NEW YORK--(BUSINESS WIRE)--Fitch Ratings has assigned a rating of 'BBB+' to Kohl's Corporation's (Kohl's) proposed issue of $300 million 10-year senior unsecured notes. The new notes are expected to be used for general corporate purposes which may include share repurchases. As of Aug. 3, 2013, Kohl's had $4.6 billion of debt outstanding, including capital leases. A full list of ratings is provided at the end of this release.

KEY RATING DRIVERS

Kohl's ratings reflect the company's stable market position as the third-largest department store retailer in the U.S., industry-leading operating margins, convenient off-mall store format, and good growth in higher-margined private and exclusive brands.

While Kohl's market share has been stable for the past two to three years, Fitch remains concerned on the softness in the company's comparable store sales trends (comps) that have been weak since late 2011. At the current rating level, Fitch would expect Kohl's to continue to gain market share which would require the company to generate comps in the 1%-1.5% range. This would require stabilization in store-level comps, assuming online sales to grow at 15%-20%. The inability to stabilize store-level comps to the extent to hinder overall comps from growing at over 1% in the next 12-24 months could lead to ratings pressure.

Fitch expects Kohl's comps to remain relatively flat in 2013 versus 2012 reflecting the weaker-than-expected sales performance in first quarter 2013 and lack of one-week of sales during the holiday season in 2013. Overall sales are expected to grow in the 0.5% to 1.5% range in 2013-2014 as Kohl's square footage growth has slowed down significantly since 2008 and is expected to remain in the low single digit range in the next two to three years. This assumes 12 store openings in 2013 compared with 21 in 2012 and 40 in 2011, mostly in its small-box format.

Kohl's gross margin came out better than expected in first-half 2013 despite the soft sales trend. As a result, Fitch expects Kohl's EBITDA margin to remain flat at around mid-14% in 2013, which would still be strong for the sector. Kohl's industry-leading operating margins have provided the company some flexibility to invest in sharper pricing over the last several quarters.

Given an EBITDA expectation of approximately $2.8 billion for 2013 and pro forma for the $300 million incremental debt issuance, Fitch expects adjusted debt/EBITDAR could increase modestly to the 2.3x-2.4x range at the end of 2013, which is modestly above the company's currently stated leverage target of 2.0x-2.25x, but consistent within Fitch's expectations.

Fitch expects working capital could turn neutral to somewhat positive source of cash in 2013 as management continues to be focused on trimming down inventory. Free cash flow (FCF) is expected to be approximately $800 million-$900 million in 2013-2014. This assumes working capital is neutral and capital expenditures are in the $700 million-$750 million range to support e-commerce growth and its store opening and remodelling program (30 expected for 2013 versus 50 in 2012 and 100 in 2011). Fitch expects FCF to be directed toward share buybacks.

Kohl's liquidity is supported by its strong cash balance and a $1 billion senior unsecured revolving bank credit facility due in June 2018. Kohl's has no debt maturities prior to 2017 and Fitch expects the company will continue to be disciplined in managing its cash flow allocation, share repurchases, and debt levels.

RATING SENSITIVITIES

A negative rating action could result in the event of one or more of the following:

--If retail store comps fail to stabilize and overall comps (including online sales) do not improve to a level of 1% or better in the next 12-24 months.

--A weakening profitability profile (where EBITDA drops to below $2.5 billion from an expected $2.8 billion for 2013) and/or a more aggressive financial posture that would take leverage above 2.5x.

A positive rating action is unlikely at this time as it would require Kohl's to manage adjusted leverage to below its stated target of 2.0x-2.25x.

Fitch currently rates Kohl's as follows:

--Long-term Issuer Default Rating (IDR) 'BBB+';

--$1 billion bank credit facility 'BBB+;

--Senior unsecured notes and debentures 'BBB+'.

The Rating Outlook is Stable.

Additional information is available at ' www.fitchratings.com '. The ratings above were unsolicited

and have been provided by Fitch as a service to investors.

Applicable Criteria and Related Research:

--'Corporate Rating Methodology' (Aug. 5, 2013);

--'Evaluating Corporate Governance' (Dec. 12, 2012).

Applicable Criteria and Related Research:

Corporate Rating Methodology: Including Short-Term Ratings and Parent and Subsidiary Linkage

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=715139

Evaluating Corporate Governance

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=694649

Additional Disclosure

Solicitation Status

http://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=801336

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