

# Potential Stock Market Investors

Meet your Investment Goals  
Do your Homework before Investing in the Stock Market

March 26, 2004

NAME DELETED  
Business Communication  
Senior, Accounting Major  
University of Northern Iowa  
319.277.3069  
NAME@uni.edu  
www.uni.edu/NAME

## Letter of Authorization

TO: 150-113-01@uni.edu  
FROM: **Dale Cyphert <Dale.Cyphert@uni.edu>**  
DATE: Tue, 03 Feb 2004 12:33:27 -0600  
SUBJECT: **[150-113-01] Bus Comm Writing Assignments**

We will begin discussion of informative writing on Wednesday. I am placing the following due dates on the course calendar.

### Writing Assignment Summary

#### 1. Informative/descriptive:

- Create a MEMO to your classmates that summarizes the content of an article from a business publication. Due 2/9, with a copy of the article attached.

#### 2. Analytical/problem solving:

- Create a MEMO to your (current or previous) supervisor that explains the reasons for some business or communication problem. Due 2/18.
- Create a REPORT for your (current or previous) supervisor that explains the reasons for some business or communication problem (presumably the SAME problem addressed in your memo) using a minimum of THREE sources, including one electronic source, and providing at least one appendix. First outline due 2/27; final draft due 3/5.

#### 3. Strategic/persuasive:

- Write a LETTER to a prospective employer submitting your resume for a position. Due 3/5, with a copy of the position description and your resume.
- Create appropriate responses in the Schoemann Case, which you will receive on 3/29. Due 4/2.
- Create appropriate responses in the Sandals Case, which you will receive on 4/5. Due 4/9

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Dale Cyphert, Ph.D.  
Associate Professor  
Department of Management  
University of Northern Iowa  
1227 W.27th Street  
Cedar Falls, IA 50614-0125  
(319) 273-6150  
dale.cyphert@uni.edu

## **NAME DELETED** Business Communication

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122 Curris Business Building, University of Northern Iowa, 319.277.3069, NAME@uni.edu

March 26, 2004

Mr. Joe Moglia, CEO  
Ameritrade Holding Corporation  
Corporate Headquarters  
PO Box 2760  
Omaha, NE 68103-2760

Dear Mr. Moglia:

I am happy to submit the report you requested to examine the financial data of Kohl's Corporation. Based on my assessment, I believe stock Kohl's Corporation would be a wise purchase to make.

Please be aware that the analysis is based on information available to me through the research facilities at UNI. This should not be considered complete, as we are not always able to access complete and current company information.

I have forwarded copies of my executive summary to all the customers you indicated needed this information. I trust this will allow them to make investment decisions that are more informed. With experienced success, these investors will also be more likely to increase the size of their portfolios, most likely increasing commission revenue for your corporation.

Thanks for your assistance in compiling the customer needs analysis, and please convey my thanks to your administrative assistant, Sheila, who has been extremely helpful throughout the process.

Sincerely,

NAME DELETED  
Senior Accounting Major  
University of Northern Iowa

CC: Dr. Cyphert, Business Communications I Professor

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## Executive Summary

### **Making Good Investments**

Investing in the stock market can be dangerous to people who do not properly examine companies. Carefully choosing well-managed firms will assist in meeting investment goals. Based on research I have conducted, investing in Kohl's Corporation is a worthwhile venture.

### **Speculation Problems**

Investing simply because the price of a stock seems to be on the rise is not a good strategy. Additionally, the fees paid to stockbrokers and financial advisors eat at any gains or add to losses. Ideally, the investors would use financial measures to make the decision themselves.

### **Financial Measures**

In analyzing Kohl's, I examined financial data for the years 1992 to 2002. I considered several commonly used financial measures and information including return on total assets, the consumer price index, growth rates, and compound average annual growth rates. I then compared the financial data and computations across periods to identify trends.

### **Analysis of Kohl's Corporation**

Kohl's earned consistent returns on total assets between 8.70% and 10.47% for the years 1994 to 2002. The years 1992 and 1993 earned returns of 6.07% and 11.51%, respectively. This ratio allows for a practical comparison to other companies since every firm strives to increase its return as much as possible.

Over this same period, the consumer price index for apparel fell from 131 in February 1992, to 124.6 by February 2002. From these numbers you can tell there was a 4.9% decrease in prices over the period. Over the same period, Kohl's experienced an increase in sales. Since multiplying price and volume results in sales, we can see that Kohl's has sold a greater volume of goods at lower prices, but the increase in volume was greater than the decrease in prices.

Since going public in 1992, Kohl's has experienced consistent annual growth in net sales above 20% and net income above 30%. From 1992 to 2002, net sales grew over 831% and net income grew in excess of 2381%. Kohl's has also had steady earnings per share and return on stockholders' equity over the period of 1992 to 2002.

The compound average annual growth rate, or CAAG, tells the user the yearly growth rate over a specified period. This is more helpful than simple growth rates because it gives a more accurate picture when used to estimate future trends. From 1992 to 2002, Kohl's has compound average annual growth of 23.59% in net sales and 37.30% in net income.

### **Kohl's is a well-managed Company**

Based on my analysis, Kohl's is a well-managed company. Compared to its main competitors, companies like JC Penney, Sears, and Target, Kohl's has a significantly higher net margin and a comparable turnover. Kohl's also has a much higher return on total assets than the nearest competitor does, which is Target at 5.78% compared to Kohl's rate of 10.18%. Additionally, Kohl's has continued growth that is very appealing. Growth in net income is increasing faster than net sales and operating expenses, as well, meaning the company is operating more profitably. All of these comparisons and trends indicate that Kohl's would be a wise investment.

## Meet your Investment Goals

### Making Good Investments

Before investing in the stock market, it is wise to do your homework. Analyzing companies based on financial measures is a common practice. This will help you to choose well-managed companies to invest in, which will ultimately assist you in meeting your investment goals. After running the numbers on some of these measures, I believe Kohl's Corporation is a good investment.

### Speculation Problems

Potential investors might not know which companies make good investments and which ones to avoid. Instead of paying a stockbroker or financial advisor to make the decision, the investors can compute financial measures themselves. Using financial measures and knowing what they mean will allow investors to make informed, more intelligent decisions.

### Financial Measures

Successful analysis of a company begins with a comparison of the company to itself across periods to identify trends. Comparisons to the industry leaders would also assist in quality decision-making, as long as the companies use similar accounting principles and procedures. Several financial measures are available for use in analyzing potential corporations.

- Return on Total Assets
- Consumer Price Index
- Growth Rates
- Compound Average Annual Growth (CAAG)

The internet is a great source to find this information, and most of them are easy to compute. Understanding the meanings, although difficult, makes financial measures more useful. By themselves, financial measures provide little help. Assessing them relative to other companies or the industry provides much needed perspective to understand the company.

### Analysis of Kohl's Corporation

When looking at financial data, it is important to remember the purpose of doing business, which is to make a profit from selling a product or service. Theoretically, only sales price, unit cost, and unit volume need to be assessed to determine the strength of a company. The financial statements, however, do not report this data, as you can see in the Consolidated Balance Sheets and Consolidated Statements of Income obtained from the corporation's 10K report filed with the Securities and Exchange Commission and shown in the Appendix. Therefore, more work and analysis is required before reaching a conclusion. For my analysis, I obtained the financial information from the 2002 Annual Report of Kohl's Corporation.

#### Return on Total Assets

Dividing net income by total assets results in return on total assets (Kieso, Weygandt, and Warfield 572). Multiplying the net margin and turnover also gives you the rate of return, and allows for further insight. You can find net margin by dividing net income by net sales, and compute turnover by dividing net sales by total assets. This ratio allows for a practical comparison to other companies since every firm strives to increase its return as much as possible. In the fiscal year 2002, Kohl's has experienced a net margin of 7.05% and total assets turnover of 1.44 times. Therefore, Kohl's has experienced a return on total assets of 10.18%.

### Consumer Price Index

According to the U.S. Bureau of Labor Statistics website on consumer price indexes, the consumer price index, or CPI, is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services ("Overview"). CPI data is helpful in analyzing sales price and volume information, which financial statements do not report. The CPI for apparel was 131 in February 1992, and dropped to 124.6 by February 2002. From these numbers you can tell there was a 4.9% decrease in prices over the period. Over the same period, Kohl's experienced an increase in sales. Since multiplying price and volume results in sales, we can see that Kohl's has sold a greater volume of goods at lower prices, but the increase in volume was greater than the decrease in prices.

### Growth Rates

Since going public in 1992, Kohl's has experienced consistent annual growth in net sales above 20% and net income above 30%. From 1992 to 2002, net sales grew over 831% and net income grew in excess of 2381%. Kohl's has also had steady earnings per share and return on stockholders' equity over the period of 1992 to 2002.

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### Kohl's is a well-managed Company

Based on my analysis, Kohl's is a well-managed company. Compared to its main competitors, companies like JC Penney, Sears, and Target, Kohl's has a significantly higher net margin and a comparable turnover. Kohl's also has a much higher return on total assets than the nearest competitor does, which is Target at 5.78% compared to Kohl's rate of 10.18%. Additionally, Kohl's has continued growth that is very appealing. Growth in net income is increasing faster than net sales and operating expenses, as well, meaning the company is operating more profitably. All of these comparisons and trends indicate that Kohl's would be a wise investment.

## Add Kohl's Stock to your Portfolio

Kohl's Corporation shows areas of competitive advantage when compared to similar companies like JC Penney, Sears, and Target, especially in its larger net margin. The company has continued to expand, adding stores throughout the entire United States. Expansion has also brought significant growth in the number of stores Kohl's operates, allowing for increases in sales and net income. Ultimately, after assessing Kohl's operations, competitors, and industry, I believe the company would be a good investment because it has shown large growth in the past and continued expansion indicates a promising future.

## Works Cited

2002 Annual Report. Kohl's Corporation. 18 Feb. 2004 <[http://www.kohlscorporation.com/InvestorRelations/AnnualReports/Annual\\_Report\\_2002.pdf](http://www.kohlscorporation.com/InvestorRelations/AnnualReports/Annual_Report_2002.pdf)>.

Kieso, Donald E., Jerry J. Weygandt, and Terry D. Warfield. Intermediate Accounting. 10th ed. United States of America: Wiley, 2001.

United States. Bureau of Labor Statistics. "Overview Consumer Price Indexes." 16 Oct. 2001. 11 Feb. 2004 <<http://www.bls.gov/cpi/cpiovrw.htm#item6>>.

United States. Securities and Exchange Commission. "Form 10-K Kohl's Corporation." 21 Mar. 2003. 12 Feb. 2004 <[http://www.edgar-online.com/bin/edgardoc/finSys\\_main.asp?dcn=0000950131-03-001529&nad=>](http://www.edgar-online.com/bin/edgardoc/finSys_main.asp?dcn=0000950131-03-001529&nad=>)>.

Appendix

**KOHL'S CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
(\$ in Thousands, Except Share and Per Share Amounts)

February 1, 2003

February 2, 2002

<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$	90,085	\$ 106,722
Short-term investments		475,991	229,377
Accounts receivable trade, net of allowance for doubtful accounts of \$20,880 and \$17,780, respectively		990,810	835,946
Merchandise inventories		1,626,996	1,198,307
Deferred income taxes		56,693	52,292
Other		43,519	41,400
<b>Total current assets</b>		<b>3,284,094</b>	<b>2,464,044</b>
Property and equipment, net		2,739,290	2,199,494
Favorable lease rights, net		180,420	174,860
Goodwill		9,338	9,338
Other assets		102,361	81,850
<b>Total assets</b>	<b>\$</b>	<b>6,315,503</b>	<b>\$ 4,929,586</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Accounts payable	\$	694,748	\$ 478,870
Accrued liabilities		315,630	259,598
Income taxes payable		142,150	125,085
Current portion of long-term debt		355,464	16,418
<b>Total current liabilities</b>		<b>1,507,992</b>	<b>879,971</b>
Long-term debt		1,058,784	1,095,420
Deferred income taxes		171,951	114,228
Other long-term liabilities		64,859	48,561
Shareholders' equity:			
Common stock-.01 par value, 800,000,000 shares authorized, 337,322,102 and 335,138,497 shares issued, respectively		3,373	3,351
Paid-in capital		1,082,277	1,005,169
Retained earnings		2,426,267	1,782,886
<b>Total shareholders' equity</b>		<b>3,511,917</b>	<b>2,791,406</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$</b>	<b>6,315,503</b>	<b>\$ 4,929,586</b>

**KOHL'S CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(In Thousands, Except Per Share Data)

Fiscal Year Ended

	February 1, 2003	February 2, 2002	February 3, 2001
Net sales	\$ 9,120,287	\$ 7,488,654	\$ 6,151,996
Cost of merchandise sold	5,981,219	4,923,527	4,056,139
Gross margin	3,139,068	2,565,127	2,095,857
Operating expenses:			
Selling, general and administrative	1,817,968	1,527,478	1,282,367
Depreciation and amortization	191,439	151,965	121,786
Goodwill amortization	—	5,200	5,200
Preopening expenses	39,278	30,509	35,189
Total operating expenses	2,048,685	1,715,152	1,444,542
Operating income	1,090,383	849,975	651,315
Other expense (income):			
Interest expense	59,449	57,351	49,332
Interest income	(3,440)	(7,240)	(3,131)
Income before income taxes	1,034,374	799,864	605,114
Provision for income taxes	390,993	304,188	232,966
Net income	\$ 643,381	\$ 495,676	\$ 372,148
Net income per share:			
Basic	\$ 1.91	\$ 1.48	\$ 1.13
Diluted	\$ 1.87	\$ 1.45	\$ 1.10

