place to do it. We didn't have the analytics. That's not the case today. The investments that we have made over the course of the 3 to 5 years have enabled 35,000 square foot stores to be a possibility. We just think we have this amazing platform of stores – the 90,000 square foot or 65,000 square foot small store, and now this new mini store that can be dropped in where we want, and it really leans in to the way the customer is shopping today keeps us really convenient to the customer, optimizes fulfillment as we leverage the inventory inside those stores. It keeps the brand presence strong throughout the company. Again, none of this I think would have been possible had we not made the investments a few years ago.

Enhancing In Store Experience

The other part of easy experience is enhancing the in store experience itself. We kind of break this down into two parts. How do we make the experience better for our associates? That's focused on improving productivity. Then how do we make the experience better for our customers? That's literally being more engaging, being more interesting, being a better place to shop.

On the associate piece, just a few of the things we've needed doing over the last few years are listed. Heavy investment into the associate devices. Obviously, the applications behind those devices that take cost out of the business whether it's order fulfillment, order location, order replenishment. Giving our stores more data and analytic dashboards, so putting more power in the hands of the store manager. Not to make decisions about what their assortment is going to be, but to better inform them about how they can make the store footprint in front of the customer be more productive. So literally, give them information about things that are selling, that are not available on the sales floor and need to be replenished. Then we invested over the course of the last 24 months into an entirely new point of commerce system to give us kind of one view of the customer and make it much easier, much faster at point of sale.

Then, separately is the customer engagement. You've heard of some of these things I know. The idea of endless aisle is something we've invested in to heavily, price verification. We're a promotion store. A lot of our store is on sale at different times and for the customer to best understand what the price they're going to pay at the register is important. Kohl's Pay is something we put a stake in the ground on two years ago. That's certainly small as a percentage of our total pay, but it's growing dramatically. We think digital payment is our future, so we need to be in front of it. Then you've heard about the Amazon pilot which has two aspects to it – one, is the return aspect which is about enabling Amazon customers to easily make a return to Kohl's, and another is about giving Amazon an opportunity to sell both their own devices and connected devices inside of a Kohl's store in a really unique and interesting experience. That's something that's in a pilot phase that we just started at the end of October or so. All of these are based on this fundamental belief that we've got to invest in the customer experience. Engagement has to go up, and we're going to put some of it certainly to the associate to make it productive. The other part of it really has to be able to engage the customer more proactively.

Store experience – how do you know what's coming next? The way we thought about this is back to the overall driver I talked about at the beginning which is we believe we've got to get faster. Speed and agility is what we have to improve on. I think we're probably like a lot of other public retailers in that we've made a ton of investments in technology. Some have been great. Some have been okay, and some sometimes have been disappointing in terms of the return that we get on those. Coming up with a new model to decision make about which one of those types of technology investments we want to make became important. That's where Your Store was created.

Your Store is essentially, think about Your Store as a learning lab. It started at the beginning of last year with about 8 stores. We definitely see a lot of merit in it. So it's grown to about 58 stores, but it's literally testing our ability on how we're going to innovate and develop our future operating model as a store with these sort of 3 flexible formats. We're testing things like mobile endless aisle. Literally, giving associates the ability through iPad to fulfil customers' needs in real time, real environment. That could become mobile checkout. It probably will become mobile checkout.

Next generation, RFID, we believe in RFID. And we think RFID has a lot of merit for Kohl's, but it has to be proven from a productivity standpoint to give us a good return. Testing, next generation, RFID,

BOPUS lockers. Another big idea. Having lockers in our stores where customers can come in and pick up their online order and never actually have to engage with anybody. They can pick it up right at the front of the store.

Then, as I said, just generally, store management empowerment. Giving store managers more data about their store's performance on literally down to the item level compared to maybe their district or their region or other parts of the company to try to point out to them where maybe other stores are doing really well, and they're not getting the results. So giving them sort of this empowerment in the store a little more authority in the store as a result of that.

There are I think right now, something like 25 different ideas, similar to the 5 that you see here that are in pilot, in your store at some of those 58 stores, and they're being compared to control groups that don't have those capabilities to try to identify which of the ones we're going to move fast and roll out, which ones have the biggest opportunity for us to pay off on a return basis and just allow us to be smarter about the big investments. Everything we do comes with a price tag. Focusing more on the return we're going to get on these technology investments is really we think important. That's what Your Store is all about.

Product, experience, and then we land on the last key pillars for us are personalization and savings.

Personalization and Savings

We sort of start as we think about the personalization and savings journey with how we invest our marketing. That's really about optimizing. Media optimization in the last 5 years has been really where we've put a lot of our effort.

You can kind of see on a relative basis the various buckets of investment. The key takeaway to say to you is that in the last 5 or 6 years, the penetration of digital to our total spend in marketing has quadrupled. At the same time, the penetration primarily of print and a little bit to some smaller degree direct mail has diminished. That's driven because we know if we're going to be successful as an Omni channel retailer, that's where we have to win. We have to win in the digital space. In the first place, and the first thing we have to do is make the necessary investments to be important in that space.

That then allowed us to start the journey of personalization. The other things you see on the slide are examples of efforts we've made around personalization. Personalization is the big idea for Kohl's over the next 3 or 4 years. As Michelle and Bruce talk to you about the journey that we're on, you're going to hear more and more about the investments we're making in personalization. These are 3 examples, real examples that we implemented over the course of the last year and a half that are proving to be really powerful.

Personalized search – literally providing results to customers based on their personal past behavior is making the search process more functionally operative. It's giving us a better answer. Your price is really transparent. It literally takes the work out of calculating what your real price is based on your unique personal savings.

It shows you an example of a towel or a pillow. But perhaps you have a credit card discount. Perhaps we have some rewards that are in your wallet that you can use, and it will bring down that price based on what it knows about your own savings capability. Your Price is a big idea. Your Price was a big driver of that accelerated digital business in the fourth quarter. Your Price made a huge difference there. Roughly I think it was probably we think it was around a third of the growth rate that we got came simply because of your price.

And then smart card I think you know about smart card. Smart card is pretty straightforward. It's sort of looking at customer behavior and intercepting before they complete the sale to say hey, we can give you a better price if you're willing to go to the store to pick this up, rather than us ship it to you. We launched that in the simplest form last year which was really straightforward. It was a straight discount where we were trying to leverage our cost of shipping against a discount. Over time that will be much more tailored. It'll be more dynamic, and it will look at the individual items that are being chosen and make decisions on that. We started this journey. You're going to hear a lot more about personalization looking forward.

The second big piece of personalization and savings is our loyalty platform. We have a powerful loyalty platform. Kohl's charge is a form of tender, and Kohl's charge as a way to connect to customers is literally second to none in our sector. Kohl's charge provides over 60% of our sales. The basis of our loyalty platform is really strong.

About 3 years ago, we launched a secondary effort called Yes2You Rewards which was a way to say okay, how do we get more rewards in the hand of customers without making them choose a Kohl's charge card to do that? Yes2You Rewards came in to being. As I said, it was very successful at engaging more new customers. Over that time, we continue to be challenged about simplification. And we continue to be challenged about embracing enough consumers. At the end of the day, this is about driving traffic. We have to find a way to get more people into the brand.

The core idea here is to retain more existing customers and create an opportunity gain more new customers by simplifying the proposition of our loyalty platform. The core idea is called Kohl's Rewards. A few of the aspects that are critical first and foremost – a big driver of our sales are our credit events which happen at various times during the course of the year. We're going to open up Kohl's credit events to all customers who are part of this new loyalty platform. We're then going to provide the charge customer with additional benefits beyond what they have today to make it still worthwhile for them to stay with the Kohl's charge. Obviously, what that means is we're giving more benefits to both groups. It's a deeper, and it's a richer reward. We're going to use data and analytics in the same way that we used, and I described it in this store experience effort and this product effort – to eliminate less productive costly promotions that weren't getting us good results.

We think that idea, this sort of simplify the proposition and loyalty – anchor it to Kohl's Cash which is iconic, offer it to all customers, regardless of how they pay is a big idea. And as I said, we call that Kohl's Rewards. Kohl's Rewards will go into a pilot at the end of May in about 8 markets, about 100 stores across the company. I'm sure it'll evolve and it'll be iterated over time. Our expectation is some version of what you see in this pilot will roll out to the company in 2019 at some point during the course of that year. As I said, fundamentally, it makes the experience simpler.

Take a few minutes on operational excellence.

Operational Excellence

As I said operational excellence really is about working smarter and faster and just giving us more agility. There's component parts to it. Part of it is organizational improvement. As simple as saying hey, we used to have brand teams and brick and mortar. We had separate buying teams in technology or in ecommerce. We had a product development team that interacted with both of those teams. Let's reorganize this to make it more efficient, to make it faster. That's a good example of an organizational improvement.

Supply chain efficiencies is another way to think about this. Around inventory placement, around sort of decision making on where we put our inventory. We're making really good progress there, but we think we've got a lot of opportunity there as well. Then, hopefully you've seen in those slides around the experience and around product, we're innovating a lot. We're piloting a lot. We're testing a lot, and we're iterating all of those things with the expectation that some of them are going to be great. Some of them probably won't work out. We'll move on to the next thing to innovate and engage and iterate.

Working smarter, faster, and more agile. What that allows us to get is get the savings that we need in order to invest in our future. And we have 3 kind of big areas of investment. Obviously wages is a big part. Investing our people. We know we're going to be facing higher average hourly wages in both our stores and our fulfillment centers across the country. Second, technology investments. We know we have to maintain, if not accelerate the amount of technology investments that we make. We're embarking on a new effort this year around a two to a two-and-a-half-year program of moving to the cloud. That costs more money in the move. It will save a lot of money in the future, but we have to invest in it now. Obviously, around these Omni channel investments, both store and fulfillment are a real key part of this investment piece.

The idea of operational excellence is to find ways to operate the current business more efficiently in order to allow us to invest in the future business we see and maintain our profitability.

Lastly, I just want to take a few minutes and go through some financial considerations with you. Take a second on capital allocation. We'll go through that. Take a minute or so around just giving you a little more color and more clarity around the guidance that we just provided. Then, definitely at the end you will be looking at new income statements beginning in the May reporting period for Kohl's around revenue recognition, around the outcome of revenue recognition. I want to give you a spotlight of kind of what you'll see on that. Those are three things we'll end with.

Financial Considerations

Let's start with the first thing which is capital allocation. I think this is pretty straightforward. It's very in keeping with our past prioritization. We'll continue to invest in the business. We expect around $700 million dollars of investment this year. About half of that is in technology, and the other half is sort of split between store and Omni channel investments. We have got a commitment to the investment graders on balance sheets. We will maintain a really strong balance sheet. The cash flow of the business and the success of the business allowed us to continue to increase our dividend. We announced an 11% increase in our dividend for the year, and the guidance that we're going to get into in

just a second was all predicated on the core concept that we will continue to buy back our shares in the range of $300 to $400 million dollars for 2018.

Let's talk a little bit about guidance. Kind of see 2018 on an annual basis on the one side, and then how the first quarter relates to that on the other side. Total sales, we got in to negative one to plus one. That was a function of the 53rd week last year coming into a 52 week this year. Our comp basis is basically flat to two. On the first quarter, we would expect to exceed the high end of the guidance on both the total sales and on the comp sales. That is because we're going through a fiscal calendar that has shifted from last year. We're going to bring in a week, the first week of May into the first quarter, and we moved out a week which was the first week of February into the last year, and there's been a {muffled} from that just on a reporting basis.

Margin, we got it to 5-10 bases points up for the year. Sort of at the low end I would say on the first quarter. SG&A is a big difference in the first quarter like sales was. For the year, we looked to increase SG&A in the range of 1-2%. The first quarter we'll be up more in the mid-single digit range. That is being driven by leadership changes. We're going through a leadership transition which affects a number of different people in the company. This cloud migration effort happens to impact the first quarter a little bit more than the rest of the year in terms of investment. Then, the store and Ombi channel fulfillment investments also impact the first quarter a little bit more than the rest of the year. The combination of that makes the first quarter SG&A grow faster than we would look at for the year.

For a depreciation standpoint, $960 million first quarter. Part of that is $245 million, and then on an annual basis, we got it to $495 to $545. And for the first quarter, 45 cents to 50 cents. That provides you I think a little more clarity at least into hey, the sales, why are the sales a little different, and why is the SG&A a little bit different on a quarter basis than for the year?

Revenue Recognition

Revenue recognition comes for us in May reporting period. There are a number of little differences, but the way I would characterize it is the most significant change for Kohl's from a reporting standpoint will be simply the presentation on our income statement of credit card income. Historically, I think you know, credit portfolio was a reduction of SG&A when we reported our net profit. Our net profit won't change, but in the new standard, we'll report revenue from the portfolio as a newly created revenue line, and then a corresponding change separately under SG&A. As I said, there are 2 or 3 other smaller changes, and Bruce can I'm sure later if anybody wants to, get into the detail of that. Fundamentally, it's about presentation. The answer is still the same, but the way we'll present it on the income statement will be different. There will simply be more of a spotlight on credit card revenue separately rather than buried in as a contra to SG&A.

When we finish the first quarter, that's how we'll present the results. Bruce will update the rest of the year based on that. That's revenue recognition.

Closing

What did we just cover? I think I'd like to leave you with kind of three big thoughts. Number one, we do think we've got a lot of momentum. For sure, factually, you can look at the business, there's been progress in performance. We've had steady progress in performance on the topline and on all the component parts. Number two, we are really obsessed over these two priorities – driving traffic number one, and then at the same time, recognizing we need to be more efficient at managing our business, so finding ways through operational excellence to take cost out so that as we make investments, for the most part, a good chunk of them will be covered. Then, third, everything we're doing is about managing for the long term.

I think you can tell from the things we're emphasizing, these are not things to get us a better first quarter or second quarter or third quarter results. These are investments that we think are important for the 3 to 5 to 10 year horizon. Things we know we have to do in order to compete successfully in what we think is just our place of power is as an Omni channel retailer. Whether it's utilizing our store portfolio differently or utilizing technology to make better decision making, it's with a very long term focus in the business.

I think we that, we've got a few minutes, Dana for questions. I try to always time this so I have no time for questions, but I somehow got 10 minutes at the end.

Q&A

{Question inaudible}

We do. It'll be in the K. I think the K comes out on Friday. Roughly, it's about 35% we own. It's probably another 25% that we have ground leases on, and it's probably another 35-40% that we lease. It's a mix. We have always been a mix. Early on, I have been with the company long enough to be able to speak about this thoughtfully.

Early on, frankly, as a small company, we weren't as well capitalized. Leasing was sort of our option. As the company got stronger, owning became another option. We always tried to make the decision, and I think we're winning on this real estate thing because of this point I'm going to make. We always try to make a decision on a store on location. 25 years ago we made the decision we're not going to choose a location on the basis of because we could own it or because we leased it. It was going to be – is it the right location? That's why I think we're fortunate to be able to look and say hey, you know what? We've got almost 1,200 buildings. They're all in really good trade areas. Yes, some of them we own, some of them lease. But they're in really good trade areas. That gives us an opportunity as we move to the store optimization.

{Question inaudible}

There are. That's a journey we've been on for a bit. Outlots and the possibility of sales and our lease of outlots to smaller boxes like banks, fast food or casual food has always been there. We typically do some of those transactions every year. It's not like a new idea for us. That's a journey we've been on

for quite a while. I think the big idea that I honestly really believe this company is uniquely positioned to execute is this right sizing because great trade areas, new boxes. We found a way, the team has found a way to demise the store for a reasonable cost, to make it profitable to then, if we find a tenant, sublet that space. I still think that's the big idea.

We'll continue on the other one. I'm sure Bruce will have a few every year, but I think the right sizing is a big idea.

Great presentation. Question on the right sizing: as you see smaller stores with less inventory, how does that impact SKU assortment, and how does it interplay with the Omni channel strategy you're employing with pickup from store and ship from store if you have lower inventory and less SKUs?

Those are all good questions. Generally, small stores, we have these 970 90,000 square foot stores, and let's say another 200 65,000 square foot stores. That's not new. We have had small stores for a while. Generally, the 65,000 square foot stores have fewer SKUs. They have all the same departments. They're all just sized down a little bit. Typically, they don't go as deep in assortment in a particular item or business. They might not have as many colors. They might not have as many prints. Everything is represented. All the brands are there. All the categories and departments are there.

The challenge is when you're running a store like that, the supply chain becomes more important. You have to fill back in quickly. Most importantly you got to make the decision about what are you editing out? If you're going from 90-65 in the active and wellness area which is a really strong space for us – what styles of Under Armour are you not going to put in the small store? But that are in the big store? That's why this belief in data analytics is so strong. We have paid a price for that. We have made big investments in technology over the last few years, and a lot of depreciation that comes along with that. As Bruce reminds me all the time, there's also a lot of expenses that comes along with that. Those are important. They're hard to decisions to make. If you think about it, it all connects right?

The Omni channel digital experience – got to connect to the store experience. The ability to fulfill the key items is greater in small stores. When you get broader in the assortment, it's less than small stores. Surprisingly, the one thing that's been true in this journey in Omni channel is 100% of the time when we've opened more stores in a market, we do more digital business. More online business in that market. You may remember we closed about 18 stores 2 years ago. Those trade areas, we closed those stores, we did less online business.

If you don't believe that physical presence and convenience is important, beyond just the store, you're wrong. There's a share of mind, it's a mind awareness that goes along with it. If you're not convenient and you don't have presence, people don't put you in their consideration set.

In the piggyback stores, I completely get the fit with Aldi and Kohl's. Can you give any guidance about other kinds of uses, other kind of sectors who might be good candidates for other collections about surplus?

Sure. On this rightsizing idea, I would use Aldi as okay, that's an actual case of them doing it. Kevin now showed me because there has even been confusion like I'm sure Dana got it all screwed up. Kohl's is bringing grocery into the store. No, we're not bringing grocery in the store. We're demising a store. It's a separate entrance, separate building. We tried to use Aldi as here's an example. I think grocery – I'm

not a grocery expert. Bruce is a grocery expert actually. I think smaller size grocery is a growth business. Almost every national grocery is identifying ways to size down their stores and create these smaller footprints. I think grocers of any kind could be potential candidates because of that. There's obviously people like Aldi. There's a new entrant in the US, Lidl, that I think is a formidable company and has the capital to invest. Don't take any of these names, as Kevin said – they're opening stores, but there's small stores like Trader Joe's or Whole Foods 365 concept. There's the national grocers that are downsizing. Fitness – there's also an area that we're looking at because it's the right size box. Generates a lot of traffic. It's not a competing business. Oh, by the way, it fits really well into our active and wellness strategy.

There's plenty of candidates. That is going to be I think zero issue for us. I think there's a ton of candidates to get it done. I just put Aldi on the side and say that was just an example but there's many, 20 other people they're speaking to.

You mentioned I think you're thinking very strategically about who those backfill candidates are with Planet Fitness, Aldi, etc. Do you think there's opportunity then to maybe go beyond just backfilling them and maybe offering cross promotions with a Planet Fitness or a Fitness?

Yeah, you can imagine like in my mind, this is – Bruce will tell you this has been my number one focus because I have been hearing from all of you for the last 3 years. It's great what you're doing, but you're making less money every year than you did before. What are you doing about that? This has been my number one focus. Yeah, I have got a bunch of ideas of hey, you know what? If we get the right partners, then could we leverage that into cross pollination? They could get a big win on this.

We have 85% of America lives within 15 miles of a Kohl's store, and we have a massive credit card portfolio, massive rewards portfolio. They could have access into all of that. But that's a step beyond where we're at of course.

END.