

ASC 606, Revenue from Contracts with Customers

KOHL'S[®]

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Overview

- In Q1 2018, Kohl's adopted *Revenue from Contracts with Customers (ASC Topic 606)*, as required. The new standard eliminated the transaction- and industry-specific revenue recognition guidance under prior U.S. GAAP and replaced 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.
- The new standard has an immaterial impact on our accounting for returns and rewards program such as Kohl's Cash and our loyalty program.
- Revenues from our credit card operations, which were previously recorded as a reduction of SG&A expenses, are now included in "Other Revenue" which is a new line on the face of our income statement. This change in presentation had no impact on our net income.
- The standard was adopted on a retrospective basis. Restated quarterly and annual 2017 income statements are included in these materials.

Accounting Overview

	Historical Accounting	New Accounting
Net Sales	Included revenue from the sale of merchandise, shipping revenues, unused gift cards (breakage), and other non-merchandise revenues	Includes revenue from the sale of merchandise and shipping revenues
Other Revenue	n/a	Includes revenue from credit card operations, unused gift cards (breakage), and other non-merchandise revenues.
Returns	The cost of anticipated returns was recorded in Cost of Merchandise Sold	Sales which we expect to be returned in the following period are reserved. The reserve impacts Net Sales and Cost of Merchandise Sold.
Reward Programs, including Kohl's Cash and Loyalty	The cost of anticipated redemptions was recorded in Cost of Merchandise Sold	A portion of the sale which earned the reward is deferred until the rewards are redeemed. The reserve impacts Net Sales and Cost of Merchandise Sold.
Credit Card Operations	Net profit was recorded as a reduction of SG&A expenses	Revenue from credit card operations is included in Other Revenue. It includes Kohl's share of the finance charges and interest fees, less charge-offs of the Kohl's credit card. Expenses related to credit card operations are reported in SG&A.
Gross Margin	Reported on face of income statement. Calculated as Net Sales (which included non-merchandise revenue) less Cost of Merchandise Sold.	Not reported on face of income statement. Calculated as Net Sales (which excludes Other Revenue) less Cost of Merchandise Sold
SG&A Rate	Calculated as SG&A as a percentage of Net Sales (which included non-merchandise revenue)	Calculated as SG&A as a percentage of Total Revenue (which includes Other Revenue)
Balance Sheet	Reserves for returns and rewards program were recorded in Accrued Liabilities	Reserves for returns and rewards program are recorded in Accrued Liabilities. A Right of Return Asset, which reflects the estimated value of merchandise to be returned by customers, is recorded in Other Current Assets.

Accounting Overview

No Change in Accounting

Comp Sales	Includes revenue from the sale of merchandise in our stores and online. Store sales are included after the store has been open for 12 full months, unless square footage has changed by more than 10%. Excludes accounting adjustments for returns and reward programs.
Online Sales	Recognized when merchandise is received by customer.
Gift Cards	Revenue from the sale of Kohl's gift cards is recognized when the gift card is redeemed. Income from unredeemed cards (breakage) is recorded in proportion and over the time period gift cards are redeemed.
Sales Tax	Net sales do not include sales tax as we are considered a pass-through conduit for collecting and remitting sales taxes

Income Statement

(\$ in millions)

Q1 2017	Previously Reported	Adjustments	As 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

Gross Margin Rate 36.4% (1) bps 36.4%

Q3 2017	Previously Reported	Adjustments	As Adjusted
Net sales	\$ 4,332	\$ (20)	\$ 4,312
Other revenue		256	256
Total revenue		236	4,568
Cost of merchandise sold	2,737	(9)	2,728
Gross margin	1,595		
Operating expenses:			
Selling, general and administrative	1,095	245	1,340
Depreciation and amortization	243	-	243
Operating income	257	-	257
Interest expense, net	74	-	74
Income before income taxes	183	-	183
Provision for income taxes	66	-	66
Net income	\$ 117	-	\$ 117

Gross Margin Rate 36.8% (7) bps 36.7%

Q2 2017	Previously Reported	Adjustments	As Adjusted
Net sales	\$ 4,144	\$ 3	\$ 4,147
Other revenue		248	248
Total revenue		251	4,395
Cost of merchandise sold	2,511	14	2,525
Gross margin	1,633		
Operating expenses:			
Selling, general and administrative	983	237	1,220
Depreciation and amortization	243	-	243
Operating income	407	-	407
Interest expense, net	75	-	75
Income before income taxes	332	-	332
Provision for income taxes	124	-	124
Net income	\$ 208	-	\$ 208

Gross Margin Rate 39.4% (30) bps 39.1%

Q4 2017	Previously Reported	Adjustments	As Adjusted
Net sales	\$ 6,776	\$ (14)	\$ 6,762
Other revenue		294	294
Total revenue		280	7,056
Cost of merchandise sold	4,483	13	4,496
Gross margin	2,293		
Operating expenses:			
Selling, general and administrative	1,459	267	1,726
Depreciation and amortization	267	-	267
Operating income	567	-	567
Interest expense, net	74	-	74
Income before income taxes	493	-	493
Provision for income taxes	26	-	26
Net income	\$ 467	-	\$ 467

Gross Margin Rate 33.8% (33) bps 33.5%

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Income Statement – Fiscal 2017

(\$ in millions)

FY2017	Previously Reported	Adjustments	As Adjusted
Net sales	\$ 19,095	\$ (59)	\$ 19,036
Other revenue		1,048	1,048
Total revenue		989	20,084
Cost of merchandise sold	12,176	-	12,176
Gross margin	6,919		
Operating expenses:			
Selling, general and administrative	4,512	989	5,501
Depreciation and amortization	991	-	991
Operating income	1,416	-	1,416
Interest expense, net	299	-	299
Income before income taxes	1,117	-	1,117
Provision for income taxes	258	-	258
Net income	\$ 859	-	\$ 859
<i>Gross Margin Rate</i>	36.2%	(19) bps	36.0%